Kagiso Stable Fund

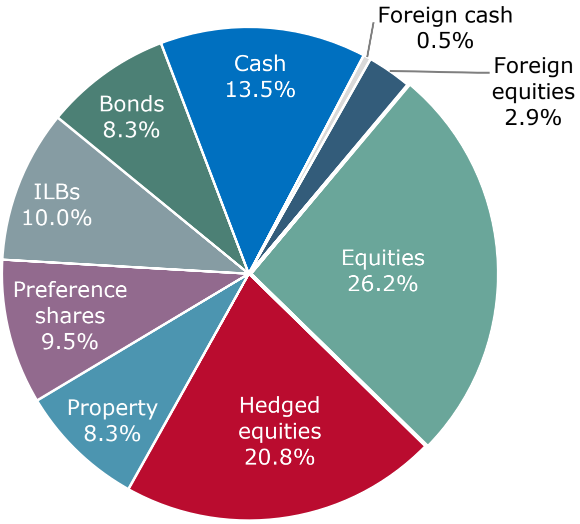
June 2019

Date of issue: 24 July 2019

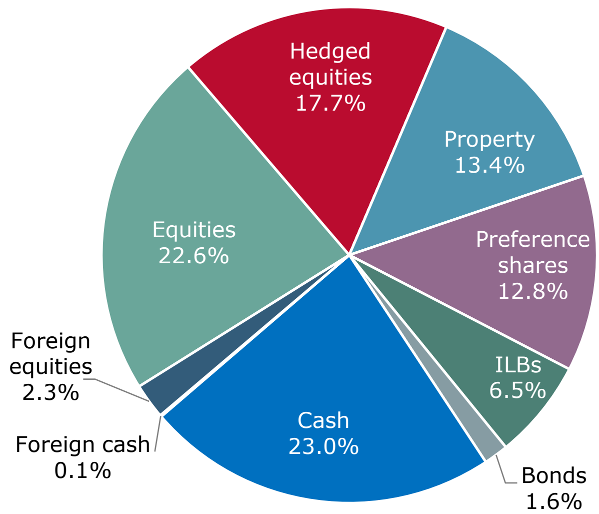
This fund is Regulation 28 compliant and can invest in a wide variety of domestic and international asset classes (such as equities, listed property, conventional bonds, inflation-linked bonds and cash). As the fund aims to maximise returns, it will have a strong bias towards equities - typically the 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 2019



Quarter ended March 2019



Top 10 equity holdings*

Quarter ended June 2019

Northam Platinum	4.2%
Clover	3.3%
AECI	2.5%
Adcorp	2.5%
Royal Bafokeng Platinum	2.4%
Metair	2.0%
Ethos Capital	1.7%
Naspers	1.6%
Brait	1.6%
Datatec	1.5%
Total	23.3%

Quarter ended March 2019

Northam Platinum	3.8%
Old Mutual	2.8%
Clover	2.6%
AECI	2.4%
Royal Bafokeng Platinum	2.3%
Adcorp	2.0%
Metair	1.8%
Libstar	1.5%
Tiso Blackstar Group	1.5%
Ethos Capital	1.5%
Total	22.2%

* Top holdings comprise domestic and global equities

Fund size R359.55 million
NAV 161.11 cpu
Number of participatory interest 223,132,935

Income distributions

30 June 2019	3.05 cpu
31 December 2018	3.94 cpu

Key indicators

Economic data	End of quarter figures
Latest consumer price inflation (CPI % YoY)	4.5%
Repo rate (%)	6.8%
3m JIBAR	7.0%
10-year government bond yield	8.7%
Key asset classes (total return)	**Quarterly change**
MSCI World Index (USD)	4.0%
FTSE/JSE All Share Index	3.9%
FTSE/JSE Listed Property Index	4.5%
BEASSA All Bond Index	3.7%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	-1.7%
Gold ($/oz)	9.1%
Rand/US Dollar (USD)	-2.9%

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 was up 2.0% this quarter, beating its (CPI +2%) benchmark of 1.8%. This was mainly due to positive performance from our yield assets and allocation to local equities. The fund has returned 8.3% pa over the last three years, well ahead of its benchmark of 6.8% pa, and is ranked first in its category over that period. Since its inception in 2011, the fund has returned 8.5% pa.

Economic backdrop

Global economic growth, though still healthy, has decelerated from the high rates of recent years. Strengthening developed region labour markets continue to underpin consumer expenditure via solid wage growth. Inflation rate expectations have retreated meaningfully, particularly in Europe. Key central banks have therefore paused their slow tightening measures and are signaling a more accommodative monetary policy if economic data deteriorates.

Trade activity is weak, partly due to the "trade war" (front loaded orders in advance of tariff implementation are now being run down and there are direct reductions in certain affected categories).

US economic growth has been strong this year, but weaker manufacturing production and the tapering off of fiscal stimulus support will now lead to a moderation back to trend. In Europe, manufacturing and export related activity is weak, particularly in Germany, affected by slower Chinese growth and a contracting global automotive market. Japan's growth is similarly weak and will be exacerbated by an impending consumer tax hike.

