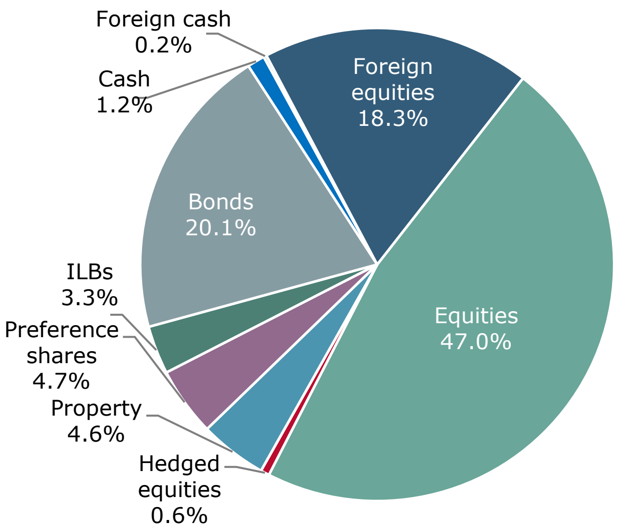
Kagiso Balanced Fund
September 2018

Date of issue: 26 October 2018

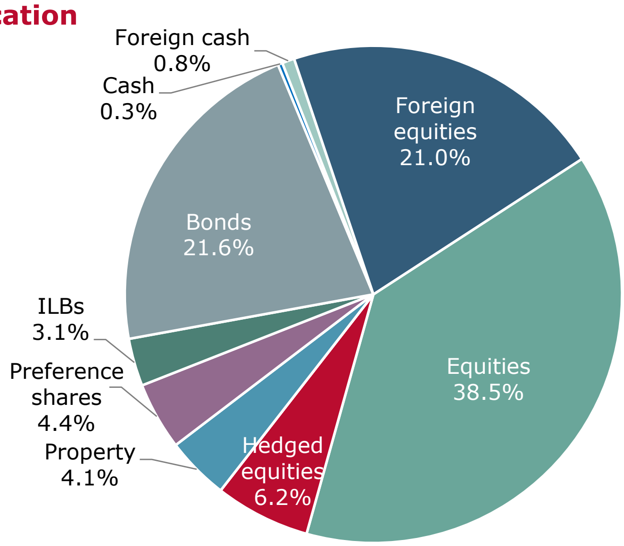
The Fund is Regulation 28 compliant and can invest in a wide variety of domestic and international asset classes (eg equities, listed property, conventional bonds, inflation-linked bonds and cash). As the fund aims to maximise returns, it will have a strong bias towards equities - typically the asset class with the highest expected long-term returns. The fund is positioned in our team's best ideas - which emanate from our bottom-up research process - and is actively managed to achieve an optimal risk/reward balance and consistent positive alpha.

Asset allocation

Quarter ended September 2018



Quarter ended June 2018



Top 10 equity holdings

Quarter ended September 2018

Naspers	6.3%
Old Mutual	4.8%
Datatec	2.9%
Northam Platinum	2.6%
AECI	2.6%
Zambezi Platinum Pref	2.4%
Firstrand/RMB	2.3%
Altron	2.3%
African Rainbow Minerals	2.2%
Quilter plc	2.0%
Total	30.4%

Quarter ended June 2018

Naspers	6.1%
Old Mutual	4.2%
AECI	2.5%
Altron	2.5%
Zambezi Platinum Pref	2.4%
Datatec	2.4%
Northam Platinum	2.3%
Adcorp	2.2%
Quilter plc	2.1%
African Rainbow Minerals	1.8%
Total	28.5%

Fund size R564.73 million
NAV 166.13 cpu
Number of participatory interests 339,285,582

Income distributions

30 June 2018	5.63	cpu
31 December 2017	1.31	cpu

Key indicators

Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	4.9%
Repo rate (%)	6.5%
3m JIBAR	7.0%
10-year government bond yield	9.2%
Key asset classes (total return)	**Quarterly change**
MSCI World Index (USD)	5.0%
FTSE/JSE All Share Index	-2.2%
FTSE/JSE Listed Property Index	-1.0%
BEASSA All Bond Index	0.8%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	-4.4%
Gold ($/oz)	-4.8%
Rand/US Dollar (USD)	3.0%

Policy objective The fund adhered to the policy objective as stated in the Supplemental Deed
Additional information Please read this quarterly investment report in conjunction with the minimum disclosure document for the fund

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The fund was up 1.8% this quarter, outperforming the average of competitor funds. This quarter's strong performance was primarily due to a meaningfully positive contribution from our local stock selection. The fund has returned 8.9% per annum since its inception in 2011. The fund has returned 8.7% per annum over the last three year which is well ahead of the peer group average (up 5.3% per annum).

Economic backdrop

Global economic growth continues to be strong in 2018, with robust growth in the USA offsetting decelerating growth elsewhere. Inflation rates around the world are on an upward trend due to higher energy prices, tightening labour markets in the developed world and currency depreciation in emerging markets.

The US economy continues to grow above trend, with a strengthening labour market and much improved investment spend. However, activity is being supported by substantial front-loaded tax cuts and continued accommodative - albeit slowly tightening - monetary policy.

