Kagiso Balanced Fund

as at 31 March 2015

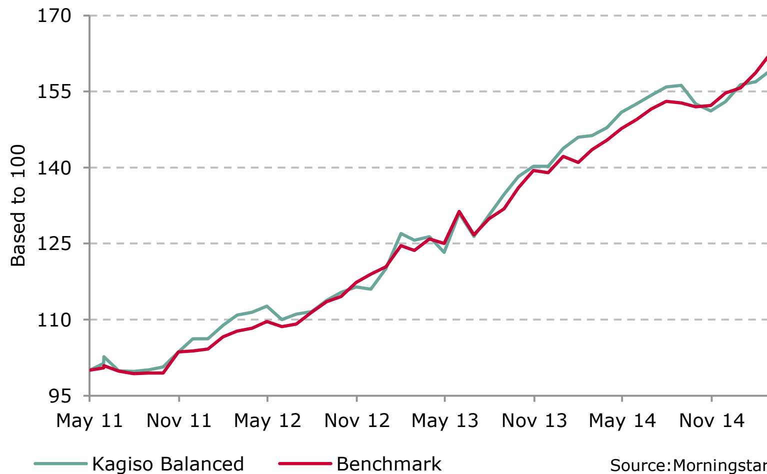
Performance and risk statistics[1]

	Fund	Benchmark	Outperformance
1 year	6.6%	12.0%	-5.4%
2 years	11.7%	13.7%	-2.0%
3 years	12.3%	14.6%	-2.3%
Since inception	11.9%	13.1%	-1.2%

	Fund	Benchmark
Annualised deviation	6.7%	5.2%
Sharpe ratio	0.9	1.4
Maximum gain*	23.6%	14.7%
Maximum drawdown*	-3.5%	-3.5%
% Positive months	76.6%	76.6%

*Consecutive months of change in the same direction.

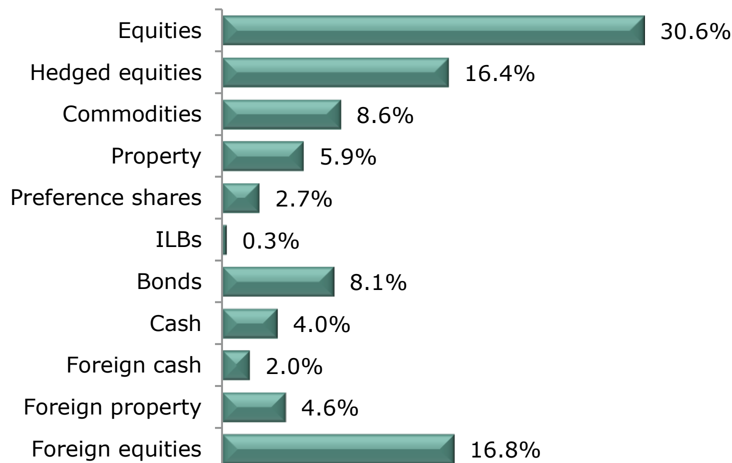
Cumulative performance since inception



Portfolio Manager	Gavin Wood
Fund category	South African - Multi Asset - High Equity
Fund objective	To provide investors with high long-term capital growth, within the constraints of the statutory investment restrictions for retirement funds. The fund seeks to provide a moderated exposure to volatility in the short term.
Risk profile	Medium
Suitable for	Investors who are building up and growing their long-term retirement capital while seeking capital growth. Investors would also be seeking to preserve the purchasing power of their capital over the long-term, with a time horizon of three years or longer.
Benchmark	South African - Multi Asset - High Equity funds mean
Launch date	3 May 2011
Fund size	R281.3 million
NAV	150.63 cents
Distribution dates	30 June, 31 December
Last distributions	30 June 2014: 1.29 cpu 31 December 2014: 1.18 cpu
Minimum investment	Lump sum: R5 000; Debit order: R500 pm
Fees (excl. VAT)	Initial fee: 0.00% Financial adviser fee: max 3.00% Ongoing advice fee: max 1.00% pa Management fee: 1.25% pa
TER[2]	1.50%

Unconventional thinking

Effective asset allocation exposure*



* Please note that effective asset allocation exposure is net of derivative positions.

