# Kagiso Protector Fund

as at 31 December 2015

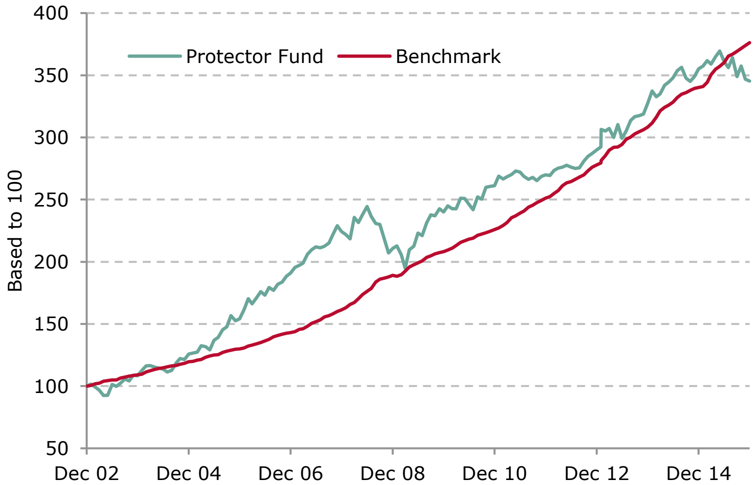
KAGISO Asset Management

## Performance[1]

| | Fund | Benchmark | Outperformance | Highest* | Lowest* |
|---|---|---|---|---|---|
| 1 year | -2.8% | 10.2% | -13.0% | 2.5% | -4.2% |
| 3 years | 5.7% | 10.3% | -4.6% | 4.8% | -4.2% |
| 5 years | 5.1% | 10.5% | -5.4% | 4.8% | -4.2% |
| 10 years | 7.9% | 11.1% | -3.2% | 7.9% | -5.3% |
| Since inception | 9.9% | 10.6% | -0.7% | 9.5% | -5.3% |

* Highest and lowest monthly fund performance during specified period

## Cumulative performance since inception




## Risk statistics

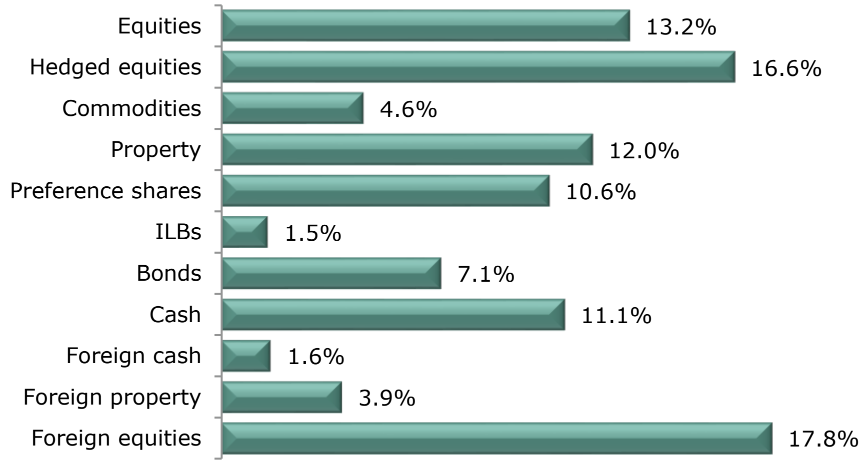
| | Fund | Benchmark |
|---|---|---|
| Annualised deviation | 8.7% | 1.6% |
| Sharpe ratio | 1.1 | n/a |
| Maximum gain# | 21.3% | 27.0% |
| Maximum drawdown# | -20.4% | -0.9% |
| % Positive months | 63.7% | 86.0% |

# Consecutive months of change in the same direction

## Top 10 equity holdings

| | % of fund |
|---|---|
| Zambezi Platinum Pref | 6.5 |
| NewGold Platinum ETF | 3.6 |
| Equites Property Fund | 3.1 |
| Old Mutual | 2.9 |
| Delta Property Fund | 2.4 |
| Palladium ETFs | 2.1 |
| Tiso Blackstar | 1.9 |
| HCA Holdings | 1.8 |
| AECI | 1.7 |
| Brookdale Senior Living | 1.7 |
| Total | 27.7 |

