Quarterly general investor report

Kagiso Equity Alpha Fund

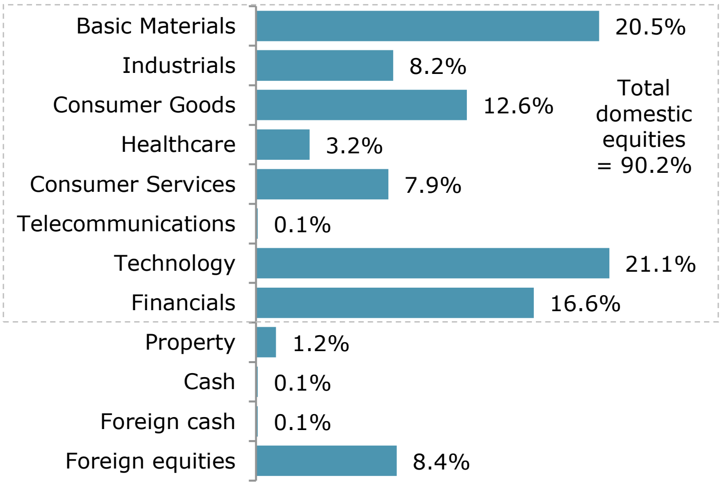
March 2019

Date of issue: 29 April 2019

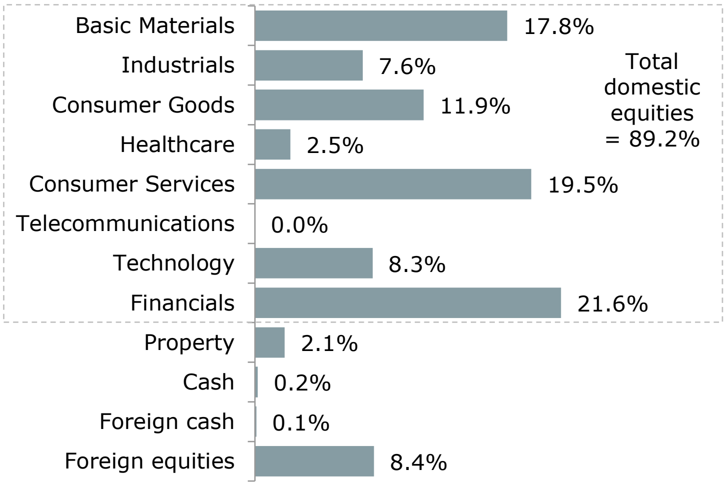
This fund aims to be fully invested in domestic and international equities and is positioned in our team's best ideas, which emanate from our bottom-up research process. This usually entails significant deviations from market cap-weighted benchmark positions. Active portfolio management is incorporated in search of an optimal risk/reward balance and consistent positive alpha.

Asset and sector allocation

Quarter ended March 2019



Quarter ended December 2018



Top 10 equity holdings*

Quarter ended March 2019

Naspers	13.6%
Northam Platinum	7.6%
Old Mutual	6.2%
AECI	4.9%
Clover	4.4%
Datatec	3.7%
Adcorp	3.4%
Metair	3.1%
Altron	3.1%
Royal Bafokeng Platinum	3.0%
Total	53.0%

Quarter ended December 2018

Naspers	13.3%
Old Mutual	7.4%
Northam Platinum	5.5%
Datatec	4.7%
AECI	4.6%
Adcorp	3.8%
Clover	3.6%
Altron	3.3%
Quilter plc	3.3%
Metair	2.8%
Total	52.3%

* Top holdings comprise domestic and global equities

Fund size R296.58 million
NAV 775.35 cpu
Number of participatory interests 38,231,745

Income distributions

31 December 2018	8.87 cpu
30 June 2018	15.89 cpu

Key indicators

Equity markets (total return)	Quarterly change
MSCI World Index (USD)	12.5%
MSCI Emerging Market Equity (US Dollar return)	9.9%
FTSE/JSE All Share Index	8.0%
FTSE/JSE Resources Index	16.2%
FTSE/JSE Financials Index	-0.4%
FTSE/JSE Industrials Index	8.8%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	6.8%
Gold ($/oz)	0.8%
Brent Crude ($/barrel)	27.0%
Rand/US Dollar (USD)	0.8%

Policy objective The fund adhered to the policy objective as stated in the Supplemental Deed
Additional information Please read this quarterly investment report in conjunction with the minimum disclosure document for the fund

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Kagiso Equity Alpha Fund
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The fund was strongly up this quarter (9.1%), materially outperforming the average of other general equity funds (up 5.9%). The fund has returned 7.7% pa over the last three years which is well ahead of the peer group average (2.6% pa). Since inception 15 years ago, the fund has returned 16.6% pa and is ranked third in the general equity category over this period.

