Kagiso Stable Fund

as at 31 March 2014

KAGISO Asset Management

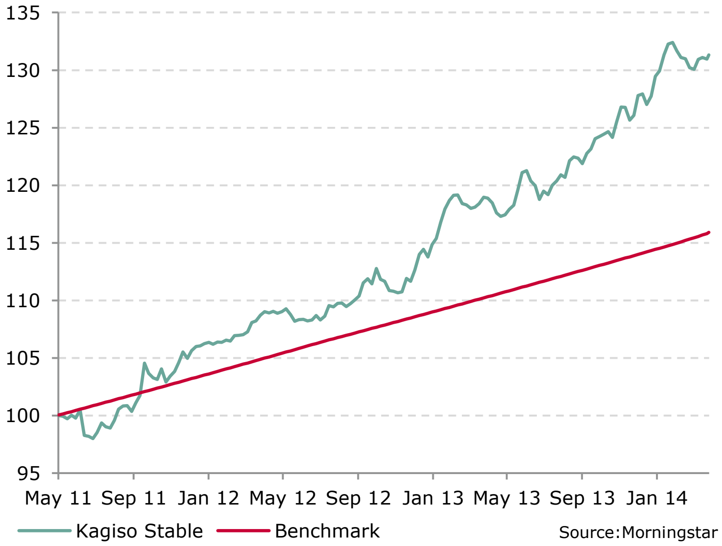
Performance and risk statistics[1]

	Fund	Benchmark	Outperformance
1 year	10.4%	5.1%	5.3%
2 years	9.9%	5.1%	4.8%
Since inception	9.8%	5.2%	4.6%

	Fund	Benchmark
Annualised deviation	4.8%	0.1%
Sharpe ratio	0.9	n/a
Maximum gain*	11.5%	16.1%
Maximum drawdown*	-2.0%	n/a
% Positive months	74.3%	n/a

*Maximum % increase/decline over any period

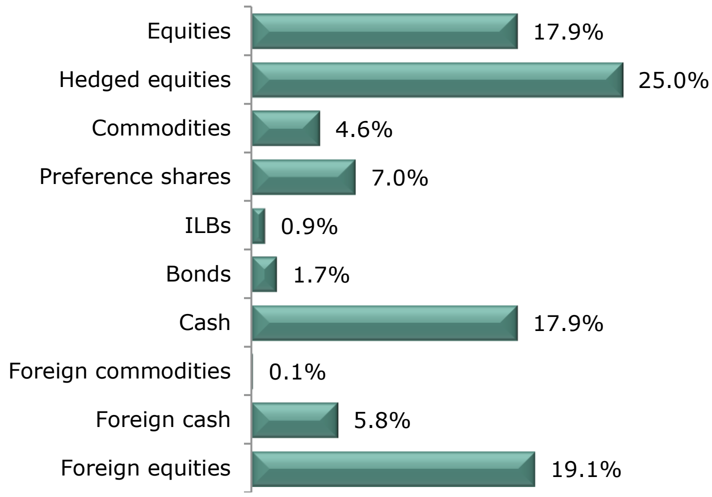
Cumulative performance since inception



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	R127.4 million
NAV	129.17 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]	1.65%

Unconventional thinking.

Effective asset allocation exposure*



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

Top ten equity holdings

	% of fund
Standard Bank	3.6
FirstRand/RMB	3.5
Sasol	3.1
Lonmin	2.8
Tongaat Hulett	2.2
Anglo Platinum	2.1
Anglo American	2.0
AECI	1.8
New Europe Property Investments	1.8
Alexander Forbes preference share	1.3
Total	24.2

[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. 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 March 2014. 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 31 March 2014

KAGISO Asset Management

The Stable Fund had a good start to the year returning 2.2% for the quarter and continues to provide positive absolute returns ahead of cash.

Economic and market overview

This quarter saw significant market volatility, a gradually improving economic picture in developed markets and problems in many developing market economies. Geopolitical tensions and social unrest in the Ukraine were a notable feature over the period, but were largely shrugged off by markets, except in Russia.

