Kagiso Stable Fund

as at 31 December 2012

KAGISO Asset Management

Performance and risk statistics[1]

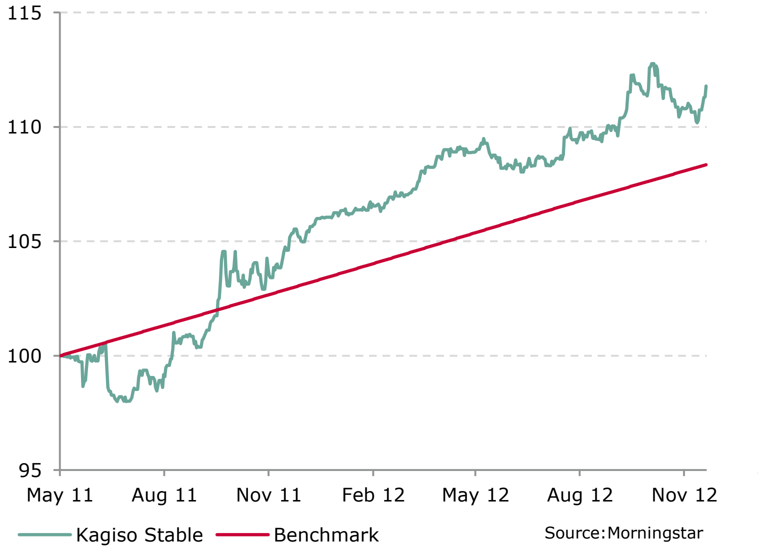
	Fund	Benchmark	Outperformance
1 year	7.2%	5.3%	1.9%
Since inception	8.2%	5.4%	2.8%

Performances annualised

	Fund	Benchmark
Annualised deviation	3.8%	0.1%
Sharpe ratio	-1.8	n/a
Maximum gain*	5.8%	8.7%
Maximum drawdown*	-2.0%	n/a
% Positive months	73.7%	n/a

*Maximum % increase/decline over any period

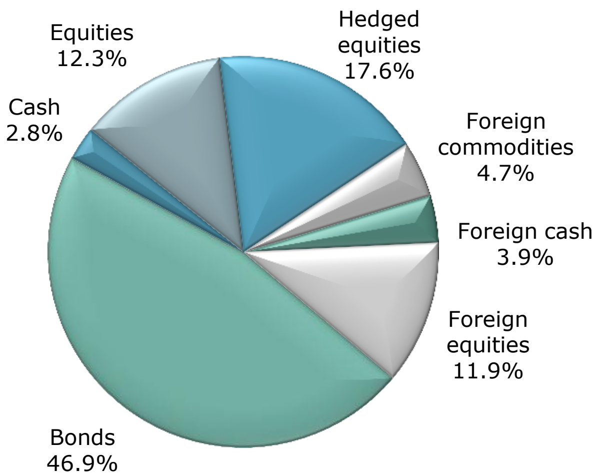
Cumulative performance since inception



Portfolio manager	Gavin Wood
Fund category	Domestic - Asset Allocation - Prudential - Low Equity
Fund objective	To provide total returns that are in excess of inflation over the medium term. It seeks to provide a high level of capital stability and to minimise loss over any one year period, within the constraints of the statutory investment restrictions for retirement funds.
Risk profile	Low
Suitable for	Investors who are risk averse and require a high degree of capital stability while requiring a reasonable income and some capital growth. A typical investor would be retired or nearing retirement and seeking to preserve capital over any one year period.
Benchmark	The return on deposits for amounts in excess of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).
Launch date	3 May 2011
Fund size	R95.9 million
NAV	113.63 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2012: 0.69 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 Annual management fee: 1.25%
TER[2]	1.56%

Unconventional thinking. Superior performance

Effective asset allocation exposure*



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

Top ten equity holdings

	% of fund
Kagiso Media	5.0
Lonmin	3.9
Mustek	3.5
AECI	2.9
Standard Bank	2.7
Anglogold Ashanti	2.0
Aquarius Platinum	1.7
Pick n Pay Stores	1.5
Sasol	1.0
Naspers	1.0
Total	25.2

[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.

[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 2012. 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.

Commentary

Firm (but marginally slower) growth in emerging economies and relatively flat output in developed economies contributed to lacklustre overall global economic growth in 2012.

Within emerging markets, China remains the key driver of growth despite some deceleration since the double-digit growth rates of 2010. Developed market growth continues to struggle with the US recording average growth of 2% through much of 2012 and Eurozone economic activity remains weak. The peripheral Eurozone economies are still firmly in recession amid debt-fuelled austerity measures and a volatile political climate.

Locally, structural economic problems and weak global conditions continue to constrain prospects for economic growth. South Africa's macro fundamentals are weak and the marginal growth achieved has largely been driven by government and household consumption – largely debt-financed. Yet despite the deteriorating economic environment, South African share prices continue to reach record highs.

The FTSE/JSE All Share Index gained 10.3% during the quarter, ending the year near a record high. In terms of sector performance, industrials (12.4%) were the largest contributors, followed by financials (9.9%). Resources (7.3%) recovered a little as Chinese data improved and the iron ore price rallied. For the year, the FTSE/JSE All Share Index returned 26.7%. Industrials (40.7%) and financials (38.1%) performed well, with resources (+3.1%) lagging.

During the fourth quarter, the South African 10-year bond yield fell by 0.2% to 6.78%. Over the year, the All Bond Index returned 16%. Inflation-linked bonds had a stellar performance, returning 19% for the year amidst growing demand for inflation protection and restricted issuance.

Foreigners were net sellers of South African equities worth R3.4bn in 2012, although there were inflows of R5.3bn in December as currency pressures subsided and labour issues appeared to stabilise. Bonds continued to experience significant foreign inflows during the quarter, resulting in a record of R94bn for 2012.

The rand weakened by 1.9% against the US dollar and 4.4% against the euro. The rand depreciated notably in October at a time of severe labour unrest and the downgrading of South Africa's sovereign rating. However, it performed strongly in December, gaining 5.1% against the dollar as concerns about Europe's slowdown eased and the appointment of Cyril Ramaphosa as ANC Deputy President was well received by global markets.

South African consumer price inflation rose during the quarter, driven by higher petrol, electricity and food prices. Inflation remains in the upper region of the South African Reserve Bank's target band, where we expect it to remain in the medium term, with most of the upside pressure stemming from higher food and electricity prices, as well as the knock-on effects of a weaker rand. At its Monetary Policy Committee meeting during the quarter, the Reserve Bank left rates unchanged. The Bank continues to balance weak growth prospects and rising inflationary pressures.

The Kagiso Stable Fund continues to reliably deliver on its mandate of outperforming cash deposits, with a very low risk of capital loss.

Going forward, we remain defensively positioned with high effective rand cash exposure and relatively low effective equity exposure – mostly achieved via hedging. We are underweight property, physical cash and bonds, with a large positioning in inflation-linked bonds. Global exposure continues to contribute to currency protection and fund diversification. The fund continues to be appropriately positioned in our best ideas, based on our team's proven bottom-up stock picking, fixed income and asset allocation processes.

Portfolio manager
Gavin Wood