Kagiso Stable Fund
as at 31 December 2013

KAGISO Asset Management

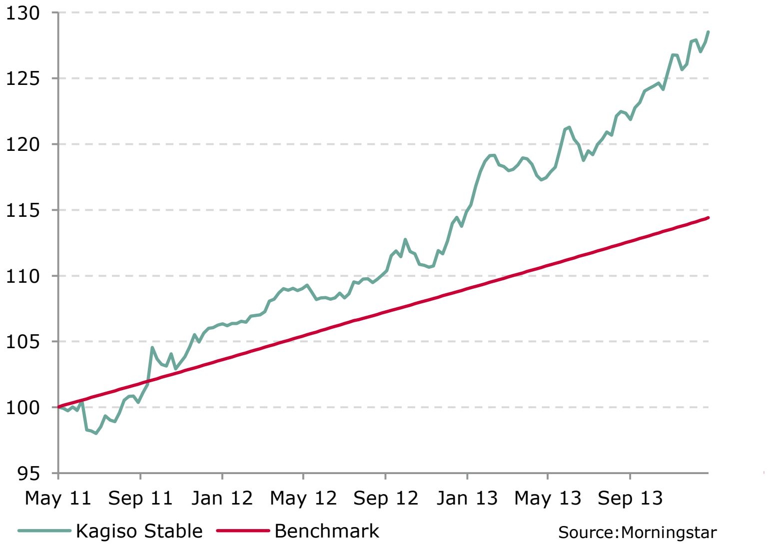
Performance and risk statistics[1]

	Fund	Benchmark	Outperformance
1 year	12.8%	5.0%	7.8%
2 years	10.0%	5.2%	4.8%
Since inception	9.9%	5.2%	4.7%

	Fund	Benchmark
Annualised deviation	4.6%	0.1%
Sharpe ratio	1.0	n/a
Maximum gain*	8.2%	14.7%
Maximum drawdown*	-2.0%	n/a
% Positive months	75.0%	n/a

*Maximum % increase/decline over any period

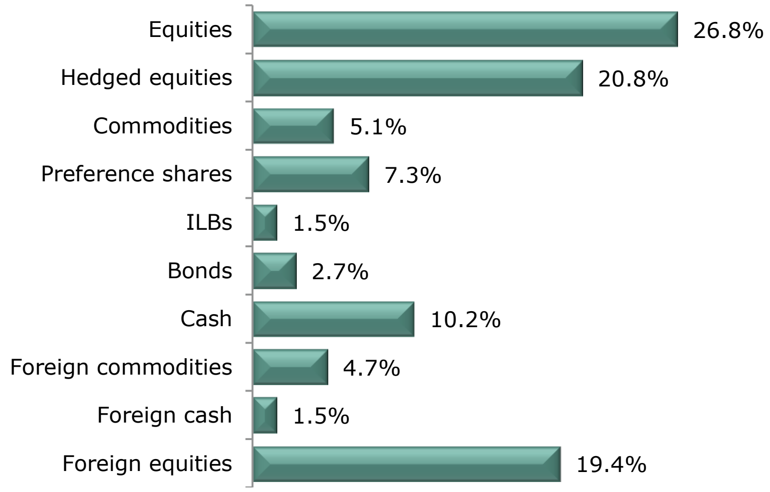
Cumulative performance since inception



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	
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	R109.6 million
NAV	127.17 cents
Distribution dates	30 June, 31 December
Last distribution	31 December 2013: 0.75 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]	1.66%

Unconventional thinking.

Effective asset allocation exposure*



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

Top ten equity holdings

	% of fund
Metair Investments	4.9
Lonmin	3.8
FirstRand/RMB	3.8
Standard Bank	3.4
Sasol	3.3
Anglo American	3.0
AECI	2.0
Tongaat Hulett	2.0
New Europe Property Investments	1.9
Tesco	1.7
Total	29.8

[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. All performances are annualised.
[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 December 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.

