Quarterly general investor report

Kagiso Stable Fund

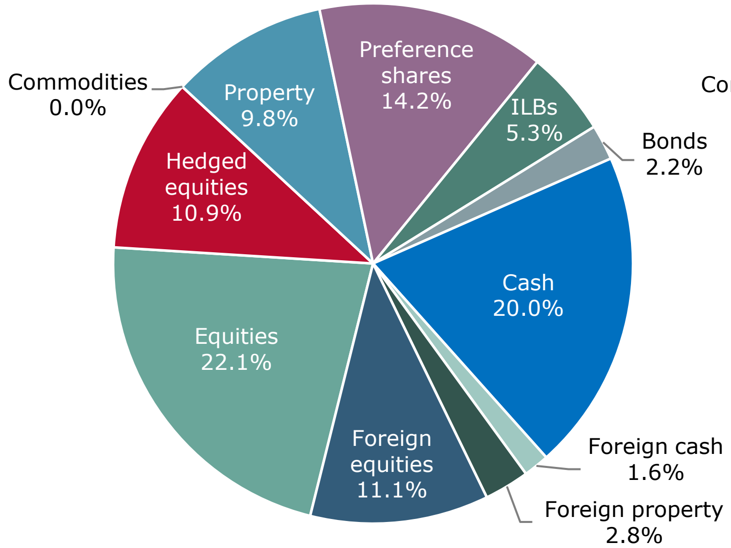
December 2017

Date of issue: 23 January 2018

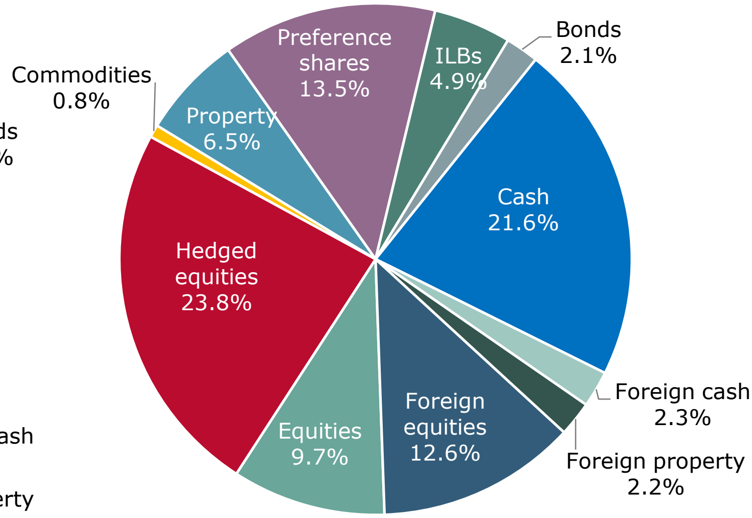
This fund is Regulation 28 compliant compliant and can invest in a wide variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). As the fund aims to maximise returns, it will have a strong bias towards equities - typically the asset class with the highest expected long-term returns. The fund is positioned in our team's best ideas - which emanate from our bottom-up research process - and is actively managed to maximise long-term returns without assuming excess risk of loss.

Asset allocation

Quarter ended December 2017



Quarter ended September 2017



Top 10 holdings

Quarter ended December 2017

Zambezi Platinum Pref	7.0%
Fortress Income Fund	4.5%
Datatec	3.4%
Old Mutual	3.3%
Ethos Capital	2.7%
Altron	2.3%
Hospitality Property Fund	2.3%
Northam Platinum	2.3%
Adcorp	2.2%
AECI	2.2%
Total	32.2%

Quarter ended September 2017

Zambezi Platinum Pref	6.0%
Ethos Capital	2.7%
Hospitality Property Fund	2.6%
AECI	2.5%
Old Mutual	2.4%
Datatec	2.2%
Adcorp	2.1%
Unibail-Rodamco	1.9%
Capital Appreciation	1.8%
Altron	1.8%
Total	26.0%

Fund size	R243.47	million
NAV	152.47	cpu
Number of participatory interest	159,666,635	

Income distributions

31 December 2017	2.03	cpu
30 June 2017	2.41	cpu

Key indicators

Economic data	End of quarter figures
Latest consumer price inflation (CPI % YoY)	4.6%
Repo rate (%)	6.8%
3m JIBAR	7.2%
10-year government bond yield	8.8%
Key asset classes (total return)	**Quarterly change**
MSCI World Equity (US Dollar return)	5.1%
FTSE/JSE All Share Index	7.4%
FTSE/JSE Listed Property Index	8.3%
BEASSA All Bond Index	2.2%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	1.9%
Gold ($/oz)	1.4%
Rand/US Dollar (USD)	-8.6%

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 returned 1.5% this quarter. Year-to-date the fund has returned 7.1%. This quarter's performance was due to strong local equity markets and robust corporate credit performance. Hedging into a strongly rising equity market dampened performance somewhat over the year. The fund has returned 8.3% per annum since its inception in 2011.

Global economic backdrop

There was meaningful and synchronised improvement in global growth in 2017. Business sentiment indicators remain very strong with increasing indications of improved capital spend going forward. Developed market consumer sentiment has increased materially in 2017, although, due to ongoing lackluster wage growth, is not yet causing an acceleration in consumer spending. Headline inflation rates across the world have generally increased in 2017 as a result of increases in food and energy inputs, however core inflation remains benign.

In the US, economic growth improved in 2017 due to better industrial production and investment as a result of an improving global backdrop and a recovery in energy markets. Growth is expected to accelerate further in the coming year aided by fiscal stimulus. Most of this is in the form of a substantial front-loaded tax cut package with the key objective of encouraging more meaningful capital investments by corporates.

