Quarterly general investor report

Kagiso Protector Fund

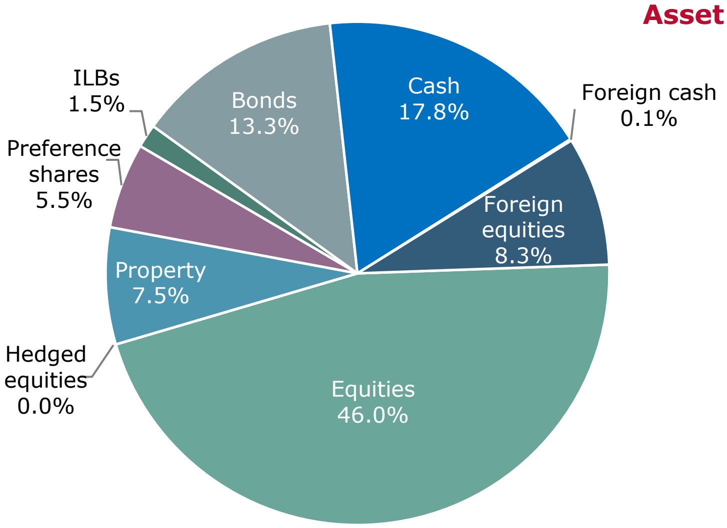
December 2018

Date of issue: 28 January 2019

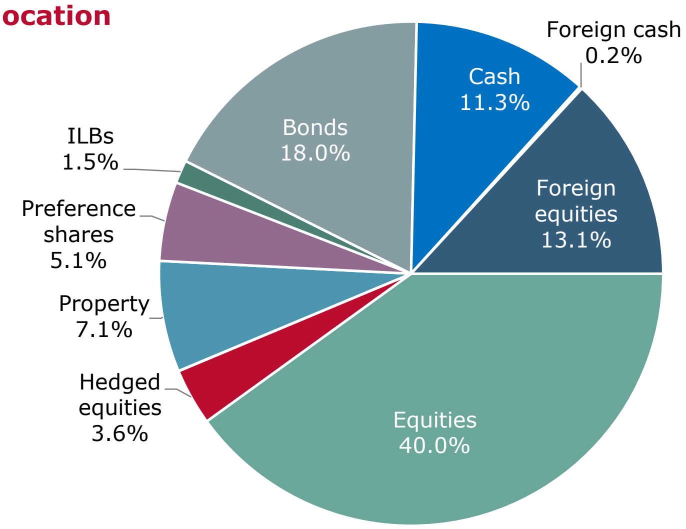
This fund is Regulation 28 compliant and can invest in a variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). It is positioned in our team's best investment ideas - which emanate from our bottom-up research process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

Asset allocation

Quarter ended December 2018



Quarter ended September 2018



Top 10 holdings*

Quarter ended December 2018		Quarter ended September 2018	
Datatec	4.0%	Datatec	4.3%
Old Mutual	3.5%	Old Mutual	4.0%
Dipula Income Fund A	2.8%	Dipula Income Fund A	2.9%
Northam Platinum	2.7%	Quilter plc	2.8%
Fortress Income Fund A	2.7%	Ethos Capital	2.6%
Ethos Capital	2.5%	Northam Platinum	2.5%
Adcorp	2.3%	Naspers	2.5%
Quilter plc	2.2%	Allergan	2.3%
Naspers	2.1%	FirstRand/RMB	2.2%
Standard Bank	1.8%	Altron	2.1%
Total	26.6%	Total	28.2%

* Top holdings comprise domestic equity, global equity and property.

Fund size R98.13 million
NAV 2,832.80 cpu
Number of participatory interests 3,462,866

Income distributions

31 December 2018	58.74 cpu
30 June 2018	125.63 cpu

Key indicators

Economic data	End of quarter figures
Latest consumer price inflation (CPI % YoY)	5.2%
Repo rate (%)	6.8%
3m JIBAR	7.2%
10-year government bond yield	9.2%
Key asset classes (total return)	**Quarterly change**
MSCI World Index (USD)	-13.4%
FTSE/JSE All Share Index	-4.9%
FTSE/JSE Listed Property Index	-4.0%
BEASSA All Bond Index	2.8%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	-2.5%
Gold ($/oz)	7.7%
Rand/US Dollar (USD)	1.5%

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 flat this quarter, outperforming the average of competitor funds (down 3.7%). This quarter's performance was primarily due to a meaningfully positive contribution from our local equity holdings. The fund has returned 8.3% pa over the last three years and is ranked number one in its peer group over this period. Since inception in 2002, the fund has returned 9.5% pa.

Economic backdrop

Economic growth continues to be strong, but is decelerating somewhat, especially outside of the US. Inflation increases have stalled as a result of the deceleration and the significant correction in the oil price. Actions announced thus far with respect to US trade tariffs are having some impact on trade activity (which has meaningfully retreated from the high levels of growth at the start of 2018) and, more importantly, continue to dampen business confidence.

Above trend growth for the US economy should continue this year, but fiscal stimulus support will begin to taper off. Continued steady wage growth along with the lower energy prices is expected to support healthy consumption expenditure.

In Europe and Japan, growth has decelerated further, although much of the 2018 weakness in Europe should prove temporary (adverse weather conditions and a highly disruptive automotive emission standards change). In both regions, labour markets continue to tighten, but wage growth remains elusive.