Top 10 equity holdings

	% of fund
Naspers	4.6
Standard Bank	2.9
Tongaat Hulett	2.7
Mondi	2.5
AECI	2.3
Old Mutual	2.3
MTN	2.3
Anglo Platinum	2.1
Lonmin	1.7
Sasol	1.7
Total	25.1

The Kagiso unit trust fund range is offered by Kagiso Collective Investments Limited (Kagiso), registration number 2010/009289/06, a voting member of the Association for Savings and Investment SA (ASISA). Kagiso is a subsidiary of Kagiso Asset Management (Pty) Limited [a licensed financial services provider (FSP No. 784)], the investment manager of the unit trust funds.
Unit trusts are generally medium to long-term investments. The value of units will fluctuate and past performance should not be used as a guide for future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Exchange rate movements, where applicable, may affect the value of underlying investments. Different classes of units may apply and are subject to different fees and charges. A schedule of the maximum fees, charges and commissions is available upon request. Commission and incentives may be paid, and if so, would be included in the overall costs. All funds are valued and priced at 15:00 each business day and at 17:00 on the last business day of the month. Forward pricing is used. The deadline for receiving instructions is 14:00 each business day in order to ensure same day value.

[1] Performance is quoted from Morningstar as at month-end for a lump sum investment using Class A Net Asset Value (NAV) prices with income distributions reinvested. NAV refers to the value of the fund's assets less the value of its liabilities, divided by the number of units in issue. Performance figures are quoted after the deduction of all costs incurred within the fund. All performances are annualised.
[2] The Total Expense Ratio (TER) is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end March 2015. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TERs.

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Kagiso Balanced Fund - Quarterly commentary

as at 31 March 2015

KAGISO Asset Management

The fund returned 0.8% for the quarter and 6.6% for the 12 months to end March 2015. The fund continues to provide positive returns ahead of inflation with a high degree of focus on capital preservation at this time.

Economic and market overview

Since the financial crisis of 2008-2009, the developed world's central banks have generally maintained near-zero interest rates and have undertaken significant unconventional monetary easing in the form of quantitative easing. In 2015, the US Federal Reserve and the Bank of England delayed the onset of expected monetary tightening in response to tepid economic growth and falling inflation. In addition, the ECB launched its long-awaited sovereign quantitative easing programme in January and the Bank of Japan continues with its substantial quantitative easing program. Together, this has amounted to monetary stimulus in excess of prior expectations and as a result, asset prices have been very buoyant so far this year. In particular, high quality South African Industrials and Financials have been bought up to very high price levels as they find favour with investors looking for the stable and (sometimes) growing cash flows they have exhibited over the last few years. While earnings yields are very low relative to history, investors seem to be focused on their 'relatively high' earnings yields when compared to the very low bond yields on offer in developed markets.

South African GDP growth expectations have been materially marked down, influenced by continued electricity supply issues, expected labour disruptions, lower commodity prices and lower business confidence. Higher income consumers remain very strong, boosted by strong financial markets.

Inflation has troughed in the quarter and is likely to head higher and breach the upper end of the SARB's target band in the coming year due to higher petrol, food and electricity prices. For now, the uncertainties related to US policy normalisation and weak domestic growth momentum has prompted the SARB to keep rates on hold at 5.75% at both the January and March MPC meetings. However, they were explicit that the deteriorating inflation outlook had narrowed the scope for a pause in monetary policy normalisation since January and their tone has shifted from neutral (January) to more hawkish (March) on potential rate hikes.

The FTSE/JSE All Share Index touched a record peak in February, before entering a choppier period for the remainder of the first quarter, ultimately delivering a total return of 5.8%. Financials and Industrials were the best performing sectors, delivering 11.2% and 5.6% respectively, while Resources, plagued once more by weakness in platinum and energy names, were down 0.2%. The rand depreciated by 4.6% against the US dollar in the first quarter.

