Kagiso Protector Fund

as at 31 December 2014

KAGISO Asset Management

Performance and risk statistics[1]

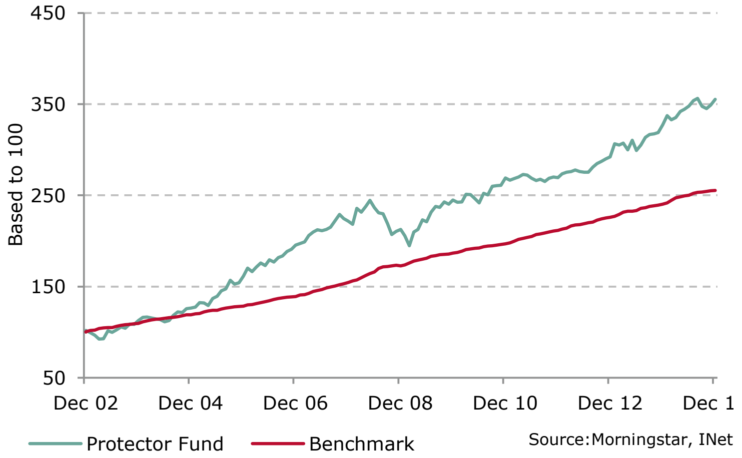
	Fund	Benchmark	Outperformance
1 year	8.5%	10.3%	-1.8%
3 years	9.6%	10.4%	-0.8%
5 years	7.7%	10.2%	-2.5%
10 years	10.9%	11.0%	-0.1%
Since inception	11.1%	10.7%	0.4%

	Fund	Benchmark
Annualised deviation	8.8%	1.6%
Risk adjusted return*	1.3	6.8
Maximum gain#	21.3%	27.0%
Maximum drawdown#	-20.4%	-0.9%
% Positive months	64.8%	86.9%

*Return since inception/standard deviation since inception

#Consecutive months of change in the same direction.

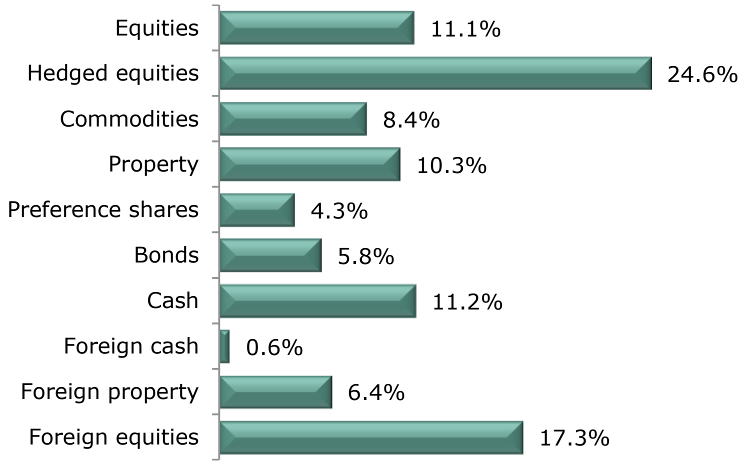
Cumulative performance since inception



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 characteristics 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	R73.6 million
NAV	2592.21 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2014: 16.20 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]	1.63%

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	3.3
Standard Bank	2.5
Lonmin	2.2
New Europe Property	2.1
Anglo Platinum	2.1
Tongaat Hulett	2.1
Old Mutual	2.0
Metair	2.0
Capital & Counties Properties	1.7
HCA Holdings	1.6
Total	21.6

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 December 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.

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Kagiso Protector Fund - Quarterly commentary

as at 31 December 2014

The fund returned 2.2% for the quarter and 8.5% for the year. Since inception the fund's annualised performance of 11.1% is in line with its CPI+5% objective. In an environment of elevated volatility and high assets prices, the fund continues to provide positive absolute returns ahead of inflation and cash, with low to moderate risk.

Economic and market overview

A plummeting oil price was the standout feature during the last quarter of 2014, and it triggered large price moves in the relative winners (oil consumers and importers) and losers (oil producers and exporters). Spot Brent crude oil was down 49.7% for the year, having reached a high of US$115 per barrel in June, before falling to a four-year low of US$55.8 at year end. Since oil is the largest commodity traded by value, its price decline is particularly important for the world economy. The cause of the decline was increased production from North America at a time of weak demand from Europe and China and growing use of substitutes (natural gas and renewables), with OPEC making no change to their production intentions.

The growth deceleration in China, the world's largest non-oil commodity consumer, came as 2014 saw an increase in supply of many of the commodities it imports. The result was large commodity price falls, with iron ore almost halving and thermal coal down 22%. Precious metals were little changed in 2014 off already low levels as supply was curtailed.

