

Kagiso Equity Alpha Fund

as at 30 September 2014



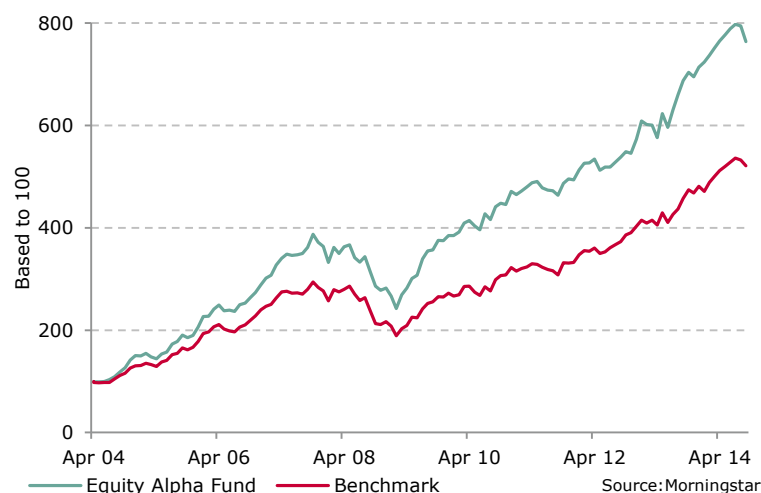
Performance and risk statistics¹

	Fund	Benchmark	Outperformance
1 year	11.1%	14.0%	-2.9%
3 years	18.1%	19.2%	-1.1%
5 years	16.5%	15.4%	1.1%
10 years	20.5%	16.7%	3.8%
Since inception	21.4%	17.0%	4.4%

	Fund	Benchmark
Annualised deviation	14.5%	13.2%
Sharpe ratio	1.0	0.7
Maximum gain*	54.8%	40.3%
Maximum drawdown*	-37.4%	-35.6%
% Positive months	68.3%	65.9%

*Consecutive months of change in the same direction.

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



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

R1 171.5 million

NAV

649.33 cents

Distribution dates

30 June, 31 December

Last distribution

30 June 2014: 3.35 cpu

Minimum investment

Lump sum: R5 000; Debit order: R500

Fees (excl. VAT)

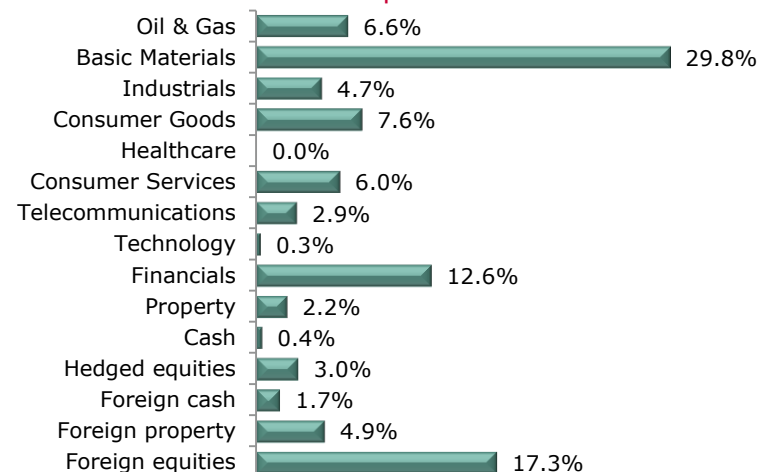
Initial fee: 0.00%
 Financial adviser fee: max 3.00%
 Ongoing advice fee: max 1.00% pa
 Management fee: 1.25% pa
 Performance fee: 10% of fund's outperformance of benchmark over rolling 12-month periods.
 Total fee (management fee plus performance fee) to be capped at 2% pa.

TER²

1.45%

Unconventional thinking

Effective asset allocation exposure*



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

Top 10 holdings

	% of fund
Sasol	6.8
Standard Bank	6.0
NewGold Platinum ETF	5.0
Tongaat Hulett	4.7
AECI	4.2
Lonmin	4.1
Anglo Platinum	4.0
FirstRand/RMB	4.0
Mondi	3.6
MTN	3.1
Total	45.5

The Kagiso unit trust fund range is offered by Kagiso Collective Investments Limited (Kagiso), registration number 2010/009289/06, a voting member of the Association for Savings and Investment SA (ASISA). Kagiso is a subsidiary of Kagiso Asset Management (Pty) Limited [a licensed financial services provider (FSP No. 784)], the investment manager of the unit trust funds. Unit trusts are generally medium to long-term investments. The value of units will fluctuate and past performance should not be used as a guide for future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Exchange rate movements, where applicable, may affect the value of underlying investments. Different classes of units may apply and are subject to different fees and charges. A schedule of the maximum fees, charges and commissions is available upon request. Commission and incentives may be paid, and if so, would be included in the overall costs. All funds are valued and priced at 15:00 each business day and at 17:00 on the last business day of the month. Forward pricing is used. The deadline for receiving instructions is 14:00 each business day in order to ensure same day value.