The ALBI delivered a solid 3% total return over the quarter, outperforming both inflation-linked bonds and cash. Our view is that the long end of the curve is offering the most value with yields at the shorter end having already priced in rate hikes. More specifically, looking at the FRA curve, the market is pricing in hikes of more than 1% over the next 18 months, which is more than we expect.

Fund performance and positioning

With continued weakness in the platinum sector, Lonmin, Anglo Platinum and Aquarius Platinum were again the primary sources of performance detraction in the quarter. Platinum group metal (PGM) prices have continued to be very weak and platinum mining share prices have plumbed new depths, currently discounting very little upside to spot metal prices. We maintain the view that demand for PGMs will grow steadily in the years ahead and supply will be very constrained. This is a recipe for much higher metal prices, which are currently depressed by the continued liquidation of above ground stocks by commodity investors who seem to be reacting to macroeconomic developments rather than longer-term metal market fundamentals. When metal prices inevitably move higher, the PGM miners should react very strongly as they become significant cash flow producers again.

Naspers, Standard Bank and Mondi were the fund's top performing holdings over the period. In addition, the fund's exposure to certain real estate counters, such as Hospitality Property B and New Europe Property, contributed to performance once more. The fund's offshore assets performed well, particularly Smurfit Kappa (Europe's leading corrugated packaging company), Westlake Chemical (global supplier of petrochemicals, plastics and building products) and US health insurer, UnitedHealth.

Capital & Counties plc. (Capco) has been a star performer in our funds since we added exposure in 2014. This real estate development company gives investors exposure to two key assets in central London - Covent Garden and Earls Court. London is a vibrant, growing global city, with strong economic prospects, an affluent population and a shortage of centrally located residential accommodation. At Covent Garden, Capco's focus continues to be on further upgrading the premium area by attracting new luxury retail brands and upmarket leisure offerings to the area. This upgrading is gaining momentum, resulting in strong rental growth, which we believe has a lot further to go. In Earls Court, Capco has a unique opportunity to provide thousands of new homes in a centrally located area with great transport links, bordering on Kensington, Mayfair, Chelsea and Fulham. Lillie Square, the first opportunity to bring new residential product to the Earls Court Masterplan area, was successfully launched in 2014 and established a very positive pricing benchmark for the area as it sold out in a very short time. Capco's balance sheet is strong and flexible, strengthened over the year with their new bank facilities, a US private placement and the successful equity raise in 2014. Capco's strategy is clear and focused and with two unique assets in prime central London. They are well positioned to deliver long-term value for our clients.

The SA market remains heavily influenced by global markets, central bank activity and the foreign resultant portfolio flows. Markets have started 2015 in a volatile fashion, which we believe is likely to set the tone for the year ahead. We continue to find value and opportunities in the mid-cap space. Master Drilling and Clover are two such smaller company holdings, which offer our clients strong return prospects. We are employing significant equity hedging in the fund via put option strategies. This enables us to benefit from our stock-picking ideas, without taking too much equity market risk and without needing to hold any low-yielding cash.

We have moderately increased our holdings in fixed-rate bonds as inflation has peaked, and the current lower oil price should provide additional downside risks to inflation. In 2015, however, the weak growth outlook and public servant wage pressures will likely weigh on fiscal performance, further delaying fiscal consolidation and posing risks to bond yields.

The fund retains close to maximum allocation to foreign assets, where we find opportunity in certain large technology stocks, healthcare companies, automakers, property and casualty insurers and specific listed property exposures. We are favouring companies with strong intellectual property and consequent high margins. At a time of very high global asset prices, we are adopting a contrarian positioning with the intention of delivering positive returns in potentially downward moving markets.

Portfolio Manager
Gavin Wood

Key indicators

Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	3.9%
Repo rate (%)	5.8%
3m JIBAR	6.1%
10-year government bond yield	7.7%

Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	1.8%
FTSE/JSE All Share Index	5.8%
FTSE/JSE Listed Property Index	13.7%
BEASSA All Bond Index	3.0%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	-5.5%
Gold ($/oz)	0.0%
Rand/US Dollar (USD)	6.0%