Quarterly general investor report

Kagiso Protector Fund

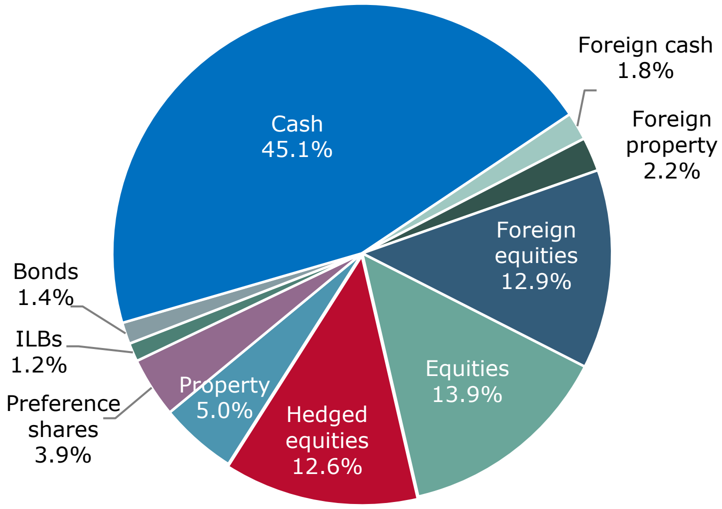
March 2018

Date of issue: 20 April 2018

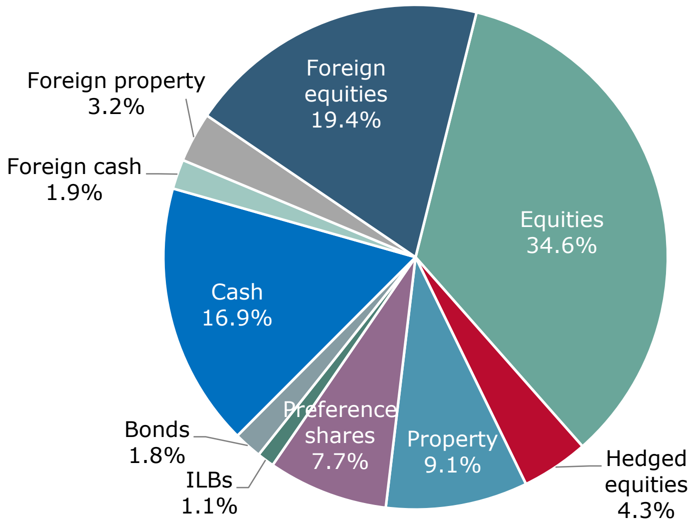
This fund is Regulation 28 compliant and can invest in a variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). It is positioned in our team's best investment ideas - which emanate from our bottom-up research process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

Asset allocation

Quarter ended March 2018



Quarter ended December 2017



Top 10 holdings

Quarter ended March 2018

Old Mutual	3.0%
Zambezi Platinum Pref	2.9%
Datatec	2.7%
Adcorp	2.2%
Altron	2.1%
Ethos Capital	2.0%
Grand City Properties	2.0%
Northam Platinum	1.9%
Gocompare.com	1.8%
Clover	1.8%
Total	22.4%

Quarter ended December 2017

Datatec	6.1%
Zambezi Platinum Pref	5.9%
Old Mutual	3.9%
Adcorp	3.2%
Grand City Property	3.0%
Gocompare.com	3.0%
Hammerson	2.9%
Clover	2.8%
AECI	2.2%
Ethos Capital	2.1%
Total	35.1%

Fund size R125.18 million

NAV 2,755.38 cpu

Number of participatory interests 4,538,551

Income distributions

31 December 2017	32.10	cpu
30 June 2017	33.05	cpu

Key indicators

Economic data	End of quarter figures
Latest consumer price inflation (CPI % YoY)	3.8%
Repo rate (%)	6.5%
3m JIBAR	6.9%
10-year government bond yield	8.2%
Key asset classes (total return)	**Quarterly change**
MSCI World Equity (US Dollar return)	-1.7%
FTSE/JSE All Share Index	-6.0%
FTSE/JSE Listed Property Index	-19.6%
BEASSA All Bond Index	8.1%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	0.1%
Gold ($/oz)	2.2%
Rand/US Dollar (USD)	-4.5%

Policy objective The fund adhered to the policy objective as stated in the Supplemental Deed

Additional information Please read this quarterly investment report in conjunction with the minimum disclosure document for the fund

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The fund was down 3.8% this quarter, marginally underperforming the average of competitor funds. This quarter's performance was due to negative performances from both our local and global equity holdings. The fund has returned 9.5% per annum since its inception in 2002.

Global economic backdrop

Global economic growth continues to be strong in 2018, although a slight deceleration from the strength at the end of 2017 is evident. Headline inflation rates across the world continue to slowly move higher in aggregate, although the picture for core inflation (excluding the effects of energy prices and food) remains subdued, particularly in Europe. Geopolitical tensions are running high, with a particular focus on the Middle East and the Korean peninsula, and fears of an escalating trade war between the US and China are dampening sentiment.

The US economy continues to grow above trend, with a strengthening labour market, and the year ahead will be supported by substantial front-loaded tax cuts and continued accommodative, albeit slowly tightening, monetary policy.

