Kagiso Equity Alpha Fund
as at 31 December 2012

KAGISO Asset Management

Performance and risk statistics[1]

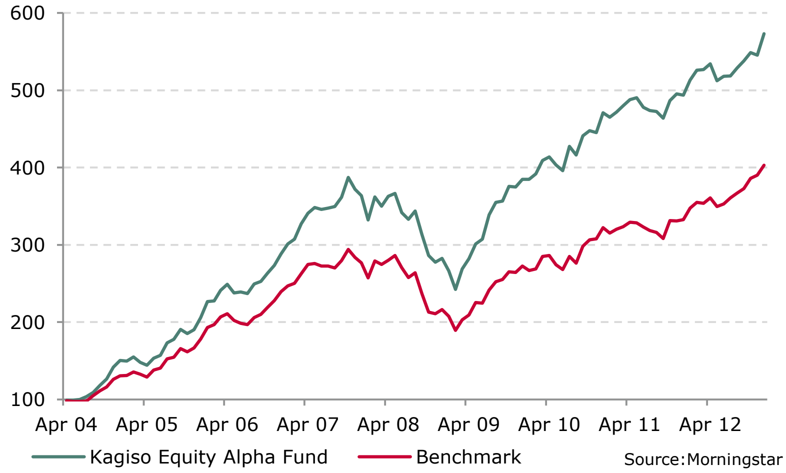
	Fund	Benchmark	Outperformance
1 year	16.1%	21.2%	-5.1%
3 years	14.2%	13.9%	0.3%
5 years	9.5%	7.8%	1.7%
Since inception	22.1%	17.3%	4.8%

All performances annualised

	Fund	Benchmark
Annualised deviation	15.0%	13.9%
Sharpe ratio	-0.5	-0.6
Maximum gain*	54.9%	40.4%
Maximum drawdown*	-37.4%	-35.6%
% Positive months	68.6%	65.7%

*Maximum % increase/decline over any period

Cumulative performance since inception

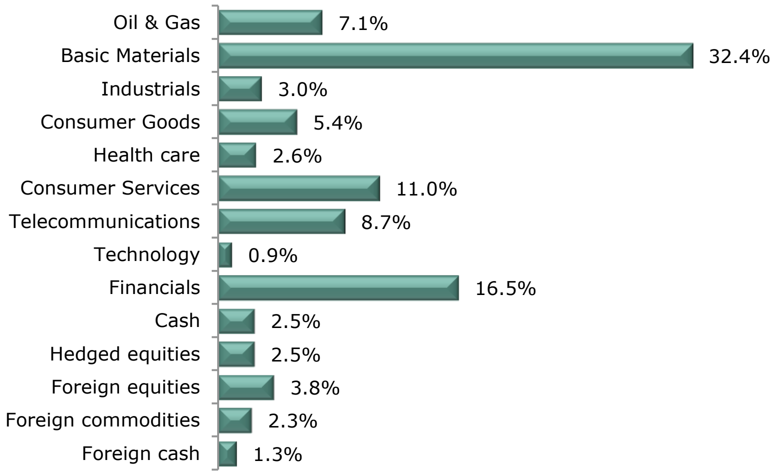


Source:Morningstar

Portfolio manager	Gavin Wood
Fund category	Domestic - Equity - General
Fund objective	To provide strong capital growth and a total portfolio return that is in the top quartile for general equity funds.
Risk profile	Medium - High
Suitable for	Investors who are in their wealth accumulation phase, seeking exposure to the domestic equity market. A typical investor would be able to withstand short-term market fluctuations in pursuit of maximum capital growth over the long term.
Benchmark	Domestic Equity General funds mean
Launch date	26 April 2004
Fund size	R737.5 million
NAV	497.89 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2012: 3.14 cpu
Minimum investment	Lump sum: R5 000; Debit order: R500
Fees (excl. VAT)	Initial fee: 0.00% Financial adviser fee: max 3.00% Ongoing advice fee: max 1.00% pa Annual management fee: 1.25%
TER[2]	1.48% per annum

Unconventional thinking. Superior performance

Effective asset allocation exposure*



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

Top ten equity holdings

	% of fund
Standard Bank	8.9
MTN	8.5
Lonmin	8.5
Sasol	7.3
Mondi	6.2
Naspers	5.0
Tongaat Hulett	5.0
Firstrand/RMB	4.6
AECI	4.5
Anglo American	3.0
Total	61.3

[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.
[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 December 2012. 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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Commentary

Firm (but marginally slower) growth in emerging economies and relatively flat output in developed economies contributed to lacklustre overall global economic growth in 2012.

