# KAGISO EQUITY ALPHA

CLASS A as at 30 June 2010

KAGISO Asset Management

## PORTFOLIO MANAGER COMMENTARY

Global equity markets declined fairly sharply in the quarter as concerns mounted that the global economy was not necessarily on the path to a sustainable recovery. The spotlight seemed to focus on troubles in southern Europe and tightening in China, but our sense is that these are not new issues but merely manifestations of the concerns we have been highlighting for some time.

The signs of economic recovery are distorted by the current unprecedented and globally co-ordinated fiscal and monetary stimulus. It is not clear what levels of economic activity will be sustainable as this stimulus is inevitably withdrawn. Additionally, economic activity will be depressed by the need for developed country austerity measures, which are necessary if historically very high levels of debt are to be reduced. Add to this: high structural unemployment, massive welfare and pension liabilities and other economic imbalances, and we have a tough outlook for markets.

The Kagiso Equity Alpha Fund had another good quarter and, compared with its peers in the General Equity sector we ended June 2010: 2nd over 6 and 12 months, 4th over 3 years and 1st over 5 years (according to Morningstar). Stock selection added strongly, as did our underweight position in the Resources sector and overall defensive stance.

Commodity prices were generally weaker over the quarter as previous optimism proved misplaced: copper was down 16% and oil around 10%. Gold proved the exception, as is often the case when there is market volatility, rising 12% and hitting an all-time nominal high of $1265/oz at one point.

The rand was 5% weaker against the US dollar, but 5.5% stronger against the euro, as European sovereign debt concerns weighed on the latter. The Chinese authorities moved to restore the more flexible exchange rate policy for their renminbi that prevailed prior to the financial crisis.

The FTSE/JSE All Share index was down 8.2% during the quarter, with financials (-4.5%) and industrials (-7.8%) outperforming resources (-11.9%).

Foreigners were again buyers of South African equities in the quarter, being net buyers of R8.7bn ($1.1bn) after being net buyers of R12.3bn ($1.6bn) in the previous quarter. This follows on the 2009 total net inflows into South African equities of R73.7bn ($8.9bn). It concerns us that this wave of capital into our market is distorting prices in certain sectors, but we believe this provides strong stock pickers with great opportunities.

Our fund's relative performance over the quarter was aided by our generally defensive positioning. In particular, we avoided many of the worst performing resources stocks. Naspers was a major disappointment to us in June as its listed Chinese holding, Tencent, came under pressure in the face of changing regulations pertaining to internet companies in China.

Going forward, we remain defensively positioned with a strong focus on quality, lower risk companies, which are attractively priced. We favour companies with strong balance sheets, high franchise value and/or dominant market positions, low fixed costs and defensive earnings streams. We are avoiding companies which have strongly re-rated in expectation of high earnings growth in future – growth that we believe may be elusive in the tough economic environment we expect.

The fund remains appropriately positioned in our best stock selections, based on our team's proven bottom-up stock picking process.

Portfolio manager
Gavin Wood

# KAGISO EQUITY ALPHA

CLASS A as at 30 June 2010

KAGISO Asset Management

| | |
|---|---|
| Fund category | Domestic - Equity - General |
| Fund description | Aims to maintain top quartile performance in its category. |
| Launch date | 26 April 2004 |
| Portfolio manager/s | Gavin Wood |
| Fund size | R115.00 million |
| NAV | 357.22 cents |
| Benchmark | Domestic Equity General Funds Mean |

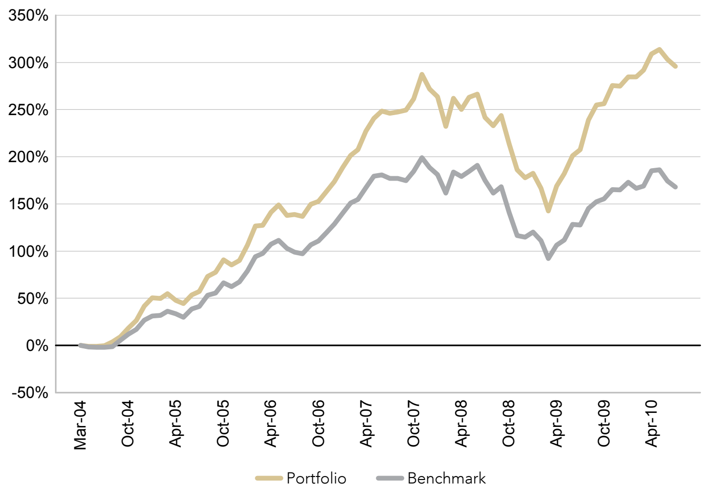
## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector | 30 Jun 2010 |
|---|---|
| **Domestic Assets** | **93.72%** |
| **Equities** | **82.97%** |
| Oil & Gas | 7.97% |
| Basic Materials | 11.98% |
| Industrials | 2.44% |
| Consumer Goods | 11.21% |
| Health Care | 4.77% |
| Consumer Services | 19.49% |
| Telecommunications | 9.88% |
| Financials | 21.65% |
| Technology | 2.14% |
| Derivatives | (8.56)% |
| **Preference Shares & Other Securities** | **1.23%** |
| **Real Estate** | **0.27%** |
| **Cash** | **9.24%** |
| **International Assets** | **6.28%** |
| **Equities** | **6.28%** |

