Quarterly general investor report

Kagiso Stable Fund

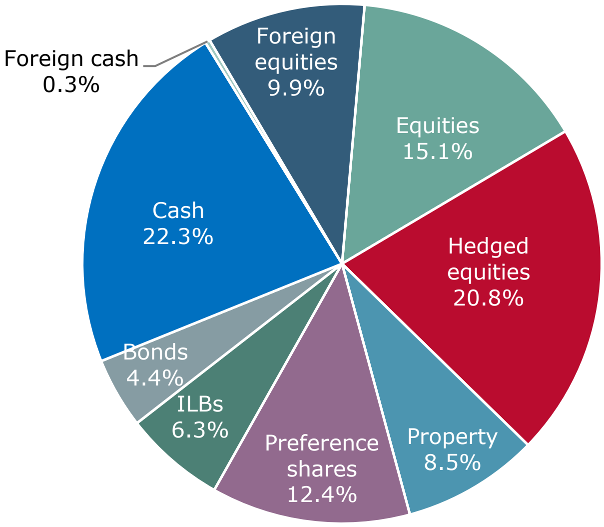
June 2018

Date of issue: 26 July 2018

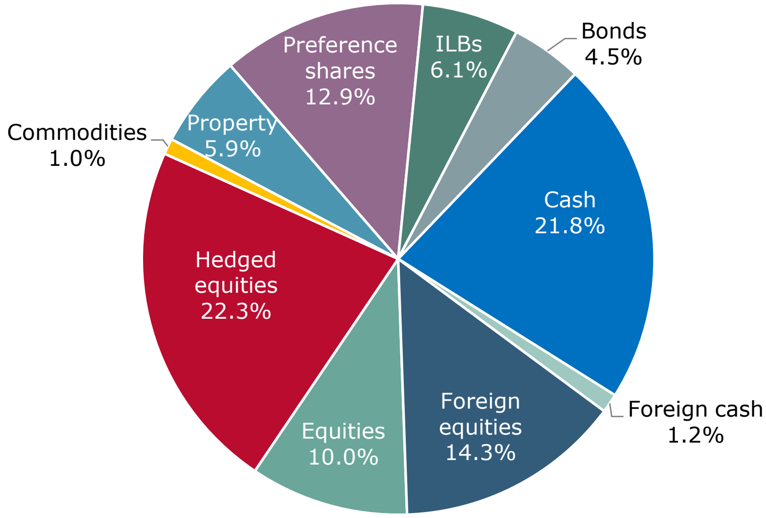
This fund is Regulation 28 compliant compliant and can invest in a wide variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). As the fund aims to maximise returns, it will have a strong bias towards equities - typically 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 June 2018



Quarter ended March 2018



Top 10 equity holdings

Quarter ended June 2018

Zambezi Platinum Pref	3.7%
Altron	3.2%
Old Mutual	3.2%
Dipula Income Fund (A)	3.0%
Ethos Capital	2.5%
Datatec	2.4%
Delta Property Fund	2.0%
Adcorp	2.0%
Equites Property Fund	2.0%
AECI	2.0%
Total	26.0%

Quarter ended March 2018

Zambezi Platinum Pref	5.2%
Old Mutual	3.2%
Altron	2.6%
Ethos Capital	2.4%
Delta Property Fund	2.4%
Adcorp	2.3%
AECI	2.3%
Datatec	1.9%
Grand City Properties	1.9%
Fortress Income Fund A	1.8%
Total	26.0%

Fund size	R217.67	million
NAV	151.54	cpu
Number of participatory interest	143,623,211	

Income distributions

30 June 2018	5.45	cpu
31 December 2017	2.03	cpu

Key indicators

Economic data	End of quarter figures
Latest consumer price inflation (CPI % YoY)	4.4%
Repo rate (%)	6.5%
3m JIBAR	7.0%
10-year government bond yield	9.0%
Key asset classes (total return)	**Quarterly change**
MSCI World Equity (US Dollar return)	1.1%
FTSE/JSE All Share Index	4.5%
FTSE/JSE Listed Property Index	-2.2%
BEASSA All Bond Index	-3.8%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	-8.6%
Gold ($/oz)	-5.5%
Rand/US Dollar (USD)	16.1%

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

Kagiso Stable Fund
June 2018

The fund was up 2.4% this quarter. This performance was mainly due to positive performance from our yield assets and global equity holdings. The fund has returned 7.8% per annum since its inception in 2011.

Economic backdrop

Global economic growth continues to be strong in 2018, although there has been a deceleration from the elevated levels of 2017, particularly outside of the USA. Inflation rates around the world continue to move slowly higher in aggregate due to higher energy prices, tightening labour markets in the developed world and currency depreciation in emerging markets.