Overall growth in China continues to moderate as the government acts to rebalance the economy and reign in credit excesses. Infrastructure and manufacturing related growth is most affected, although temporarily shielded by domestic stimulus.

Stronger commodity prices and producer currencies have led to an improvement in economic growth and inflation prospects for commodity-focused emerging economies. India, Indonesia and Eastern Europe continue to outperform emerging market peers and laggards, Argentina, Turkey (contracting), South Africa (deteriorating low growth) and Brazil (significant iron ore mine disruptions) remain weak.

The South African economy continues to experience very weak economic growth, particularly with persistently low business confidence, contracting investment; and lacklustre consumption growth (wage settlements have moderated meaningfully and employment is stagnant). Early progress by the new ANC leadership on governance improvements is being followed up by frustratingly slow policy reforms in the face of a deteriorating fiscal position (debt to GDP).

Market review

Global markets rebounded and were strong again this quarter (up 4.2% in dollar terms and 17.4% year to date) with the USA (up 4.3%), France (up 7.5%) and Germany (up 8.9%) outperforming. Emerging markets (up 0.7% in dollar terms) were mixed and generally robust, except in China (down 3.9%).

Locally, the equity market was positive again this quarter (up 3.9%) with resources (up 2.6%) outperforming – gold and platinum miners were strong (up 26.6% and 9.4% respectively). Standout performers included Gold Fields (up 44.1%) Anglogold Ashanti (up 32.6%) and Impala Platinum (up 14.3%).

Industrials were up 2.6%. Heavyweights including MTN (up 20.5%), Richemont (up 14.2%) and Naspers (up 2.6%) contributed positively, while British American Tobacco (down 17.3%) detracted. Retailers were generally higher - Woolworths (up 5.2%), Mr. Price (up 4.7%) and Pick n Pay (up 3.9%). Hospitals (down 15.0%) and food producers (down 4.8%) underperformed.

Financials (up 5.4%) outperformed, with Absa, MMI, and FirstRand very strong (up 15.7%, 14.3% and 11.1% respectively). Listed property was generally strong (up 4.5%) with Intu Properties (down 32.9%) underperforming.

Aside from administered prices, domestic inflationary pressures are very subdued due to sharply lower wage settlements and generally absent demand-pull price pressures as a result of the weak economy. The MPC moved to cut interest rates by 0.25% at the July meeting, welcoming the continued downward trend in recent inflation outcomes and the moderation in inflation expectations.

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 have retreated to very low levels (pricing in exceedingly low levels of future long-term inflation), corporate bond credit spreads are depressed and equity prices are high, especially in large cap stocks and sectors where growth prospects are well appreciated.

US bond rates have risen from the record low levels of 2016, accompanied by tentative signs of wage led rising inflation (although yields in other developed markets are now back down to record lows). Recent trade tensions between the US and its key trading partners seem to have negatively impacted the global growth outlook and central banks are now poised to undertake pre-emptive easing measures in an attempt to avert material economic deterioration.

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Fund performance and positioning

A high allocation to risk assets was the primary performance contributor this quarter. Our holdings in yield assets (local bonds, property, preference shares and cash) were the primary contributors this quarter.

Strong local equity contributors this quarter included Naspers and, once again, some of our high conviction mid-cap holdings: Altron, Adcorp, Libstar and Metair. Key detractors were Tongaat Hulett, Brait and Clover.

Our global equity holdings detracted from performance due to poor stock selection with key positives being Altran Technologies (up 43.0% this quarter and subject to a takeout bid from Capgemini), Siemens and Prudential. Ontex, Brightsphere, Umicore and Goodyear underperformed.

Despite a global backdrop of reasonable, but weaker, economic growth, risks of negative trade disruptions (as Chinese economic growth continues to trend lower) and, a local market facing a very weak economy - we remain positive on the outlook for our stock holdings, given attractive valuations.

We maintain a diversified mix of our top-ranked equity ideas, including an associated equity market hedge and some exposure to certain local property stocks and foreign equities. We have a large exposure to short-term credit instruments and preference shares.

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 to a selection of local mid-cap stocks which offer compelling upside from a number of diverse stock specific factors that are providing positive performance, uncorrelated to the general market. An example of this is Libstar.

Libstar is South Africa's largest private label food producer, which listed on the JSE in May 2018. We are particularly excited about the prospects for the growth of private label which usually offers consumers a lower price alternative to traditional branded products, at a similar or better margin to the retailers (a win for consumers and retailers). There is an increased retailer focus to push private label and, the improved quality of these products has resulted in wider consumer acceptance. Libstar provides private label products to Woolworths, Pick n Pay and Shoprite Checkers and is well placed to benefit from this growth. A poor set of maiden results saw the Libstar share price weaken since IPO, providing an opportunity for us to build a meaningful position in our funds. Despite the share price being up 50% from its lows, we believe there is significant value to be unlocked as earnings rebound and the resilience of its private label strategy begins to manifest.