Economic backdrop

Global economic growth has decelerated from recent very high rates, but remains healthy, albeit with some notable weak spots such as Europe. Strengthening developed region labour markets are providing support to consumer expenditure. Inflation rate normalization to higher levels has stalled somewhat. Key central banks have therefore paused their slow tightening measures and are signaling a more accommodative monetary policy if economic data deteriorate.

The trade war initiated by the US continues to have an impact on trade activity (front loading of orders in advance of tariff implementation and direct reductions in certain categories) and seems to be dampening business confidence.

Above trend growth for the US economy is continuing this year, but fiscal stimulus support has begun to taper off. In Europe and Japan, growth has decelerated, primarily due to weaker export related activity, particularly related to China.

Chinese government measures to rebalance the economy, reign in credit excesses and reduce pollution resulted in a marked deceleration in infrastructure and manufacturing-related growth in 2018. Authorities have responded with domestic stimulus, which seems to have brought a stabilisation in growth, albeit at the expense of necessary de-gearing. There is more divergence in growth rates amongst emerging economies based on relative fundamentals. Fairly strong growth is expected in Poland, Brazil, India and Emerging Asia, with positive inflation and interest rate outlooks. Laggards, Argentina, Turkey (contracting) and South Africa (very low growth), remain weak.

The South African economy continues to experience very weak economic growth, particularly with contracting investment and lacklustre consumption growth (wage settlements have moderated meaningfully lower and employment is stagnant).

Market review

Global markets rebounded strongly this quarter (up 12.6% in dollar terms) erasing most of last quarter's losses with the USA (up 13.6%), the UK (up 11.6%) and France (up 11.1%) outperforming. Emerging markets (up 10.0% in dollar terms) were generally strong, particularly China (up 17.7%).

Locally, the equity market was positive this quarter (up 8.0%) with resources (up 16.2%) outperforming - platinum miners and general miners were strong (up 49.7% and 22.4% respectively). Standout positive performers included Impala Platinum (up 66.3%) and Northam Platinum (up 46.8%).

Industrials were up 8.8%, with heavyweights British American Tobacco (up 27.4%), Naspers (up 15.2%) and Richemont (up 11.8%) contributing positively. Retailers, Massmart (down 23.2%), Mr. Price (down 22%) and Truworths down (21.2%), underperformed and Aspen (down 31.0%) was also particularly weak.

Financials (down 0.5%) underperformed, with JSE, Nedbank and Sanlam very weak (down 20.2%, 8.5% and 7.6% respectively) and Quilter (up 25.1%) and Capitec (up 20.8%) outperforming.

For a number of years, extreme, unconventional monetary stimulus, in the form of price agnostic asset purchases, has distorted asset prices across the globe. Global bond yields remain very low (pricing in exceedingly low levels of future long-term inflation), corporate bond credit spreads are depressed and equity prices are still fairly high, especially in sectors where growth prospects are well appreciated.

Global bond rates have risen from the record low levels of 2016, accompanied by tentative signs of rising inflation, particularly in the US (although bond rates have retreated in the last six months). Importantly, the rate of total global central bank asset purchases peaked in early 2017 and is steadily reducing as monetary stimulus programs are withdrawn (although the expected pace of reduction is now somewhat slower than previously). These conditions are bringing about a more normal (higher) level of market volatility and a welcome increase in dispersion across equities, as well as across asset classes – a better environment for stock pickers.

Fund performance and positioning

Strong local equity contributors this quarter were Quilter, Northam Platinum and Naspers and, once again, some of our high conviction mid-cap holdings: Clover, Datatec, AECI and Metair. Key detractors were Tongaat Hulett and Delta Property Fund.

Our global equity holdings contributed to performance with key positives being JD.Com, Brightsphere Investment Group, Altran Technologies and Kinder Morgan. Just Group, Goodyear and Bayer, however, underperformed.

Despite a global backdrop of reasonable economic growth, eventually tightening monetary policy, risks of negative disruptions as Chinese economic growth continues to trend lower and a local market facing a very weak economy, we remain positive on the outlook for our stock holdings, given attractive valuations.

We are optimistic that more normal financial conditions are proving to be a much better environment for stock picking. We retain a particularly high exposure to a selection of local mid-cap stocks which offer compelling upside from a number of diverse stock specific factors that are providing positive performance, uncorrelated to the general market. An example of this is Northam Platinum.

Northam is a medium sized Platinum Group Metals (PGM) producer that is expanding by adding low cost, mechanised production over the next three years. This expansion was made possible by a capital raise via a successful BEE deal and the business was able to buy stressed assets at the bottom of the cycle for a fraction of their replacement cost. Northam is also a large chrome producer and will grow chrome production as it expands, which will significantly add to revenues with minimal additional cost (a massive boost to profitability relative to peers). We believe that the relatively low cost operations have positioned the business to generate significant returns on investments into the future.