

Kagiso Equity Alpha Fund

as at December 2010



Fund category Fund description

Domestic - Equity - General
Aims to maintain top quartile performance in its category.

Launch date

26 April 2004

Portfolio manager

Gavin Wood

Fund size

R271.16 million

NAV

423.68 cents

Benchmark

Domestic Equity General Funds Mean

Class A

Portfolio detail

Effective asset allocation exposure

As at 31 December 2010

Domestic assets	91.87%
◆ Equities	82.36%
Oil & Gas	8.47%
Basic Materials	15.85%
Industrials	2.53%
Consumer Goods	9.99%
Healthcare	4.21%
Consumer Services	12.83%
Telecommunications	9.83%
Technology	3.72%
Financials	20.88%
Derivatives	(5.95%)
◆ Preference Shares & Other Securities	(2.32%)
◆ Real Estate	0.00%
◆ Cash	11.83%
◆ International Assets	8.13%
Equities	8.13%

Top 10 holdings

As at 31 December 2010

	% of Fund
MTN	9.27%
Sasol	8.47%
Tongaat Hulett	7.38%
Standard Bank	5.49%
Naspers	5.11%
British American Tobacco	4.56%
FirstRand	3.81%
ABSA	3.36%
Mustek	3.25%
Mondi	3.23%
Total	53.92%

Income distributions

Declaration	Payment	Amount	Dividend	Interest
31 Dec 2010	03 Jan 2011	3.40	3.30	0.10
30 Sep 2010	01 Oct 2010	1.06	0.96	0.10
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

Monthly performance returns

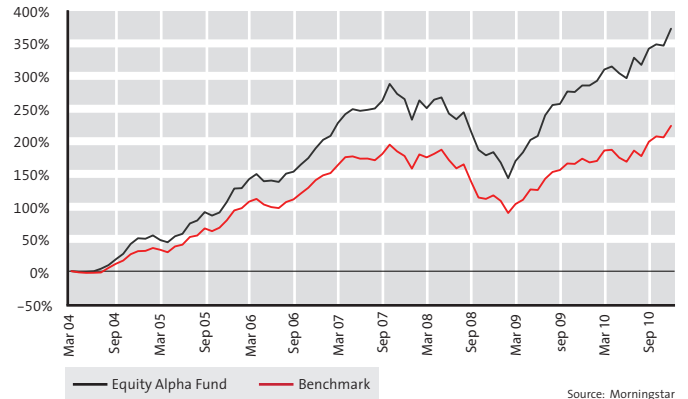
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	(0.02%)	1.87%	4.44%	1.14%	(2.53%)	(1.87%)	7.93%	(2.58%)	5.97%	1.53%	(0.46%)	5.75%
2009	(5.65%)	(8.99%)	10.90%	4.95%	6.70%	2.05%	10.30%	4.66%	0.46%	5.35%	(0.19%)	2.65%
2008	(8.68%)	8.94%	(3.30%)	3.69%	0.96%	(6.76%)	(2.52%)	3.20%	(8.72%)	(8.81%)	(2.91%)	1.69%

Fees (excluding VAT)

Initial fee	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 administration and distribution services.	
Total Expense Ratio (TER) ²	1.32% per annum

Performance and risk statistics¹

Cumulative performance since inception



Performance for various periods

	Fund	Benchmark	Outperformance
Since inception (unannualised)	371.50%	222.98%	148.53%
Since inception (annualised)	25.83%	18.97%	6.86%
Latest 5 years (annualised)	17.99%	12.64%	5.35%
Latest 3 years (annualised)	9.02%	5.29%	3.73%
Latest 1 year (annualised)	22.53%	18.53%	4.00%
Year to date	22.53%	18.53%	4.00%
2009	36.23%	25.95%	10.28%
2008	(22.37%)	(21.80%)	(0.56%)
2007	26.15%	15.48%	10.67%
2006	39.91%	34.52%	5.39%

Risk statistics since inception

	Fund	Benchmark
Annualised deviation	16.54%	15.17%
Sharpe ratio	1.03	0.67
Maximum gain	54.85%	40.36%
Maximum drawdown ³	(37.37%)	(35.64%)
% Positive months	69.14%	65.43%

³ Maximum % decline over any period

The Kagiso unit trust range is offered by Kagiso Collective Investments Limited, ("Kagiso") registration number 2010/009289/06, a member of the Association for Savings and Investment SA (ASISA). Kagiso Collective Investments Limited is a subsidiary of Kagiso Asset Management to which the investment of its unit trust funds is outsourced. The Kagiso Islamic Equity Fund is a Collective Investment Scheme portfolio (unit trust) registered in terms of the Collective Investment Schemes Control Act under the Kagiso Unit Trust Scheme. Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up. Past performance is not necessarily an indication of future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Instructions must reach Kagiso Collective Investments before 2pm to ensure same day value. Fund valuations take place at approximately 15h00 each business day and forward pricing is used. The manager is a member of ASISA. ¹Performance is quoted from Morningstar as at 31 December 2010 for a lump sum investment using Class A NAV prices with income distributions reinvested. Performance figures are quoted after the deduction of all costs incurred within the fund. ²The 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 December 2010. 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 TER's.

Global equity markets enjoyed another very strong quarter, buoyed by additional monetary and fiscal stimulus and some economic data that suggests improvement.

We remain cautious that the signs of economic recovery are distorted by government stimulus measures. 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. We are wary that the short-term positive impact of additional developed market monetary stimulus will be difficult to sustain. On the positive side, we believe that there are strong prospects for companies focused on emerging market consumers. We are positioned in some of these that are still priced below intrinsic value.

The Kagiso Equity Alpha Fund again had an average quarter compared with its peers in the General Equity sector, due mainly to a more defensive positioning in a strongly positive period, lower than average resources exposure and due to our tactical positioning for a weaker rand. Despite this, we ended December 2010, within our sector: 7th for 2010, 7th over 3 years and 2nd over 5 years (according to Morningstar).

Commodity prices were again significantly stronger over the quarter, encouraged by the improving economy, supply constraints and continued investment buying in anticipation of weak currencies. Copper was up 20.5%, oil up around 16%, platinum up 6.5% and gold up 8.5%. Many commodity prices hit all-time highs.

The rand was 5 – 6% stronger against developed market currencies on continued positive emerging market sentiment. This will weigh on the earnings of South African exporters, including SA commodity producers, in the coming period if sustained. The South African government significantly relaxed exchange control regulations: increasing institutional limits by 5% and allowances for individuals substantially.

The FTSE/JSE All Share index was up 9.5% during the quarter, taking the total return index to an all-time high – a massive five-fold increase over the decade in dollar terms. Resource shares performed best (+16.5%), with industrial shares (+7.8%) and financials (-0.1%) way behind.

Foreigners returned in force to the JSE, buying R16.9 billion of shares, but were sellers of bonds (R17.1 billion outflow) after massive bond buying in the year to date.

Implats (+29%), ARM (+25%), Assore (+21%), Nampak (+21%) and Richemont (+15%) were strong performers for the fund, but our exposure to Mondi (-5%), Investec (-1%), Standard Bank (-3%), BAT (-3%) and Discovery (+2%) were a drag on performance.

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