In Europe and Japan, growth has decelerated but is holding at healthy levels, and there are signs of tightening labour markets. Positively, in Japan there are signs of sustained momentum in business investment spend, mostly geared towards improving productivity against a backdrop of acute labour shortages.

Chinese government measures to rebalance their economy, reign in credit excesses and reduce pollution are resulting in a marked deceleration in infrastructure-related growth, a trend we expect to continue for the medium term. There are signs that growth in manufacturing activity and consumer spending may have peaked at the end of 2017, but overall growth remains at healthy levels. In other emerging markets, the inflation and interest rate outlooks have worsened as capital outflows have led to currency depreciation and growth has moderated somewhat due to the recent deceleration in global trade. Fundamental economic situations differ widely by country, and we expect to see widely varying emerging market performances in the medium term.

Fears of an escalating trade war between the US and its trading partners have increased. Actions announced thus far are having some direct impact on trade activity (which started the year at high levels) and, more importantly, are dampening business confidence.

The South African economy has been much weaker than expected, with GDP contraction, low consumer and business confidence and very lacklustre company results. This has resulted in significant weakness in domestically focused equities and the rand. There is a risk that the situation worsens further as the very supportive global economic backdrop fades somewhat.

Market review

For a number of years, extreme unconventional monetary stimulus in the form of price agnostic asset purchases has distorted asset prices across the globe. Global bond yields remain very low (pricing in extremely low levels of future long-term inflation), corporate bond credit spreads are extremely suppressed and equity prices are high, especially in sectors where growth prospects are well appreciated.

Global bond rates are rising from the record low levels of 2016, accompanied by signs of rising inflation, particularly in the US. Importantly, the rate of total global central bank asset purchases peaked in early 2017 and is steadily reducing as monetary stimulus programs are withdrawn. These changes in trend are causing a more normal (higher) level of market volatility and a welcome increase in dispersion across equities, as well as across asset classes – a better environment for stock pickers.

Over the quarter, equity markets were stronger. The US and Japan outperformed (up 7.7% and 6.3% respectively) while Hong Kong (down 2.2%) and the UK (down 1.8%) underperformed. Emerging markets were mixed (down 0.9% in dollar terms with Brazil and Russia outperforming and South Africa and Turkey weaker).

Locally, the equity market was weak (down 2.2%). Financials (up 4.2%) outperformed this quarter, with Capitec Bank, Discovery, Sanlam and FirstRand the biggest gainers. The property sector was negative again and is now down 22.2% this year.

Resources were positive again this quarter (up 4.7% and up 24.1% this year), with PGM miners outperforming (up 25.5%), while the gold sector (down 5.9%) lagged. Standout positive performers were Impala Platinum (up 44.4%), African Rainbow Minerals (up 29.4%) and Northam Platinum (up 18.0%), while Gold Fields (down 28.2%) underperformed.

Industrials were down 8.1%, with Aspen Pharmacare (down 32.0%), Tiger Brands (down 17.2%), MTN (down 14.9%) and Naspers (down 6.5%) particularly weak. The hospitals sector was also weak (down 9.8%). Standout positive performers were Bidcorp (up 12.4%) and Richemont (up 3.6%).

SA bonds recovered somewhat this quarter, although underperforming cash (up 1.7%). Negative general emerging market sentiment continued to contribute to strong foreign selling of bonds in this period.

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KAGISO Asset Management

Fund performance and positioning

Strong stock selection from our local equity holdings, together with associated hedges, were the largest performance contributors this quarter. Within yield assets, our exposures to local cash and property contributed positively, with a more moderate contribution from preference shares and bonds.

Strong local equity contributors this quarter were Old Mutual, African Rainbow Minerals, Anglo American Platinum and Northam Platinum. Key detractors were Naspers, Tiso Blackstar, Libstar and Tongaat Hulett.

Our global holdings slightly detracted from performance this quarter. Key positive contributors were Corning, Inpex, Allergan and Nisshinbo. Detractors were Just Group, JD.COM, Gocompare and Spire Healthcare.

Against a global backdrop of strong (though decelerating) economic growth, tightening monetary policy, high asset prices, heightened geopolitical tensions and a local market still pricing in optimism about South Africa’s turnaround (albeit a lot less than the beginning of the year), we are still guarded on the outlook for financial markets.

We have in recent months meaningfully increased our exposure to South African bonds as recent weakness has resulted in attractive risk-adjusted yields. We have reduced our exposure to foreign equities, from very high levels. We continue to maintain a small hedge against equity market weakness.

We are optimistic that more normal financial conditions are proving to be a much better environment for stock picking. We retain a particularly high exposure to local mid-cap stocks. An example is local information and communication technology (ICT) company Altron, which has undergone a significant restructure. The business disposed of a number of capital-intensive manufacturing businesses to instead focus on delivering compelling ICT solutions. The shareholding structure has been transformed, significant management changes have been effected and the cost base has been optimised.

We are still early in the journey of Altron’s reinvigoration. The new management team and revitalised board have been in place for less than two years. The recently released trading statement guiding for an increase in earnings of approximately 25% provides evidence of some initial successes stemming from the restructuring.