## PERFORMANCE AND RISK STATISTICS

### CUMULATIVE PERFORMANCE SINCE INCEPTION




### TOP 10 HOLDINGS

| As at 30 Jun 2010 | % of Fund |
|---|---|
| MTN Group Ltd | 9.88% |
| Sasol Ltd | 7.97% |
| Naspers Ltd | 7.85% |
| Tongaat Hullett Ltd | 6.28% |
| Standard Bank of SA Ltd | 5.90% |
| FirstRand | 4.64% |
| Discovery Holdings Ltd | 4.54% |
| 1TIME HOLDINGS LIMITED | 4.12% |
| Kagiso Media Ltd | 3.43% |
| Trans Hex Group Ltd | 3.04% |
| **Total** | **57.64%** |

### PERFORMANCE FOR VARIOUS PERIODS

| | Fund | Benchmark | Outperformance |
|---|---|---|---|
| Since Inception (unannualised) | 295.76% | 168.00% | 127.76% |
| Since Inception (annualised) | 24.62% | 17.09% | 7.54% |
| Latest 5 years (annualised) | 20.28% | 13.64% | 6.63% |
| Latest 3 years (annualised) | 4.59% | (1.09)% | 5.69% |
| Latest 1 year (annualised) | 28.80% | 17.79% | 11.00% |
| Year to date | 2.90% | (1.81)% | 4.71% |
| 2009 | 36.21% | 23.97% | 12.24% |
| 2008 | (22.38)% | (21.70)% | (0.67)% |
| 2007 | 26.15% | 17.04% | 9.11% |
| 2006 | 39.90% | 34.27% | 5.63% |

### INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|---|---|---|---|---|
| 31 Mar 2009 | 01 Apr 2009 | 5.60 | 5.51 | 0.09 |
| 30 Sep 2008 | 01 Oct 2008 | 0.33 | 0.31 | 0.02 |
| 31 Mar 2008 | 01 Apr 2008 | 2.12 | 1.88 | 0.24 |
| 28 Sep 2007 | 01 Oct 2007 | 3.26 | 2.42 | 0.84 |

### RISK STATISTICS SINCE INCEPTION

| | Fund | Benchmark |
|---|---|---|
| Annualised Deviation | 16.76% | 15.21% |
| Sharpe Ratio | 0.93% | 0.53% |
| Maximum Gain | 54.83% | 42.25% |
| Maximum Drawdown | (37.37)% | (35.71)% |
| Positive Months | 69.33% | 65.33% |

### MONTHLY PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund 2010 | (0.02)% | 1.87% | 4.44% | 1.14% | (2.53)% | (1.87)% | | | | | | |
| Fund 2009 | (5.65)% | (8.99)% | 10.90% | 4.95% | 6.70% | 2.05% | 10.29% | 4.66% | 0.46% | 5.35% | (0.19)% | 2.65% |
| Fund 2008 | (8.68)% | 8.94% | (3.30)% | 3.69% | 0.96% | (6.76)% | (2.52)% | 3.20% | (8.72)% | (8.81)% | (2.92)% | 1.69% |

## FEES (excl. VAT)

| | |
|---|---|
| Initial Fee* | Kagiso: 0.00% |
| Annual Management Fee** | 1.00% |

* A portion of Kagiso's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.

**Advice Costs (excluding VAT)**

- Initial and ongoing advice fees may be facilitated on agreement between the Client and Financial Advisor.
- An initial advice fee may be negotiated to a maximum of 3% and is applied to each contribution and deducted before investment is made.
- Ongoing advice fees may be negotiated to a maximum of 1% per annum (if initial advice fee greater than 1.5% is selected, then the maximum annual advice fee is 0.5%), charged by way of unit reduction and paid to the Financial Advisor monthly in arrears. This annual advice fee is not part of the normal annual management fee as disclosed above.
- Where commission and incentives are paid, these are included in the overall costs.

| | |
|---|---|
| Total Expense Ratio (TER)² | 2.62% per annum |

*Please note that this fund was renamed from Kagiso Active Quants to the above, effective 1 Febuary 2009.*



CORONATION FUND MANAGERS