Kagiso Islamic Balanced Fund

as at 31 December 2013

KAGISO Asset Management

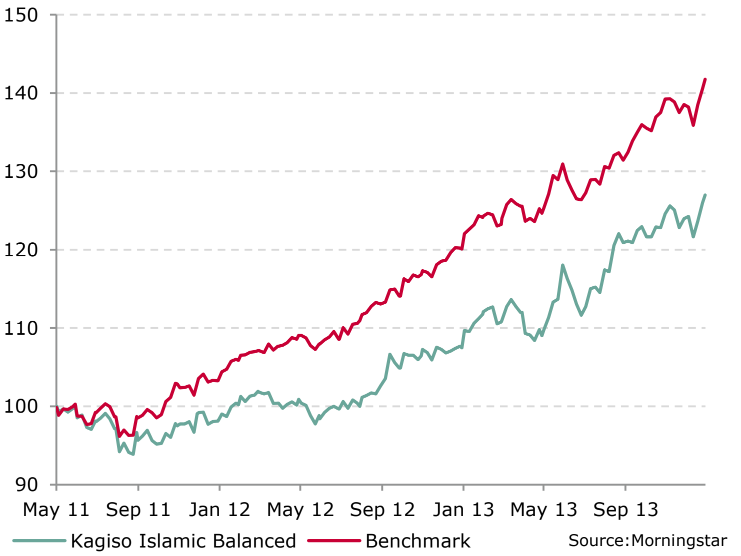
Performance and risk statistics[1]

	Fund	Benchmark	Outperformance
1 year	18.1%	18.1%	0.0%
2 years	13.7%	16.8%	-3.1%
Since inception	9.4%	13.9%	-4.5%

	Fund	Benchmark
Annualised deviation	8.6%	6.0%
Sharpe ratio	0.5	1.4
Maximum gain*	13.1%	14.7%
Maximum drawdown*	-5.4%	-3.5%
% Positive months	65.6%	75.0%

*Maximum % increase/decline over any period

Cumulative performance since inception



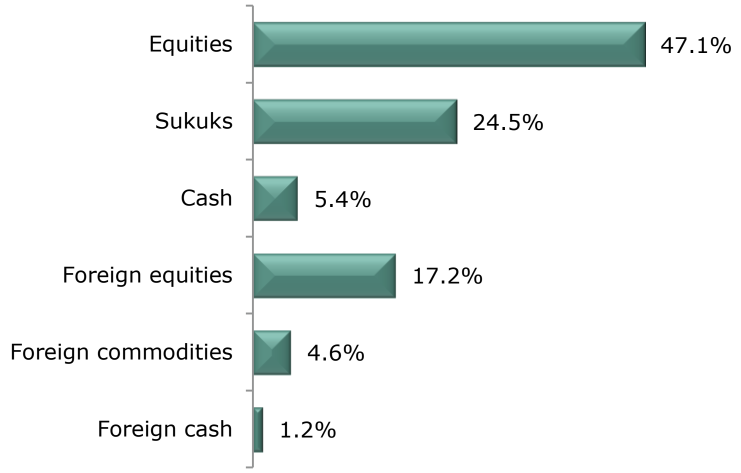
Portfolio manager	Abdulazeez Davids
Fund category	South African - Multi Asset - High Equity
Fund objective	A Sharia-compliant fund that aims to provide steady long-term returns and capital growth within the constraints of the statutory investment restrictions for retirement funds.
Risk profile	
Suitable for	Muslim investors requiring a Sharia-compliant portfolio appropriate for retirement schemes. Investors would also be seeking to build and grow their long-term retirement capital, while preserving the purchasing power thereof over the long term and limiting exposure to short-term market fluctuations.
Benchmark	South African - Multi Asset - High Equity funds mean
Launch date	3 May 2011
Fund size	R176.9 million
NAV	125.834 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2013: 0.37 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]	1.64%

Sharia advisory and supervisory board members:

Sheigh Mohammed Tauha Karaan
Mufti Zubair Bayat
Mufti Ahmed Suliman

Unconventional thinking.

Effective asset allocation exposure



Top ten equity holdings

	% of fund
Sasol	5.6
MTN	5.4
Anglo American	4.8
Intel Corporation	4.3
Tongaat Hulett	3.1
Anglo Platinum	3.1
Mondi	2.9
Microsoft Corporation	2.4
Clover Industries	2.0
Lonmin	2.0
Total	35.6

[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.

Kagiso Islamic Balanced Fund - Quarterly commentary
as at 31 December 2013

KAGISO
Asset Management

The Kagiso Islamic Balanced Fund returned 3.5% in the last quarter and 18.1% for 2013, with the fund exceeding its objective of providing investors with steady Sharia-compliant long-term returns and capital growth exceeding inflation.

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.

Bond yields came under further pressure this quarter as weak foreign demand failed to keep pace with elevated issuance, particularly at longer maturities. Cash rates remain near all-time lows and the market is pricing in more extensive and imminent rate hikes than we believe are likely.

Fund performance and positioning
Asset allocation detracted from performance over the quarter, with the fund's defensive SA equity positioning hindering relative performance. Despite this, strong instrument selection resulted in a good absolute performance.

Within local equities, Sasol (up 10.3 contributed positively to quarterly performance, while Anglo American (down 6.9%) and Tongaat Hulett (down 5.3%) detracted. The weaker rand, coupled with good stock selection in foreign investments, aided performance. In particular, our positions in Microsoft (up 12.4% in USD) and Intel (up 17.7% in USD) contributed significantly to the fund’s performance.

The fund’s asset allocation remains defensive in the face of what we see as an overextended equity market. Low net exposure to SA equities and sukuks provides some capital protection. We have low exposure to SA listed property and physical cash. Commodities, primarily through the domestic platinum and offshore palladium ETFs, provide further diversification and expected real returns. The fund maintains the maximum allocation to foreign assets, primarily in international equities and commodities. We continue to find high quality companies at attractive valuations in developed markets.

Portfolio manager
Abdulazeez Davids

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 Sharia All-World Index (US Dollar return)	-6.5%
Dow Jones Islamic Market World Index (US Dollar return)	-6.9%
FTSE/JSE All Share Index	5.5%
FTSE/JSE Resources Index	2.6%
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%