## Effective asset allocation exposure*




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

| | |
|---|---|
| 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. |
| Benchmark | CPI + 5% |
| Launch date | 11 December 2002 |
| NAV | 2,476.76 cents |

| | | |
|---|---|---|
| Risk profile | Low - Medium | |
| Fund size | R70.3 million | |
| TER[2] | 1.62% | |
| TC[3] | To be provided as soon as available | |
| Distributions | 31 December 2015 | 24.87 cpu |
| | 30 June 2015 | 29.64 cpu |
| 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 |

[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. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. All performances are annualised (ie the average annual return over the given time period).
[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 2015. 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.
[3] Transaction Costs (TC) are a neccessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

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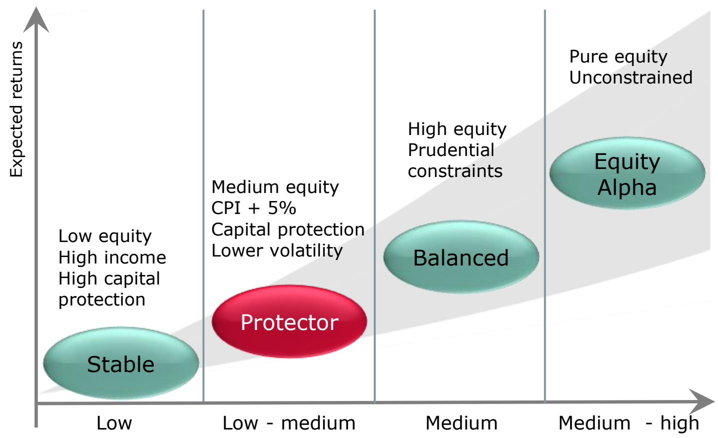
# Kagiso Protector Fund

KAGISO
Asset Management

The Kagiso Protector Fund is Regulation 28 compliant and can invest in a variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). It is positioned in our team's best investment ideas - which emanate from our bottom-up research process - and is actively managed to reduce volatility and downside risk. Derivative strategies are employed.

This fund is suitable for investors looking for exposure to the long-term inflation-beating characteristics of equities, with reduced downside exposure and volatility and a strong focus on capital preservation.

## Risk vs reward




## Portfolio Manager

**Justin Floor**
*BBusSc, Mphil, CFA, FASSA*

Justin holds a BBusBc (Hons) in Actuarial Science, Mathematical Statistics and Finance as well as an MPhil in Mathematics of Finance. He is a qualified actuary. Prior to joining us, Justin was employed as an Actuarial Specialist at Old Mutual.

## Our investment philosophy

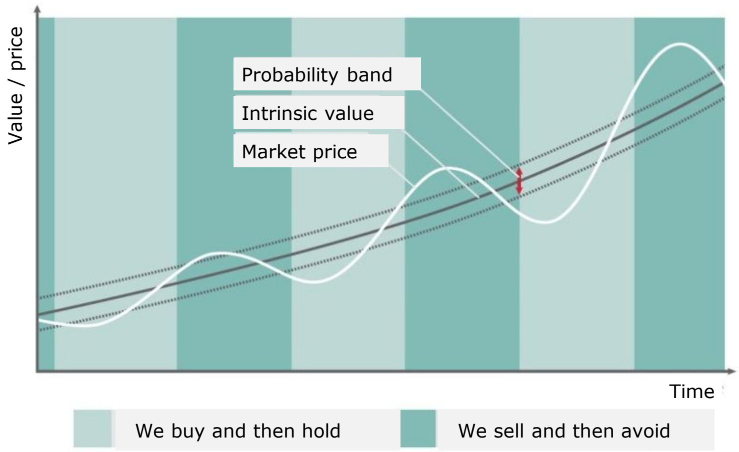
**At Kagiso Asset Management, we make investment decisions based on mispricings we observe in the market. Simply put, we buy investments that are priced well below their intrinsic values and avoid those that we believe are overpriced.**

**Opportunities arise when market prices deviate from intrinsic value**
All investments represent a set of future cash flows, which can be valued with reasonable accuracy. Over time, this intrinsic value progresses at a fairly stable pace. Asset prices, however, fluctuate considerably through time. This is largely due to self-reinforcing cycles of enthusiasm or negativity, often fuelled by an excessive focus on near-term data and news flow.