In January, the SA Reserve Bank raised rates by 0.5%, signalling the start of a rising rate cycle after an extended period of highly accommodative monetary conditions. This is likely to be a gradual and shallow tightening phase, given the poor growth prospects in South Africa and the fragility of the low-income consumer.

Emerging markets experienced substantial currency and market volatility this quarter, notably with Turkey's central bank hiking rates by around 4% in January at an emergency meeting. The rand was very weak at the start of the year, but proceeded to strengthen - ending the quarter largely unchanged - as South Africa seemed to be seen as a safe haven emerging market relative to some elsewhere with severe problems.

The labour strike on the large Rustenberg platinum mines continued into a third month, further pressurising South Africa's uncomfortably large current account deficit and slow growth.

Global developed markets were stronger in line with their better economic showing and emerging markets were weak and volatile. Local markets were weaker in the quarter, but followed the global equity market recovery to end the quarter at new all-time highs.

Bonds had a reasonably poor quarter with significant increase in yields in January, followed by a recovery to end the quarter with a total return slightly less than cash. Although credit spreads are low relative to history, we believe a diversified exposure to high quality credit instruments is warranted, while managing the liquidity risk effectively. After a strong December, preference share prices were weak into January and February, recovering in March. Following on from the rate hike in January, cash rates are now finally offering positive real returns (albeit meagre). The oncoming rate cycle is likely to gradually improve the attractiveness of this asset class. Given the ongoing weakness in the economy (in the absence of a significant currency shock from here) we expect a fairly shallow and gradual rate hiking cycle of around 2% over the next two years.

Fund performance and positioning

Strong local equity contributors to performance over the period were Sasol (up 14.7%), Standard Bank (up 7.3%) and Anglo American (up 21.0%). Lonmin (down 5.6%) and Netcare (down 8.1%) detracted.

The fund's global exposure added little to performance given the stronger rand. Contributors to performance from our global investments included the (recently added) German residential counters Deutsche Wohnen and Deutsche Annington, while Tesco and Volkswagen detracted over the period. Low exposure to property and bonds benefited the fund as those asset classes came under pressure, while instrument selection within these asset classes was positive. The fund's defensive positioning and hedging were well rewarded during the market weakness in January, but were a drag on performance over the rest of the quarter as equity markets continued to new all-time highs.

Standard Bank, a key holding in the fund, currently has in excess of 20% of its earnings coming from Africa, north of our borders. We believe this profit base is set to grow well in excess of very strong expected nominal GDP growth. Its highly profitable African wholesale business should continue to excel, and its loss making retail banking business is likely to reach maturity and begin to contribute to earnings.

GDP growth in Sub-Saharan Africa (excluding South Africa) is expected to continue to be strong on the back of:

1. The demographic dividend from a strongly expanding working age population.
2. Growing investment in infrastructure, particularly in electricity, water and transport, which should provide attractive investment banking opportunities.
3. Increased intra-African trade, from very low levels, which will lead to very attractive commercial banking opportunities, particularly in the areas of trade finance and forex.

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 whose prices have benefited disproportionately from such excess liquidity. The fund’s asset allocation remains defensive in the face of what we see as an overextended market. Low net exposure to SA equities and significant hedging provides some capital protection with high exposure to our top stock picks.

We retain low exposure to physical cash and long-duration bonds, and have taken advantage of recent weakness in listed property to selectively start increasing exposure. Commodities (primarily through the domestic platinum and palladium ETFs) 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)	5.9%
Repo rate (%)	5.5%
3m JIBAR	5.7%
10-year government bond yield	8.3%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	0.8%
FTSE/JSE All Share Index	4.3%
FTSE/JSE Listed Property Index	1.8%
BEASSA All Bond Index	0.9%
Commodities and currency	Quarterly change
Platinum ($/oz)	3.4%
Gold ($/oz)	6.5%
Rand/US Dollar (USD)	1.8%