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Kagiso Stable Fund - Quarterly commentary

as at 31 December 2013

KAGISO Asset Management

The fund continued to deliver consistently positive returns at low risk, earning 3.1% for the quarter, outperforming cash by 1.2%. On an annual basis, the fund returned 12.8%, outpacing cash by over 7%.

Economic and market overview

In mid-December, the US Federal Reserve announced that it was slowing the pace of its monthly asset purchases by US$10bn. Surprisingly, this was followed by a strong rally in risky assets. As the Fed begins the journey towards eventual policy tightening, other developed market central banks are becoming increasingly accommodative. In particular, Japan has launched a massive asset purchase programme in pursuit of elusive inflation and the European Central Bank is considering further stimulus measures.

Many developed economies are beginning to show signs of a more consistent recovery. The US is showing signs of stronger industrial production and an improved labour market, while most European countries have emerged from recessions. Japan's economy is responding well to Abenomics and its weaker currency, but will need to overcome an increase in consumption tax later this year. Meanwhile, deflation risk is a concern in an environment of significant spare capacity.

Locally, the SA economy remains vulnerable to portfolio inflows slowing and perhaps reversing, given the high current account and fiscal deficits. Growth continues to stutter along, hampered by labour disruptions, electricity shortages and an overburdened consumer. Inflation remains remarkably constrained, with pressures from the weaker currency showing no signs of emerging through consumer prices yet.

After a fairly lacklustre first half of 2013, SA equity markets recorded a very strong latter half. This was mainly driven by industrial companies where, once again, share prices significantly outpaced the growth in earnings. In a change from previous years, listed property underperformed the equity market, coming under pressure in the wake of rising bond yields. Although credit spreads are relatively low, we believe that a diversified exposure to high quality credit instruments is warranted. Cash rates remain near all-time lows and the market is pricing in more extensive and imminent rate hikes than we believe are likely.

Fund performance and positioning

Within local equities, Sasol (up 10.3%), Naspers (up 18.0%) and Standard Bank (up 8.0%) contributed positively to quarterly performance, while Anglo American (down 6.9%), Tongaat Hulett (down 5.3%) and Anglo Platinum (down 9.5%) detracted. The weaker rand, coupled with good stock selection in foreign investments, also aided performance. In particular, our positions in Growthpoint Property Australia (up 17.4% in AUD), Microsoft (up 12.4% in USD) and Intel (up 17.7% in USD) contributed significantly to the fund’s performance.

The fund's increased exposure to preference shares at the beginning of September was well rewarded. After a period of underperformance during most of the year, this income-paying asset class was the best-performing domestic asset class in the fourth quarter (up 7.9%), driven primarily by strong performance in banking sector instruments. We continue to find value in this asset class, which offers very attractive yields and low sensitivity to long-term interest rates.

Our team's international research has uncovered two compelling opportunities in the German residential property sector: Deutsche Annington and Deutsche Wohnen. We believe that the supply and demand dynamics in the German housing market are favourable. After lagging the rest of Europe, wages in Germany are set to rise, which should provide a significant tailwind to German consumers, most of whom rent (Germany has the second lowest home ownership prevalence in the world). In addition, growth in one and two family households is expected to grow despite an overall decline in German population growth. Meanwhile, residential property supply remains extremely constrained as new development costs are substantially above current valuations for existing stock, and space is a scarce resource.

Both companies have well-located portfolios, capable management teams and efficient cost bases, which will allow them to profitably absorb new acquisitions. Furthermore, they can be obtained at very compelling valuations with attractive dividend growth prospects.

The fund’s asset allocation remains defensive in the face of what we see as an overextended equity market. Negligible net exposure to SA equities, achieved through hedging, provides strong capital protection. 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 and offshore palladium ETFs) 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)	5.3%
Repo rate (%)	5.0%
3m JIBAR	5.2%
10-year government bond yield	8.0%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	7.6%
FTSE/JSE All Share Index	5.5%
FTSE/JSE Listed Property Index	1.0%
BEASSA All Bond Index	0.1%
Commodities and currency	Quarterly change
Platinum ($/oz)	-2.3%
Gold ($/oz)	-9.3%
Rand/US Dollar (USD)	3.2%