Kagiso Protector Fund

as at 30 September 2014

KAGISO Asset Management

Performance and risk statistics[1]

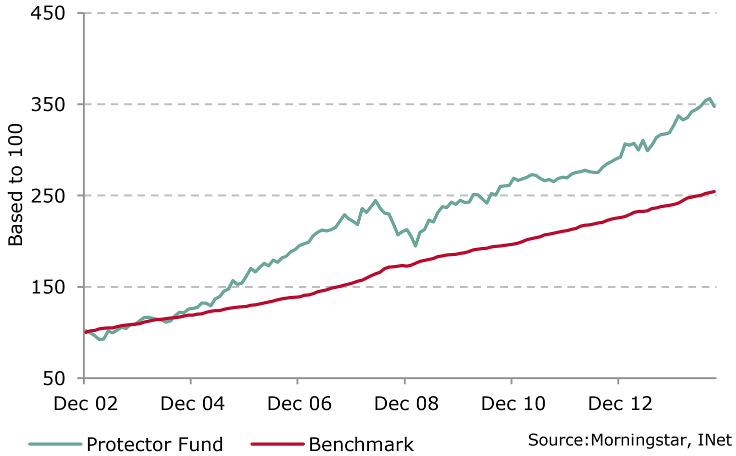
	Fund	Benchmark	Outperformance
1 year	9.8%	11.2%	-1.4%
3 years	9.5%	10.9%	-1.4%
5 years	8.0%	10.3%	-2.3%
10 years	11.0%	11.1%	-0.1%
Since inception	11.1%	10.8%	0.3%

	Fund	Benchmark
Annualised deviation	8.9%	1.6%
Risk adjusted return*	1.3	6.9
Maximum gain#	21.3%	27.0%
Maximum drawdown#	-20.4%	-0.9%
% Positive months	64.8%	88.7%

*Return since inception/standard deviation since inception

#Consecutive months of change in the same direction.

Cumulative performance since inception

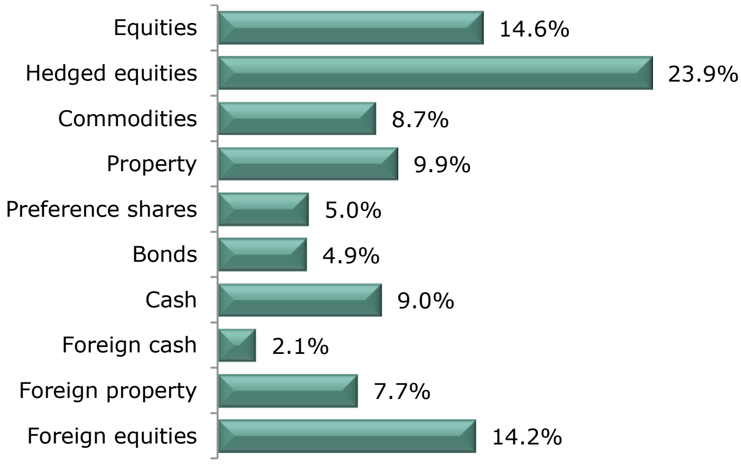


Source:Morningstar, INet

Portfolio Manager	Justin Floor
Fund category	South African - Multi Asset - Medium Equity
Fund objective	To provide steady capital growth and returns that are better than equity market returns on a risk adjusted basis over the medium to longer term.
Risk profile	Low - Medium
Suitable for	Investors looking for exposure to the long-term inflation-beating charac-teristics of domestic equities, with reduced downside exposure and volatility and a strong focus on capital preservation.
Benchmark	CPI + 5%
Launch date	11 December 2002
Fund size	R70.9 million
NAV	2537.54 cents
Distribution dates	30 June, 31 December
Last distribution	30 June 2014: 0.0 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
TER[2]	1.66%

Unconventional thinking

Effective asset allocation exposure*



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

Top 10 equity holdings

	% of fund
Growthpoint Australia	4.5
Sasol	2.6
Metair	2.5
Lonmin	2.5
Alexander Forbes	2.4
Old Mutual	2.0
Intu	1.9
Esure Group	1.8
Master Drilling	1.7
Tongaat Hulett	1.6
Total	23.5

[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 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.

Client service 0800 864 418 Fax 088 021 671 3112 Email clientservice@kagisoam.com Website www.kagisoam.com

Kagiso Protector Fund - Quarterly commentary

as at 30 September 2014

The fund was relatively flat for the quarter as gains in July and August were offset by declines in September. Over a one-year period, the fund has returned 9.8%, slightly below its CPI + 5% objective. The fund continues to provide positive absolute returns ahead of inflation, with low to moderate risk.

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. Although their rhetoric continues to signal a tightening bias in the face of higher inflation, the SARB kept rates on hold this quarter. A weak growth and employment outlook remains a significant threat and we therefore expect the moderate rate hiking cycle to continue.

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.

Aided by a slight compression in longer dated yields, the ALBI returned 2.2% over the quarter, outperforming cash by 1.5%. Conventional government bonds outperformed inflation-linked bonds over the period.

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.

We are gradually increasing the fund’s holdings in fixed-rate bonds as inflation appears to be peaking and foreign holdings are being sold down. However, South Africa's deteriorating fiscal position remains a concern and capital flight remains a risk given the relatively high foreign holding.

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 as well as 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
Justin Floor

Key indicators	
Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	6.4%
Repo rate (%)	5.8%
3m JIBAR	6.1%
10-year government bond yield	8.2%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	-2.6%
FTSE/JSE All Share Index	-2.1%
FTSE/JSE Listed Property Index	7.2%
BEASSA All Bond Index	2.2%
Commodities and currency	Quarterly change
Platinum ($/oz)	-12.5%
Gold ($/oz)	-8.9%
Rand/US Dollar (USD)	6.1%