Our aim is to identify and exploit mispricings in the markets. We therefore buy investments at prices well below our estimation of their intrinsic value and hold them, while they deliver strong cash returns and until they can be sold above this value. Once sold, we avoid such overvalued investments for as long as the market price is above the intrinsic value.

**The future is never certain**
We recognise that there is considerable danger in operating with the comfort of a false sense of certainty and the accompanying behavioural reinforcement cycles that lead to a distorted evaluation of new information. As a result, we understand that despite our best efforts, we cannot possibly know all the facts.

This drives us to think more deeply, to work harder and to be more alert. We therefore view the future in terms of probabilities, we explore alternative scenarios, diversify our positions, hedge risk and seek out potential asymmetries.




| | | | |
|---|---|---|---|
| Minimum investment | Lump sum: R5 000; Debit order: R500 | Trustee | Melinda Mostert |
| Fund registration no | ZAE000150850 | | Head: Standard Bank Trustee Services |

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The fund ended a difficult year with a disappointing total return of -2.8%, with -1.0% achieved in the final quarter. Overall the 2015 calendar year was a very difficult one as key positioning in certain sectors (PGM mining) and small and mid-cap shares went unrewarded.

**Economic and market overview**

Six years after the world economy emerged from its broadest and deepest post-war recession, a return to robust and synchronized global expansion remains elusive. Within advanced economies, aggressive fiscal and monetary stimulus measures have underpinned generally accelerating output and falling unemployment, although deflationary pressures remain.

Financial market volatility increased in August, following the depreciation of the renminbi and an increase in global risk aversion as a result of a marked slowdown in Chinese economic growth. Temporary surges in volatility had earlier been associated with events surrounding Greek debt negotiations.

Capital flows to emerging markets have slowed in recent quarters, and the lift-off of US policy rates from the zero lower bound is likely to be associated with some tightening of external financial conditions. And, while the growth slowdown in China is thus far in line with forecasts, its cross-border repercussions appear greater than previously envisaged, especially for commodity-export economies.

The balance of risks is still tilted to the downside. Lower oil and other commodity prices could provide some upside to demand by commodity importers, but complicate the outlook for commodity exporters, some of which already face strained fiscal/balance sheet conditions. The Chinese authorities face difficult trade-offs in their objectives of achieving a transition to more consumption-driven growth without activity slowing too much, while also reducing financial vulnerabilities and implementing reforms to strengthen the role of market forces in the economy.

Commodity exporters have seen sharp depreciations of their currencies, but a general trend of reduced financial inflows to emerging markets has resulted in more generalised depreciation against the US dollar, euro and yen. These exchange rate changes should be associated with growing net exports for the depreciating countries, a development that is part of the natural adjustment process to differential growth rates that flexible exchange rates promote. Increased financial market volatility can pose financial stability challenges in advanced economies (for instance, if accompanied by a sudden decompression of risk premiums), with substantial spill-overs onto emerging markets, including through tighter financial conditions and a reversal of capital flows.

Locally, the SA economy remains vulnerable to portfolio inflows slowing and perhaps reversing, given the high current account and fiscal deficits. The rand depreciated by 25.2% vs the US dollar in 2015 and rand weakness was exacerbated further by domestic policy concerns, power shortages, drought and current account and budget deficits weighing on SA's credit ratings.

The ALBI returned -6.4% for the quarter, reflecting the significant rise in the 10-year benchmark yield. The rise in yields reflect investors' concern over contagion risk within SA, given the observed political quandaries and imminent foreign currency rating downgrades. Inflation-linkers delivered 1.3%, while cash (STeFI) delivered 1.6%.

