Kagiso Stable Fund

as at 30 September 2013

KAGISO Asset Management

Performance and risk statistics[1]

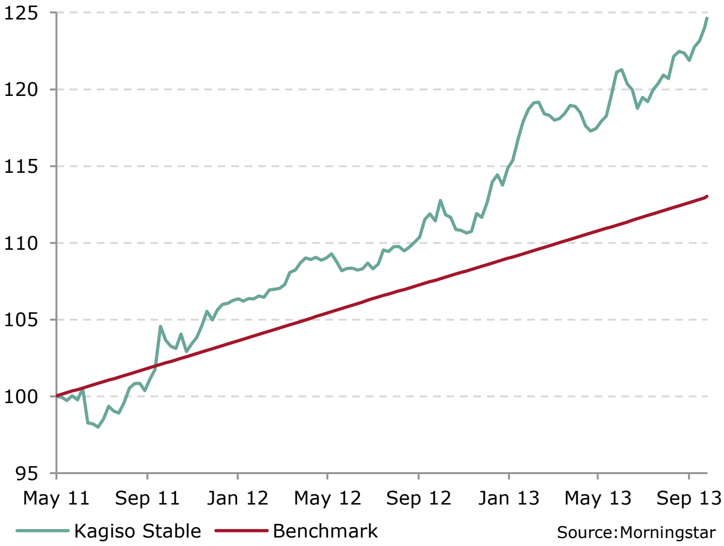
	Fund	Benchmark	Outperformance
1 year	11.8%	5.0%	6.8%
2 years	9.7%	5.2%	4.5%
Since inception	9.6%	5.3%	4.3%

Performances annualised

	Fund	Benchmark
Annualised deviation	4.8%	0.1%
Sharpe ratio	0.9	n/a
Maximum gain*	7.0%	13.3%
Maximum drawdown*	-2.0%	n/a
% Positive months	72.4%	n/a

*Maximum % increase/decline over any period

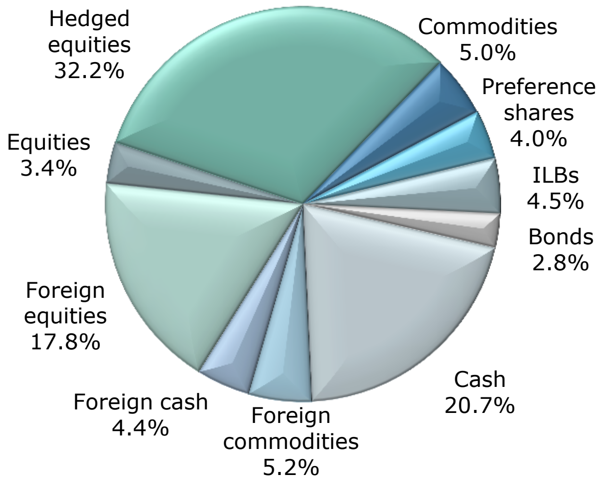
Cumulative performance since inception



Portfolio manager	Gavin Wood
Fund category	South African - Multi Asset - 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	R96.4 million
NAV	123.31 cents
Distribution dates	30 June, 31 December
Last distribution	30 June 2013: 0.23 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]	1.64%

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	7.3
Lonmin	3.5
FirstRand/RMB	2.1
Tesco	2.1
Sasol	2.0
IBM	1.9
Apple	1.9
Standard Bank	1.9
Microsoft	1.9
Anglo American	1.8
Total	26.4

[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 2013. 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.

Kagiso Stable Fund - Quarterly commentary

as at 30 September 2013

KAGISO Asset Management

The fund performed well this quarter, delivering a return of 4.9% on the back of very good stock selection locally and globally, a conservative bond market positioning and despite significant equity market hedging. The fund continues to provide a high degree of capital stability and has high exposure to income-generating securities such as floating-rate corporate bonds and preference shares.

Economic and market overview

This quarter saw the US Federal Reserve act counter to expectations it had created in the previous quarter that it would finally slow the pace of its asset purchases and thus begin the gradual reduction of its extreme monetary stimulus measures. Unsurprisingly, this fuelled a strong rally in risky assets towards the end of the quarter. Chinese economic data seemed to suggest a milder slowdown, albeit not without concerns that there is excessive leverage supporting this strength, which was positive for commodity prices and European manufacturing data seems indicative of a mild recovery from its long slump.

The South African economy remains weak and vulnerable, with high current account and fiscal deficits supported by strong portfolio flows into our equity and bond markets. These portfolio flows may well reverse when US monetary stimulus is eventually reversed. Lacklustre manufacturing, slowing household spending and a struggling mining sector all contribute to a weak economic growth outlook at a time when inflation is heading higher due to the pass-through of currency weakness, high administered price increases and high wage settlements. This quarter saw intense strike activity across the auto sector and certain mining companies, with consequent damage to perceptions of South Africa as a competitive destination for foreign direct investment.

The SARB kept the repo rate constant over the quarter as weak growth constrains the rate hikes that may normally accompany inflation heading above the target band. The SA government continues its high pace of bond issuance to finance its large budget deficit.

Equities were the strongest performing asset class over the quarter, with the local equity market generally outperforming other emerging and developed markets. This was despite very limited net foreign equity purchases in the quarter after strong foreign inflows during the first two quarters. The rand weakened slightly, providing some support for companies with offshore operations or with foreign currency revenue streams.

Although credit spreads are low relative to history, we believe a diversified exposure to high quality credit instruments is warranted.

Money market rates (evidenced by FRA rates) are pricing in more extensive and near-dated rate hikes than we believe are likely.

Fund performance and positioning

The fund returned 4.9% over the quarter, outperforming cash by 3.7%. This performance was driven by strong equity stock selection as many of our highest conviction positions performed strongly. The positioning in floating-rate bonds maintained solid capital protection over the period, with corporate bonds with robust credit strength contributing to total returns. The fund’s global stock selection continues to be satisfactory, with Apple and Tesco making strong contributions.

Looking ahead, while the unwinding of stimulus will be a slow process, the reality is that any slowing (and ultimately reduction) represents a significant change in the flow of liquidity to markets. This will have implications for several asset classes and we will continue to avoid those assets that have benefited disproportionately from quantitative easing over the last few years.

The fund’s asset allocation remains defensive in the face of what we see as an over-extended market. Negligible net exposure to SA equities and significant hedging provides strong capital protection with high exposure to our top stock picks.

The fund has low exposure to SA listed property, physical cash and long-duration bonds, preferring floating rate corporate bonds with robust credit fundamentals and attractive yields. Commodities (primarily through the domestic platinum ETF and offshore palladium ETF) and selected inflation-linked bonds provide further diversification and expected real returns. The fund maintains the maximum allocation to foreign assets, primarily in international equities and property. We continue to find high quality companies at attractive valuations in developed markets.

Portfolio manager
Gavin Wood

Key indicators	
Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	6.0%
Repo rate (%)	5.0%
3m JIBAR	5.1%
10-year government bond yield	7.6%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	7.7%
FTSE/JSE All Share Index	12.5%
FTSE/JSE Listed Property Index	-1.3%
BEASSA All Bond Index	1.9%
Commodities and currency	Quarterly change
Platinum ($/oz)	4.7%
Gold ($/oz)	7.7%
Rand/US Dollar (USD)	1.6%