Kagiso Protector Fund
as at December 2010

KAGISO Asset Management

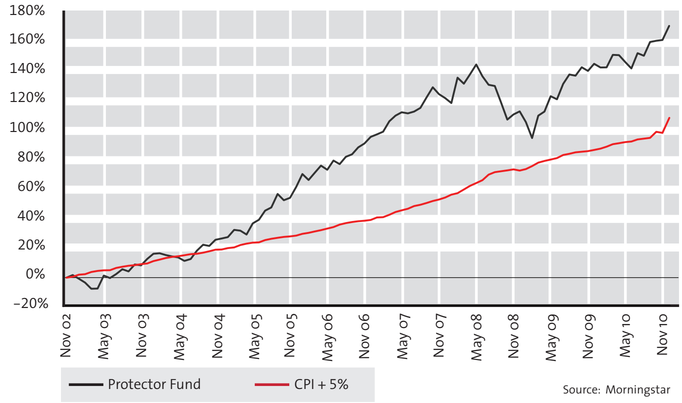
Fund category	Domestic - Asset Allocation - Targeted Absolute & Real Return
Fund description	Aims to provide steady capital growth and returns that are better than market returns on a risk adjusted basis over the medium to longer-term.
Launch date	11 December 2002
Portfolio manager	Jihad Jhaveri
Fund size	R71.86 million
NAV	2059.39 cents
Benchmark	Risk adjusted returns of an appropriate SA large cap index
Class A	

Portfolio detail
Effective asset allocation exposure

As at 31 December 2010

Domestic assets	98.42%
Equities	**44.39%**
Oil & Gas	4.14%
Basic Materials	10.84%
Industrials	1.88%
Consumer Goods	4.58%
Healthcare	2.18%
Consumer Services	5.15%
Telecommunications	5.35%
Technology	0.25%
Financials	11.26%
Derivatives	(1.25%)
Preference Shares & Other Securities	**(0.52%)**
Real Estate	**0.00%**
Cash	**54.55%**
International Assets	**1.58%**
Equities	1.58%

Performance and risk statistics[1]
Cumulative performance since inception



Source: Morningstar

Top 10 holdings

As at 31 December 2010	% of Fund
MTN	4.37%
Sasol	4.14%
Naspers	3.34%
Standard Bank	3.23%
Impala Platinum	2.19%
Firstrand	2.10%
BHP Billiton	2.09%
ABSA	1.54%
Tongaat Hulett	1.53%
Anglo American	1.42%
Total	**25.95%**

Performance for various periods

	Fund	CPI + 5%	Outperformance
Since inception (unannualised)	168.99%	108.69%	60.30%
Since inception (annualised)	13.02%	11.65%	1.37%
Latest 5 years (annualised)	10.74%	13.28%	(2.53%)
Latest 3 years (annualised)	6.65%	14.30%	(7.65%)
Latest 1 year (annualised)	9.79%	16.31%	(6.51%)
Year to date	9.79%	11.72%	(1.93%)
2009	15.19%	11.33%	3.86%
2008	(4.09%)	15.33%	(19.42%)
2007	13.45%	13.57%	(0.12%)
2006	21.04%	9.97%	11.06%

Income distributions

Declaration	Payment	Amount	Dividend	Interest
31 Dec 2010	03 Jan 2011	17.26	1.10	16.16
30 Sep 2010	01 Oct 2010	12.95	3.88	9.07
31 Mar 2010	01 Apr 2010	13.66	2.96	10.70
30 Sep 2009	01 Oct 2009	26.37	6.42	19.95
31 Mar 2009	01 Apr 2009	103.26	55.33	47.93

Risk statistics since inception

	Fund	Top 40 Index
Risk adjusted returns (RAR)[3]	1.29	0.95
Annualised deviation	10.08%	19.59%
Maximum gain	21.31%	37.42%
Maximum drawdown[4]	(20.38%)	(43.42%)
% Positive months	61.86%	59.79%

3 Risk adjusted returns (RAR) is defined as annualised returns divided by the annualised standard deviation
4 Maximum % decline over any period

Monthly performance returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	(1.01%)	0.02%	3.49%	(0.09%)	(1.84%)	(1.77%)	4.27%	(0.70%)	3.74%	0.32%	0.19%	3.02%
2009	(3.40%)	(5.25%)	7.77%	1.33%	4.91%	(0.93%)	4.71%	2.76%	(0.34%)	2.41%	(1.02%)	2.01%
2008	(1.54%)	7.91%	(1.75%)	2.76%	2.78%	(3.27%)	(2.44%)	(0.35%)	(4.82%)	(5.34%)	1.69%	0.97%

Fees (excluding VAT)

Initial fee	0.00%
Annual management fee*	0.75%

* A portion of Kagiso's annual management fee may be paid to administration platforms like LISP's as a payment for administration and distribution services.

Total Expense Ratio (TER)[2]	2.96% per annum

Advice costs (excluding VAT)

- Initial and ongoing advice fees may be facilitated on agreement between the Client and Financial Advisor.
- An initial advice fee may be negotiated to a maximum of 3% and is applied to each contribution and deducted before investment is made.
- Ongoing advice fees may be negotiated to a maximum of 1% per annum (if initial advice fee greater than 1.5% is selected, then the maximum annual advice fee is 0.5%), charged by way of unit reduction and paid to the Financial Advisor monthly in arrears. This annual advice fee is not part of the normal annual management fee as disclosed above.
- Where commission and incentives are paid, these are included in the overall costs.

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KAGISO Asset Management

Further monetary stimulus and a better than expected US earnings season saw the S&P 500 index surge by 10.2% in the fourth quarter. Other major developed markets also showed strong gains and the MSCI Emerging Market index rose 7.1% over the quarter in dollar terms.

The local FTSE/JSE Top 40 SWIX index ended the quarter up 8.35% (after being up 14.86% in the previous quarter) and ended the 2010 year up 18.68%. The Kagiso Protector Fund finished the year 9.78% higher net of fees, and outperformed CPI+5%. Importantly the fund continued to participate more in positive equity return periods than in negative equity return periods. This asymmetry is key to our objective of producing strong real returns, whilst protecting the fund's downside.

Implied option volatility (an indicator of the cost of protecting a portfolio at current market levels), as measured by the South African Volatility index (SAVI) was erratic in 2010 - ending the year at 21.66% after dropping to below 20% in April and rising to above 30% during the European debt crisis in May. As discussed in previous notes, the fund continues to look for opportunities to complement its asset allocation strategy with the selective purchase of put options, so as to increase the downside protection. Since inception, fund volatility has been 10.5% versus 19.6% for the FTSE/JSE Top 40 index.

Globally, inflation is expected to remain subdued in the medium-term, primarily as a result of excess capacity. In South Africa, the upward pressure of administered price increases (electricity and municipal rates) should be countered by the strong rand. We expect CPI to remain below 6% over the next two years. A risk to this assumption is the recent trend of rising global energy and food prices, which, if sustained and coupled with a weaker rand, will result in higher inflation.

The current rating of the FTSE/JSE All Share index (price-earnings ratio of 17.4X and above its long-term average of 11.8X) suggests that the market as a whole is not cheap, even after accounting for strong future earnings growth, therefore reinforcing the need for judicious stock selection. We are wary of certain valuations in the local market, particularly in the sectors that have attracted the bulk of the foreign capital inflow. The fund continues to be positioned so as to produce long-term returns in excess of inflation, whilst protecting against any potential downside and high volatility in the equity markets.

Portfolio manager

Jihad Jhaveri