The general expectation is that the SARB will effect a hike of 25bp in early 2016. The repercussions of the weakening currency are yet to reveal themselves fully due to the lags associated with foreign exchange pass-throughs. The risks to the relatively benign inflation readings recorded thus far are therefore materially skewed to the upside.

The best performing segments of the market – most of which are structurally related to the depreciating currency - have been rand hedges; including paper, beverages, tobacco and household goods.

The generally lower commodity price environment meant that, unsurprisingly, the worst performing sectors were from amongst industrial metals, platinum mining and construction.

Continued -

| Key indicators | |
|---|---|
| Economic data | End of quarter figure |
| Latest consumer price inflation (CPI % YoY) | 4.8% |
| Repo rate (%) | 6.3% |
| 3m JIBAR | 6.6% |
| 10-year government bond yield | 9.7% |
| Key asset classes (total return) | Quarterly change |
| MSCI World Equity (US Dollar return) | 5.1% |
| FTSE/JSE All Share Index | 1.7% |
| FTSE/JSE Listed Property Index | -4.7% |
| BEASSA All Bond Index | -6.4% |
| Commodities and currency | Quarterly change |
| Platinum ($/oz) | -1.7% |
| Gold ($/oz) | -4.9% |
| Rand/US Dollar (USD) | 11.8% |

Continued -

**Fund performance and positioning**

Key contributors this quarter were Naspers, Aquarius platinum and New Europe Property Investments, while Standard Bank, MTN and Anglo American detracted. Positive contributions from the fund's foreign picks came from Samsung, Esure and Buwog. 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.

Our longer-dated bond exposure is balanced by shorter duration corporate bonds with strong credit quality. Overall we are underweight bond exposure, with the key concern being the prospect weakness if there are significant foreign investor outflows. Our duration positioning is neutral however.

Mondi is one of our top holdings and has added significant value to our clients' portfolios over the past years. Mondi is an international packaging and paper group with a dual listed company structure (primary listing on the JSE for Mondi Limited and premium listing on the London Stock Exchange for Mondi plc).

Mondi is fully integrated across the packaging and paper value chain – from managing forests and producing pulp, paper and compound plastics, to developing effective and innovative industrial and consumer packaging solutions. Their innovative technologies and products can be found in a variety of applications including hygiene components, stand-up pouches, cement bags, creative retail boxes and office paper.

Mondi's ability to deliver strongly across the cycle is testament to the quality of the business. Their success is based on investing in their high-quality, low-cost asset base, driving sustainable operational improvements, developing in markets that offer growth opportunities, and working with their customers to find attractive solutions. Combined with a strong balance sheet and sustainable free cash flow generation, makes Mondi an extremely resilient organisation, and one in which we have every reason to be confident of value accretion going forward.

The fund retains an allocation to foreign equities and listed property stocks, where we find opportunity in certain large technology stocks, healthcare companies, direct motor insurers and specific listed property exposures.

The market dislocation experienced in December 2015 around the recall and subsequent replacement of the Finance Minister resulted in a substantial re-pricing in financial companies. We have used the volatility to increase positions in high-quality shares such as FirstRand at low prices.

The recent disappointing performance is not reflective of the fund's potential or long term track record. The fund is positioned in a diversified collection of attractive and undervalued securities. While we cannot say when the performance trajectory will inflect, we are continue to apply our valuation-driven investment philosophy with discipline and expect substantially improved performance in the months and years to come.

We remain positioned with a contrarian orientation, aiming to exploit the extreme valuation differentials on offer as a result of global monetary authorities' unconventional interventions in capital markets, and the concomitant rise of price-agnostic market participants. Our view is that extremely low bond-yields globally are causing global investors to over-price companies with stable cashflows (perceived as bond substitutes) and under-price companies with naturally variable or cyclical cashflows, when these cashflows are at cyclically low levels.

Portfolio Manager
Justin Floor