In both Europe and Japan, economic activity accelerated moderately in 2017 and buoyant leading indicators suggest further momentum into 2018. In both regions, manufacturing confidence is at elevated levels and export growth is strengthening. Investment growth is picking up from low levels (particularly in Japanese manufacturing where many component sectors are experiencing capacity shortages), which bodes well for the sustainability of the expansion.

Emerging market GDP growth accelerated over 2017 (currently running at a robust 5%). Asian economies are outperforming, with Russia and Latin America lagging, and South Africa expected to register amongst the lowest growth. Output gaps are closing (in particular in Asia), and this together with a resurgent oil price, means moderately higher inflation expectations going forward. Offsetting this is the continuing strong capital flow into emerging markets which, thanks to currency strength, has had a very positive dampening effect on the inflation and interest rate outlooks across emerging markets. China's growth accelerated moderately in 2017 primarily due to a strong recovery in exports and very solid growth in Tier 2 and Tier 3 cities. With credit growth slowing after a period of rapid expansion, Chinese economic activity particularly in the construction sector) is likely to slow from current levels.

South African economic backdrop

Against a very favourable global growth backdrop, South Africa's economic growth was weak in 2017 (0.8% expected) as both consumer and business confidence was damaged by policy actions of government and continuous news of corruption in the public sector. Private investment relative to GDP is very depressed and household consumption growth is slow. The health of the national fiscus has deteriorated due to very low growth, escalating pressure from state owned enterprises, and a worrying decrease in tax collection efficiency.

Although the reformists' apparent win at the ANC elective conference in December was deeply compromised and extremely narrow, it does hopefully avert the worst case scenarios and provide increased confidence for a positive change in the direction of future policy and the hope for its effective implementation. Nevertheless, we believe that any meaningful recovery will take an extended period of time, and that our structural medium-term challenges will result in further rating downgrades, unless government policy direction changes decisively in the near-term.

Market review

For a number of years, extreme unconventional monetary stimulus in the form of price agnostic asset purchases has distorted asset prices across the globe. Bond yields remain very low, corporate bond credit spreads are extremely suppressed and equity prices are high, especially in sectors where stable cashflows are generated (such as consumer staples) and where growth prospects are well appreciated (such as the large global technology companies). Global bond rates have risen somewhat since the second of half of 2016 from record low levels, accompanied by a welcome rise in inflation expectations. These changes in trends, which should continue as monetary conditions begin to normalise, are causing welcome increased dispersion across equities - as well as across asset classes – and are bringing about a better environment for stock pickers.

Over the quarter, developed equity markets were yet again strong in dollar terms. Japan (up 12.1%) Hong Kong (up 8.8%) and the USA (up 6.6%) were outperformers. Emerging markets were also strong (up 7.5% in dollar terms). 2017 has been an exceptionally strong year for equity markets, with the MSCI World Free Index up 23.1% over the year.

Locally, the equity market was again strong over the quarter (up 7.4%). Financials (up 19.2%) outperformed this quarter.

Industrials were up 4.7%, with heavyweight Naspers (up 18.2%) and the retailers contributing, while Steinhoff (down 92%), Richemont (down 9.1%) and British American Tobacco (down 1.1%) detracted. Telecommunication company performance was mixed (Telkom down 16.9%, Vodacom down 7.2%, while MTN was up 9.8%). Food producers recovered this quarter (up 18.9%).

Resources were positive this quarter (up 3.7%), with general miners and platinum outperforming (both up 5.6%) and gold lagging (down 1.4%).

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The local market had a strong year (up 21%) with all sectors performing strongly (industrials up 25.6%, financials up 24.4% and resources up 16.8%). Large caps (up 23.2%) significantly outperformed mid caps and small caps (up 7.4% and 3.0% respectively).

After the political outcomes in mid-December and the accompanying strength in the currency, the markets are now pricing in moderate rate cuts over the next year. However, this improved outlook is still at risk given the poor structural state of the economy which increases the likelihood of further ratings downgrades, which may in turn lead to currency weakness and higher inflation.

Fund performance and positioning

Our exposure to local stocks and to yield asset classes (cash, preference shares, and property) contributed positively this quarter and over the year, with very good instrument selection (for example our holdings in the Equites Property Fund and Zambezi preference shares). Strong contributors this quarter were Naspers, African Rainbow Minerals, Northam Platinum and Old Mutual. Key detractors were our foreign exposure, Royal Bafokeng Platinum and Brait. We had zero exposure to Steinhoff leading up to the unfortunate events in December. While our large allocation to global stocks contributed positively to overall 2017 performance, it detracted this quarter due to local currency strength.

Our global holdings produced strong dollar returns this quarter but detracted from performance due to the stronger rand. Positive contributors were specialist chemical producer Ingevity, UK hospital group Spire Healthcare, UK retirement income specialist services provider Just Group, Old Mutual Asset Management and education company Pearson. Detractors were pharmaceutical group Allergan, media and telecom group Liberty Latin America, energy infrastructure specialist Kinder Morgan and Goodyear.

Against a global backdrop of improving economic growth, high asset prices, and heightened complacency around potential risks (including rising political uncertainty in many countries, a potentially disruptive Chinese economic rebalancing, and locally significant structural hurdles to improved growth), we are increasingly guarded on the outlook for financial markets. However, we are optimistic that more normal financial conditions (in particular higher real rates, inflation and levels of risk-taking) are proving to be a much better environment for stock picking. The outlook for the South African economy is negatively skewed both in the short and medium term and we are positioned appropriately. We retain very high exposure to global holdings, and local mid-cap stocks where we see compelling stock-specific growth vectors coupled with low market valuations. We continue to hold positions in lower-cost platinum group metals miners.

We maintain a hedge against a large part of our equity exposure and maintain some exposure to foreign equities and select local property stocks. We have a large exposure to preference shares and short-term credit instruments.