The US economy continues to grow above trend, with a strengthening labour market, and the year ahead will be supported by substantial front-loaded tax cuts and continued accommodative - albeit slowly tightening - monetary policy.

China's growth remains at healthy levels due to strong local consumption growth, although there are signs that industrial activity growth may have peaked at the end of 2017. Chinese government measures to rebalance the economy, reign in credit excesses and reduce pollution are resulting in a marked deceleration in infrastructure-related growth, a trend we expect to continue for the medium term. In other emerging markets, the inflation and interest rate outlooks have worsened as capital outflows over the recent quarter have led to currency depreciation and growth has moderated somewhat due to the recent deceleration in global trade.

Fears of an escalating trade war between the US and its trading partners have increased. Actions announced thus far should have a limited direct impact on growth but are dampening business confidence.

Recent South African data points, such as the negative first quarter GDP report, less optimistic confidence indicators and very lacklustre company results, have been much weaker than expected. This has resulted in significant weakness in equities with domestic exposure, bonds and the rand, reflecting an appreciation that current economic conditions are weak and that considerable structural reforms are required to meaningfully increase growth in the medium 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. Global bond yields remain very low, corporate bond credit spreads are extremely suppressed and equity prices are high, especially in sectors where growth prospects are well appreciated.

Global bond rates have risen somewhat since 2016 from record low levels, accompanied by a welcome rise in inflation expectations, particularly in the USA. Importantly, the rate of total global central bank asset purchases peaked in the first half of 2017 and is rapidly reducing as monetary stimulus programs begin to unwind. These changes in trend are causing a more normal (higher) level of market volatility and a welcome increase in dispersion across equities, as well as across asset classes – a better environment for stock pickers.

Over the quarter, equity markets were stronger. The UK and the USA outperformed (up 3.1% and 3.4% respectively) while Hong Kong (down 2.5%) and Germany (down 3.4%) underperformed. Emerging markets were generally weak (down 7.9% in dollar terms).

Locally, the equity market was strong (up 4.5%, although still 1.7% down year-to-date). Resources were very strong this quarter (up 21.7%), with general miners outperforming (up 23.7%), while gold (down 6.0%) and PGM miners (down 2.1%) lagged.

Industrials were up 5.3%, with Naspers (up 20.5% after a weak previous quarter) and Richemont (up 9.0%) contributing positively. Retailers were weak this quarter as was the Telecommunications sector again this quarter (down 11.3% and down 16.0% year-to-date).

Financials (down 6.6%) underperformed this quarter, with Sanlam, Discovery, Absa and Nedbank the biggest losers. The property sector was weak again (down 2.2% and down 21.3% year-to-date).

Although current inflation is benign (4.6% for June 2018 with notably low growth rates in food and high growth rates in transport costs), risks to the upside have increased due to recent currency weakness, persistently high wage settlements and high energy prices. In recent meetings (May and July), the Monetary Policy Committee has left the repo rate unchanged at 6.5%, with a notable hawkish bias.

Fund performance and positioning

Within the yield asset classes, our exposures to preference shares and cash contributed positively to performance. Our allocation to global equity holdings contributed positively and this quarter saw generally positive instrument selection across all asset classes. Strong contributors this quarter were our foreign stocks, Naspers, Altron, Brait, African Rainbow Minerals and Anglo Platinum. Key detractors were MMI Holdings, Tongaat Hulett. Metair and Old Mutual.

Our global holdings contributed meaningfully to performance this quarter. Key contributors were Allergan, Brookdale Senior Living, Kinder Morgan and Spire Healthcare. Our Japanese holdings detracted moderately from performance.

Against a global backdrop of healthy (though decelerating) economic growth, tightening monetary policy, high asset prices, heightened geopolitical tensions and a local market still pricing in high optimism about South Africa's turnaround we are increasingly guarded on the outlook for financial markets.

We are optimistic that more normal financial conditions are proving to be a much better environment for stock picking. We retain a particularly high exposure local mid-cap stocks.

Global information technology firm Datatec is one of these mid-caps and is a meaningful holding in the fund. We expect particularly strong performance as it completes a major corporate restructuring. The company's two operating businesses comprise Logicalis, a global leader in information technology managed services, and Westcon, a global information technology hardware distributor.

In June 2017, Datatec sold its US and Latin American Westcon operations (roughly half of Westcon) for an attractive price, unlocking material value. The company returned around R4 billion to shareholders via a special dividend last year and we expect another R1 billion, or roughly 20% of its current market capitalisation, to be returned via share buybacks in the coming months.

After the Westcon sale, Datatec retained the elevated central cost base of the former (larger) Westcon group. Management are making good progress in reducing these costs and turning around the remaining business and we expect the residual Westcon group to return to profitability over the next year or so. This turnaround should reveal a substantially more valuable company than is currently implied by the share price. We expect value to ultimately be unlocked via a sale of one or both of its remaining businesses.

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.