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 September 2014. 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.

The fund returned -3.1% for the quarter and 11.1% over a one-year period, slightly behind the average of comparable funds. Since inception, the fund has delivered 21.4% per annum, outperforming the average general equity fund in South Africa by 4.4%.

Economic and market overview

Volatility across global financial markets increased over the quarter following heightened speculation around the timing and extent of US monetary policy normalisation. The rand dropped sharply in September, posting a 5.7% decline for the quarter against a generally strong US dollar.

Local market news was dominated by African Bank over the period as the business was placed under curatorship. Equity holders (ordinary and preference) and junior debt holders lost all of their investments, while senior bondholders were subject to 10% losses and deposit holders did not suffer any losses. The fund had zero exposure to African Bank equity, preference share or debt instruments.

While the SA equity market reached an all-time high in late July, it experienced a sharp pull-back in September, resulting in a 2.1% quarterly loss. This decline was led by the resources sector, which was down 7.1% over the period.

The platinum mining sector was down nearly 20% for the quarter. Given the recovering demand for platinum group metals (PGMs) and the decline in supply this year (due to the five-month strike at the large Rustenburg mines), the weakness in the platinum price is surprising. It is clear that existing above ground stocks were higher than we had initially estimated and this depressed platinum prices when the striking mines started producing again. The labour strikes have caused large cash drains to the heavily affected miners (Impala and Lonmin) and seem to have led to market concerns about whether these companies will need to raise equity capital at a time when their share prices are very low. We maintain our view that future SA platinum supply will be severely constrained by current underinvestment in new shafts. As demand continues to recover, PGM prices will rise substantially, boosting company cash flows. We therefore believe that PGM miners are currently significantly undervalued.

Fund performance and positioning

The fund has a particularly large exposure to PGM miners and platinum and palladium ETFs. Given the weakness in the platinum sector, equity stock selection was disappointing this quarter, with Lonmin, Anglo Platinum and Aquarius Platinum all detracting. However, this was largely offset by strong performances from Tongaat, Sun International and FirstRand – the fund's top performing holdings over the quarter. Exposure to certain real estate counters, notably New Europe Property, contributed to performance. The fund's offshore assets also performed well, particularly Growthpoint Australia, Deutsche Annington and Deutsche Wohnen.

The fund's substantial position in AECI differentiates it from many of its larger competitors. AECI is well positioned for improvements in operating efficiencies, potential volumes and product quality due to its investment in modern technology and capacity. Our assessment of normalised earnings is substantially higher than current levels. The company's Chemserve division supplies specialist chemicals to the SA mining and industrial sectors and is increasingly expanding its reach into Africa. Its explosives division, AEL, is a leading producer of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets in Africa, Indonesia and Australia. In addition, AECI has a significant cash balance from the sale of its land in Modderfontein, providing management with interesting strategic options.

SA equity markets are generally looking vulnerable due to very high ratings and elevated earnings bases. Many sectors are expensive and we therefore remain defensive - prioritising capital protection while restricting exposure to undervalued opportunities. We have largely reduced concentration in the fund and are finding more opportunities in mid-cap stocks relative to their larger counterparts. We retain some hedging through put option strategies as an alternative to cash.

The fund retains a significant allocation to foreign assets, where we are finding opportunities in certain technology stocks, healthcare stocks, oil refiners and pipeline operators and specific listed property exposures. Listed property's recent underperformance of equities has improved the relative attractiveness of this sector. We are therefore selectively increasing the fund's exposure to foreign property (Intu, New Europe Property and Capital & Counties) and certain high quality local counters.

Portfolio Manager

Gavin Wood

Key indicators	
Equity markets (total return)	Quarterly change
MSCI World Equity (US Dollar return)	-2.6%
MSCI Emerging Market Equity (US Dollar return)	-4.3%
FTSE/JSE All Share Index	-2.1%
FTSE/JSE Resources Index	-6.6%
FTSE/JSE Financials Index	-0.5%
FTSE/JSE Industrials Index	-1.0%
Commodities and currency	Quarterly change
Platinum (\$/oz)	-12.5%
Gold (\$/oz)	-8.9%
Brent Crude (\$/barrel)	-15.8%
Rand/US Dollar (USD)	6.1%