Emerging market economies continue to grow strongly (currently running at a robust 5.7% pa), with strong recoveries from areas of previous weakness. China's growth remains at healthy levels as a strong export market is encouraging investments in the industrial sector, while infrastructure investment is normalising lower. Chinese government measures to rebalance the economy, reign in credit growth and reduce pollution will dampen prospects in the years ahead, however.

South African economic backdrop

Despite a highly supportive global economic backdrop, South Africa's economy was very weak in 2017. Following the ANC conference in December and the resultant leadership changes, there is widespread optimism that the dramatic economic decline of the last 10 years will be halted and the country potentially set on a more constructive path. Early reformist actions have been material, in particular the strengthening of corporate governance at SOEs and concrete plans for fiscal rehabilitation, including the unpopular decision to hike the VAT rate. Such measures and very constructive rhetoric have resulted in Moody's maintaining an investment grade credit rating and upgrading their outlook to "stable".

Nevertheless, given the deep structural issues in the economy – most notably high unemployment and a skills shortage - we believe that any meaningful recovery will take an extended period of time, and that a huge level of optimism has already been priced into much equity market.

Market review

For a number of years, extreme unconventional monetary stimulus in the form of price agnostic asset purchases has distorted asset prices across the globe. Global bond yields remain very low, corporate bond credit spreads are extremely suppressed and equity prices are high, especially in sectors where growth prospects are well appreciated (such as the large global technology companies).

Global bond rates have risen somewhat since 2016 from record low levels, accompanied by a welcome rise in inflation expectations, particularly in the USA. Importantly, the rate of total global central bank asset purchases peaked in the first half of 2017 and is reducing as monetary stimulus programs begin to unwind. These changes in trend, are causing material higher market volatility and very welcome increases in dispersion across equities - as well as across asset classes –a better environment for stock pickers.

Over the quarter, equity markets were weaker. Japan and Hong Kong, which outperformed, were flat (up 0.7% and 0.5% respectively) while the UK (down 3.8%) and Germany (down 4.3%) underperformed. Emerging markets were relatively strong (up 1.5% in dollar terms).

Locally, the equity market was very weak (down 6.0%) giving up most of the gains from the previous strong quarter. Financials (down 1.1%) outperformed again this quarter, but the property sector was very weak (down 19.6%) on the back of very sharp falls in the Resilient stable of companies.

Industrials were down 8.7%, with Naspers (down 16.2% after a very strong 2017), and the telecommunication sector (down 5.2%) contributing negatively. Retailers were strong again this quarter.

Resources were negative this quarter (down 2.7%), with general miners outperforming (flat), while gold (down 13.0%) and PGM miners (down 21.0%) lagged. Standout negative performers were Northam Platinum (down 30.5%), Impala Platinum (down 27.4%) and Sibanye Gold (down 25.6%), while Anglo American (up 10.5%) outperformed.

SA bonds were the best performing major asset class for the quarter, returning 8.1%. This was significantly ahead of SA equities (down 6.0%) and cash (up 1.8%). The early reformist actions by the government post the ANC conference has succeeded in stemming the downward slide in South Africa's credit ratings, for now resulting in a meaningful reduction in the risk premiums demanded by investors for local bonds, and a stronger currency. In March, the Monetary Policy Committee (MPC) cut the repo rate by 25 basis points to 6.5%, on the back of a more favourable inflation outlook (based on declining food inflation and a stronger currency), and increased ratings stability.

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Fund performance and positioning

A weak performance from the local equity market was the largest detractor this quarter. Strong contributors were AECI, Clover, Old Mutual, Altron and Metair. Key detractors were Naspers, Datatec, African Rainbow Minerals and Northam Platinum.

Our large allocation to global stocks also contributed negatively, due to weaker global markets as well as currency strength.
Our large allocation to global stocks also contributed negatively this quarter (after adding to overall 2017 performance), due to weaker global markets as well as currency strength.
Key detractors were Brookdale Senior Living, Alliance Data Systems, Just Group and Spire Healthcare. Our holding in Yoox Net-A-Porter was a materially positive contributor (buyout by Richemont announced in January), as well as Tenet Healthcare and GoCompare.

Against a global backdrop of good economic growth, high asset prices, heightened geopolitical tensions and a local market pricing in huge optimism about South Africa’s turnaround, despite deep structural problems, we are increasingly guarded on the outlook for financial markets.

Within the yield asset classes, our exposures to preference shares and property detracted moderately (with very good stock selection within properties), and bonds were positive.

However, we are optimistic that more normal financial conditions (in particular higher real rates and inflation) are proving to be a much better environment for stock picking. We retain high exposure to global holdings, and local mid-cap stocks. Our mid-cap stocks (which have significantly lagged the market this quarter) have a diverse range of compelling stock-specific investment drivers (corporate restructurings, operational turnarounds, and recovering product markets). In addition, many of our holdings will benefit materially from better economic prospects in South Africa.

We continue to see more attractive risk-adjusted yields in shorter-duration instruments. We have a large hedge against our equity exposure and maintain a meaningful exposure to foreign equities.