Within emerging markets, China remains the key driver of growth despite some deceleration since the double-digit growth rates of 2010. Developed market growth continues to struggle with the US recording average growth of 2% through much of 2012 and Eurozone economic activity remains weak. The peripheral Eurozone economies are still firmly in recession amid debt-fuelled austerity measures and a volatile political climate.

Locally, structural economic problems and weak global conditions continue to constrain prospects for economic growth. South Africa's macro fundamentals are weak and the marginal growth achieved has largely been driven by government and household consumption – largely debt-financed. Yet, despite the deteriorating economic environment, South African share prices continue to reach record highs.

Global markets were generally up during the quarter, with the exception of the US (S&P 500 Index), which was down 1.0% as uncertainty around the looming fiscal cliff deadline affected investor sentiment. The UK (FTSE 100 Index) was up 2.7%, Japan (Nikkei 225) was up 17.2% and the MSCI Emerging Markets Index was up 5.2% (in US dollar terms).

The FTSE/JSE All Share Index gained 10.3% during the quarter, ending the year near a record high. In terms of sector performance, industrials (12.4%) were the largest contributors, followed by financials (9.9%). Resources (7.3%) recovered a little as Chinese data improved and the iron ore price rallied. For the year, the FTSE/JSE All Share Index returned 26.7%. Industrials (40.7%) and financials (38.1%) performed well, with resources (+3.1%) lagging.

Foreigners were net sellers of South Africn equities worth R3.4bn in 2012, although there were inflows of R5.3bn in December as currency pressures subsided and labour issues appeared to stabilise.

Commodity prices weakened this quarter, with most commodities relevant to South African miners losing ground - platinum was down 5.2% (in US dollar terms), gold was down 5.5% and copper was down 2.7%. During the quarter, renewed optimism on Chinese growth led to an improvement in base metals. Consequently, iron ore prices recovered strongly as buying was boosted by stronger activity and falling inventory levels. The oil price (Brent Crude) remained fairly static, down a mere 0.4% during the quarter.

The rand weakened by 1.9% against the US dollar and 4.4% against the euro. The rand depreciated notably in October at a time of severe labour unrest and the downgrading of South Africa's sovereign rating. However, it performed strongly in December, gaining 5.1% against the dollar as concerns about Europe's slowdown eased and the appointment of Cyril Ramaphosa as ANC Deputy President was well received by global markets.

South African consumer price inflation rose during the quarter, driven by higher petrol, electricity and food prices. Inflation remains in the upper region of the South African Reserve Bank's target band, where we expect it to remain in the medium term, with most of the upside pressure stemming from higher food and electricity prices, as well as the knock-on effects of a weaker rand. At its Monetary Policy Committee meeting during the quarter, the Reserve Bank left rates unchanged. The Bank continues to balance weak growth prospects and rising inflationary pressures.

The Kagiso Equity Alpha Fund slightly underperformed the average fund in the Domestic General Equity sector. While our current overweight position in resources shares and underweight position in industrials is affecting our short-term performance, we believe it is appropriate to position our clients in deeply undervalued shares in anticipation of strong capital gains and avoid the permanent capital losses we expect from vastly overvalued shares.

The fund remains number one in the Domestic General Equity sector since its inception in April 2004 – a testament to the value of our investment philosophy over the long term.

Implats (up 20.6%), ABSA (up 18.4%) and FirstRand (up 13.5%) were strong performers for the fund over the quarter, while our exposure to Anglogold Ashanti (down 10.1%), Tongaat Hulett (down 3.5%), AECI (down 2.5%) and Lonmin (down 2.1%) detracted from performance.

Looking ahead, meagre growth combined with heightened policy risk will remain concerns in 2013. We therefore remain cautious over prospects for developed economies with high levels of government debt, high levels of unemployment and demographic trends moving slowly against them. On the positive side, we believe that there are strong prospects for companies focused on emerging market consumers, although much of this optimism seems to be priced into South African consumer stocks. We are increasingly finding opportunities in large capitalisation IT stocks in the US with solid balance sheets and resilient cash flow generation abilities.

Going forward, we remain defensively positioned from an asset allocation point of view, with significant hedging in place. The fund continues to be appropriately positioned in our best stock selections, based on our team's proven bottom-up stock picking process.

Portfolio manager
Gavin Wood