Kagiso Equity Alpha Fund

as at 31 December 2013

KAGISO Asset Management

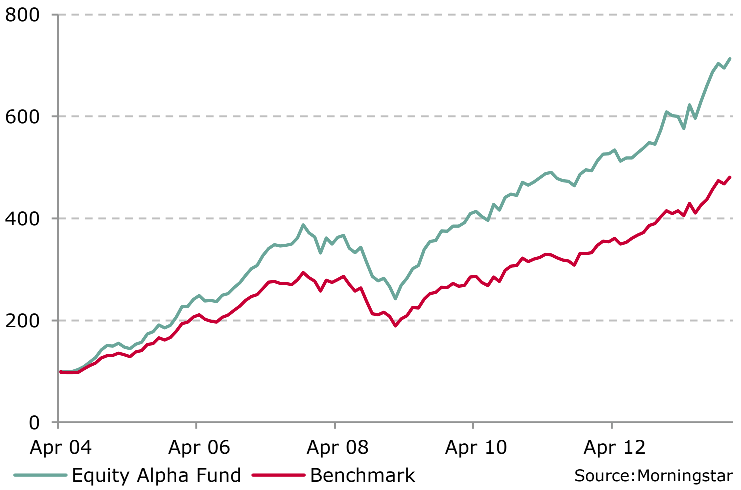
Performance and risk statistics[1]

	Fund	Benchmark	Outperformance
1 year	24.5%	19.4%	5.1%
3 years	14.9%	14.3%	0.6%
5 years	20.4%	17.3%	3.1%
Since inception	22.3%	17.5%	4.8%

	Fund	Benchmark
Annualised deviation	14.9%	13.5%
Sharpe ratio	1.0	0.7
Maximum gain*	54.8%	40.3%
Maximum drawdown*	-37.4%	-35.6%
% Positive months	67.5%	65.8%

*Maximum % increase/decline over any period

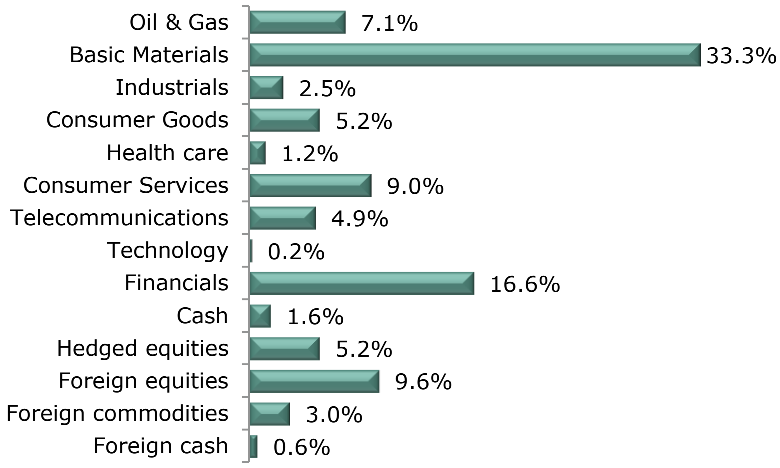
Cumulative performance since inception



Portfolio manager	Gavin Wood
Fund category	South African - 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	South African - Equity - General funds mean
Launch date	26 April 2004
Fund size	R946.7 million
NAV	612.87 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2013: 3.19 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% Performance fee: 10% of fund's outperformance of benchmark over rolling 12-month periods. Total fee (annual management fee plus performance fee) to be capped at 2%.
TER[2]	1.48%

Unconventional thinking.

Effective asset allocation exposure*



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

Top ten equity holdings

	% of fund
Lonmin	7.7
Sasol	7.3
Standard Bank	7.2
FirstRand/RMB	6.8
MTN	5.3
Naspers	4.6
Anglo American	4.4
AECI	4.1
Tongaat Hulett	3.9
Mondi	3.2
Total	54.5

[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 December 2013. 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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The fund ended the year strongly, returning 24.5%, with 3.9% achieved in the last quarter. Good stock selection, despite significant hedging, contributed to a very positive 2013 for the fund.