Chinese government measures to rebalance the economy, reign in credit excesses and reduce pollution resulted in a marked deceleration in infrastructure-related growth in 2018. Current activity indicators (particularly trade) point to a continued overall growth slowdown despite additional monetary stimulus and the prospect of tax cuts. There is now more divergence in growth rates amongst emerging economies based on relative fundamentals (oil consumers and countries undertaking structural reforms are doing better).

The South African economy was much weaker than expected in 2018, particularly with contracting investment and very lacklustre consumption growth. This has resulted in significant weakness in domestically exposed equities. There is a risk that this weakness persists as the previously very supportive global economic backdrop continues to fade.

Market review

SA bonds were the best asset class this quarter (up 2.7%) and outperformed cash (up 1.8%). The very negative emerging market sentiment of the previous quarter abated somewhat (portfolio outflows slowed) and emerging market bond spreads reduced moderately.

Inflation has edged up further this quarter (5.2% for November 2018) but is now expected to have peaked due to the sharp drop in the oil price and strengthening rand and is expected to remain within the reserve bank's target range over the medium term. The repo rate was increased in November (to 6.8%) and with the more benign inflation outlook, forward rates are pricing in broadly flat rates over 2019.

Over the quarter, developed equity markets were uniformly very weak in dollar terms with Japan (down 13.3%), Germany (down 15.1%) and France (down 14.8%) underperforming. Emerging markets (down 7.4% in dollar terms) were more mixed with Turkey, India and Brazil posting positive performance. 2018 has been a weak year for equity markets (down 8.2% overall).

Locally, the equity market was also weak this quarter (down 4.9%), with Financials (down 2%) outperforming - Capitec, Absa and Nedbank were strong (up 9.8%, 6.5% and 3.8% respectively).

Industrials were down 6.8%, with heavyweights Naspers (down 5.2%) and Richemont (down 19.3%) contributing negatively. Retailers (Pepkor up 31.8%, Spar up 15.2% and Woolworths up 11.1%) outperformed, while Tongaat Hulett (down 24.6%), Mediclinic (down 23.6%) and AB Inbev (down 22.0%) detracted.

Resources were also negative this quarter (down 5.0%), with precious metals outperforming (platinum miners up 18.4% and gold miners up 38.1%) and bulk and diversified miners lagging. Standout positive performers were Anglogold Ashanti (up 48.5%) and Impala Platinum (up 33.4%).

The local market had a weak year (down 8.5%) with divergent sectoral performances: Industrials were down 17.7%, Financials were down 4.1% and Resources were up 17.9%. Large caps (down 8.1%) outperformed mid caps and small caps (down 9.5% and 14.6% respectively).

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 (pricing in extremely low levels of future long-term inflation), corporate bond credit spreads are depressed and equity prices are still fairly high, especially in sectors where growth prospects are well appreciated.

Global bond rates are rising from the record low levels of 2016, accompanied by tentative signs of rising inflation, particularly in the US (although bond rates have retreated in the last quarter). Importantly, the rate of total global central bank asset purchases peaked in early 2017 and is steadily reducing as monetary stimulus programs are withdrawn. These changes in trend are causing a more normal (higher) level of market volatility and a welcome increase in dispersion across equities, as well as across asset classes – a better environment for stock pickers.

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Fund performance and positioning

Our decisions to meaningfully increase our exposure to South African bonds in recent months (weakness had resulted in attractive risk-adjusted yields), and to reduce our exposure to foreign equities from very high levels, have paid off.

Strong stock selection from our local equity holdings, together with associated hedges, were the largest performance contributors this quarter. Poor foreign stock selection was a major detractor this period. Within yield assets, our allocation to local bonds, preference shares and cash contributed positively along with good instrument selection. There was a moderately negative contribution from property.

Strong local equity contributors this quarter were our high conviction mid cap holdings: Datatec, Tiso Blackstar, Metair, Clover and Northam Platinum. Key detractors were Naspers, AECI and Tongaat Hulett.

Our global holdings detracted significantly from performance this quarter due to certain abnormally weak stock performances. Key negative contributors were Allergan, Nisshinbo, Prudential and Covestro, while Corning, Just Group and Sarana Menara outperformed.

Despite a global backdrop of strong (though decelerating) economic growth, tightening monetary policy, risks of negative disruptions as Chinese economic growth continues to trend lower, and a local market facing a very weak economy, we are more positive on the outlook for financial markets, given sharply lower asset prices.

We are optimistic that more normal financial conditions are proving to be a much better environment for stock picking. We retain a particularly high exposure to a selection of local mid-cap stocks which offer compelling upside from a number of diverse stock specific factors and should provide positive alpha uncorrelated to the general market. An example is African sugar, starch and land company Tongaat Hulett.

Tongaat Hulett is in the midst of a perfect storm. A global glut of sugar and low world sugar price is depressing earnings from its sugar operations at the same time that it has battled with realising planned land sales. Despite ongoing resilience in its starch business, group profits have fallen to trough levels, but we believe better results are around the corner. Sugar profits should rebound due to higher tariffs on imports in SA, a better world sugar price and more favourable currencies. Land cashflows should resume and new management has a large cost base to trim and a better strategy to formulate. We see significant value in Tongaat Hulett at these levels.