The local economy is beginning to recover after prolonged strikes in 2014, but growth is expected to remain sluggish. Lower fuel prices are likely to outweigh the effect of the weaker rand on inflation, giving some purchasing-power relief. The rand depreciated by 9.3% against the US dollar in 2014 as we saw SA's worst economic performance since 2009, the beginning of power shortages that are likely to continue into 2015 and current account and budget deficits weighing on SA's credit ratings.

Despite disappointing economic performance, the SA equity market returned 10.9% in 2014 (21.4% in 2013). Financials were the top performing sector, with a total return of 27.3%, followed by Industrials (+16.8%). Resources lagged, declining by 14.7% for the year. Similarly, for the fourth quarter, Financials (+10.8%) and Industrials (+7%) showed strong outperformance, while Resources (-19.3%) posted its worst quarterly performance since the 2008 market crash.

Bonds and cash outperformed local equities during the quarter. Bonds are offering some value as the inflation outlook and interest rate cycle have improved significantly with lower commodity prices, especially oil and maize. The SARB kept rates steady at the November MPC meeting and, with inflation expected to decline significantly in 2015 and growth likely to be weak, rate hikes are unlikely in 2015. This is a significant change from our expectations last quarter and makes cash a particularly unattractive asset in the medium term.

Foreign capital flight remains a key risk to the exchange rate and elevated SA equity valuations. In general, large emerging markets have seen foreign outflows in 2014, particularly Brazil and Russia. In contrast, SA experienced cumulative inflows, particularly into Industrials and Financials.

Fund performance and positioning

Given the continued weakness in the platinum sector, Lonmin, Anglo Platinum and Aquarius Platinum detracted from performance this quarter. Tongaat and AECI were the fund's top performing holdings over the period. The fund's exposure to certain real estate counters (notably New Europe Property, the rapidly growing Romanian property company) once again contributed to performance. The fund's offshore assets performed well, particularly German residential property company, Deutsche Annington; US hospital group, HCA; and US health insurer, United Health.

Sasol has been a key holding for several years. Its core business is to produce synthetic liquid fuels and chemicals based on its proprietary coal to liquids and gas to liquids technology. Sasol uses in-house Fischer-Tropsch technology to convert coal and gas into a synthetic crude oil and wax, which are in turn refined into petrol, diesel and various chemical feedstocks. The rand/dollar exchange rate and the dollar price of oil are the most important determinants of Sasol's earnings. The oil price plunge will therefore severely reduce Sasol's near-term cashflows, despite an ambitious cost cutting programme that was under way even before the oil price decline.

We believe that OPEC's reluctance to cut supply in the face of much lower oil prices marks a structural change in oil market dynamics. OPEC is handing over the job of being the marginal producer that balances the market. The higher cost producers, especially the new shale oil players in North America, will be taking over this role, having been able to expand production in recent years with little impact on oil prices. There will be considerable fallout as this market change occurs, and we believe the oil price will settle at a new, lower level in future and will exhibit more volatility than it has in recent years. Sasol is therefore worth less than we had previously thought and we have sold all of the Sasol shares in the fund.

The SA market remains heavily influenced by global markets, central bank activity and the resultant portfolio flows. Markets have started 2015 in a volatile fashion, which we believe is likely to set the tone for the year ahead. Broadly, we have been reducing concentration in the fund by selling down some of the outperformers and are finding significantly more opportunities in mid-cap companies relative to the larger stocks. We continue to hold large weights in the platinum and palladium ETFs, given the tightened supply situation with the SA platinum miners in the face of gradually increasing global demand for the metals. We are employing significant equity hedging in the fund via put option strategies. This enables us to benefit from our stock-picking ideas, without taking too much equity market risk and without needing to hold too much low-yielding cash.

The fund retains close to maximum allocation to foreign assets, where we are finding value in certain large technology stocks, healthcare companies, automakers, property and casualty insurers and specific listed property exposures. We favour companies with strong intellectual property and consequent high margins. We continue to hold a broad spread of yield instruments, taking advantage of credit spreads while carefully diversifying credit risk. We have moderately increased our holdings in fixed-rate bonds as inflation has peaked, and the current lower oil price should provide additional downside risks to inflation. In 2015, however, the weak growth outlook and public servant wage pressures will likely weigh on fiscal performance, further delaying fiscal consolidation and posing risks to bond yields.

Portfolio Manager
Justin Floor

Key indicators	
Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	5.3%
Repo rate (%)	5.8%
3m JIBAR	6.1%
10-year government bond yield	7.9%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	0.7%
FTSE/JSE All Share Index	1.4%
FTSE/JSE Listed Property Index	11.1%
BEASSA All Bond Index	4.2%
Commodities and currency	Quarterly change
Platinum ($/oz)	-7.1%
Gold ($/oz)	-2.1%
Rand/US Dollar (USD)	1.5%