Economic and market overview
In mid-December, the US Federal Reserve announced that it was slowing the pace of its monthly asset purchases by US$10bn. Surprisingly, this was followed by a strong rally in risky assets. As the Fed begins the journey towards eventual policy tightening, other developed market central banks are becoming increasingly accommodative. In particular, Japan has launched a massive asset purchase programme in pursuit of elusive inflation and the European Central Bank is considering further stimulus measures.

Many developed economies are beginning to show signs of a more consistent recovery. The US is showing signs of stronger industrial production and an improved labour market, while most European countries have emerged from recessions. Japan's economy is responding well to *Abenomics* and its weaker currency, but will need to overcome an increase in consumption tax later this year. Meanwhile, deflation risk is a concern in an environment of significant spare capacity.

Locally, the SA economy remains vulnerable to portfolio inflows slowing and perhaps reversing, given the high current account and fiscal deficits. Growth continues to stutter along, hampered by labour disruptions, electricity shortages and an overburdened consumer. Inflation remains remarkably constrained, with pressures from the weaker currency showing no signs of emerging through consumer prices yet.

After a fairly lacklustre first half of 2013, SA equity markets recorded a very strong latter half. This was mainly driven by industrial companies where, once again, share prices significantly outpaced the growth in earnings. In a change from previous years, listed property underperformed the equity market, coming under pressure in the wake of rising bond yields.

Fund performance and positioning
Sasol (up 10.3%), Naspers (up 18.0%) and Standard Bank (up 8.0%) contributed positively to quarterly performance, while Anglo American (down 6.9%), Tongaat Hulett (down 5.3%) and Anglo Platinum (down 9.5%) detracted.

The weaker rand, coupled with good stock selection in foreign investments, aided performance. In particular, our positions in Growthpoint Property Australia (up 17.4% in AUD), Microsoft (up 12.4% in USD) and Intel (up 17.7% in USD) contributed significantly to the fund’s performance.

Our team's international research has uncovered two compelling opportunities in the German residential property sector: Deutsche Annington and Deutsche Wohnen. We believe that the supply and demand dynamics in the German housing market are favourable. After lagging the rest of Europe, wages in Germany are set to rise, which should provide a significant tailwind to German consumers, most of whom rent (Germany has the second lowest home ownership prevalence in the world). In addition, growth in one and two family households is expected to grow despite an overall decline in German population growth. Meanwhile, residential property supply remains extremely constrained as new development costs are substantially above current valuations for existing stock, and space is a scarce resource.

Both companies have well-located portfolios, capable management teams and efficient cost bases, which will allow them to profitably absorb new acquisitions. Furthermore, they can be obtained at very compelling valuations with attractive dividend growth prospects.

Looking ahead, while the unwinding of stimulus will be a slow process, the reality is that any slowing (and ultimately reduction) represents a significant change in the flow of liquidity to markets. This will have implications for several asset classes and we will continue to avoid those assets that have benefited disproportionately from quantitative easing over the last few years. Currently, our market continues to set record highs, with much of the contribution coming from stocks that we believe have inflated valuations. Share prices of SA's global industrial stocks, in particular, continue to rise ahead of earnings growth.

Hedging within the fund provides capital protection in an increasingly expensive SA market and the fund continues to expand its global equity positions. We continue to be positioned in our best ideas, based on our team’s proven bottom-up stock-picking process. The fund is ranked third in the Domestic General Equity sector since its inception in April 2004 – a testament to the value of our investment philosophy and process over the long term.

Portfolio manager
Gavin Wood

Key indicators	
Equity markets (total return)	Quarterly change
MSCI World Equity (US Dollar return)	7.6%
MSCI Emerging Market Equity (US Dollar return)	1.5%
FTSE/JSE All Share Index	5.5%
FTSE/JSE Resources Index	2.6%
FTSE/JSE Financials Index	7.3%
FTSE/JSE Industrials Index	7.1%
Commodities and currency	Quarterly change
Platinum ($/oz)	-2.3%
Gold ($/oz)	-9.3%
Brent Crude ($/barrel)	2.7%
Rand/US Dollar (USD)	3.2%