



**Portfolio Manager**  
Gavin Wood

### Fund objective

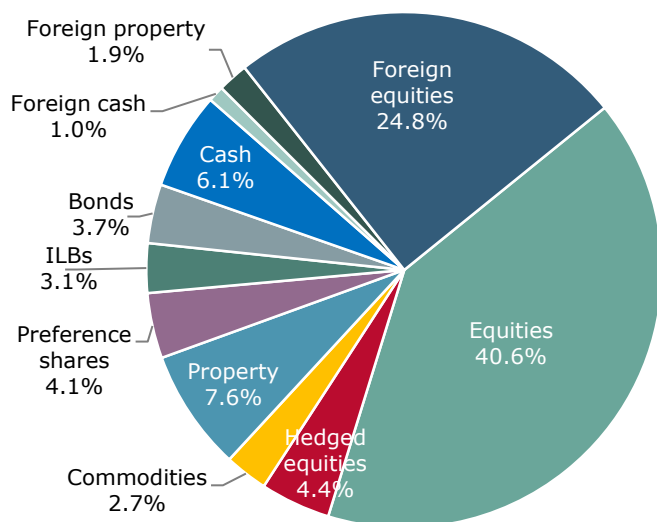
This fund aims to significantly outperform the median manager in the global retirement fund manager peer group. The fund has a balanced mandate and investments are diversified across equities, bonds and cash, both domestic and global. The fund is positioned in our best ideas, based on our team's proven research process.

### Invest with us

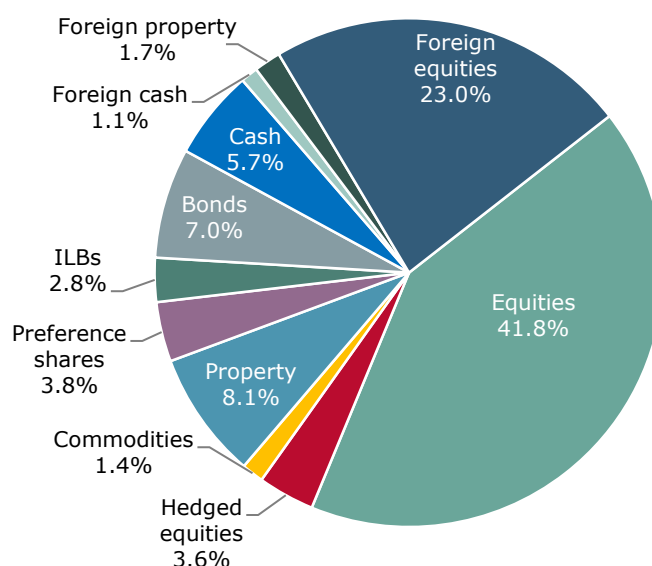
**Visit our website** [www.kagisoam.com](http://www.kagisoam.com)  
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### Sector composition

#### Quarter ended June 2017



#### Quarter ended March 2017



### Top 10 holdings

#### Quarter ended June 2017

Naspers	7.8%
Northam Platinum	3.5%
Old Mutual	3.4%
AECI	3.1%
Equites Property Fund	3.0%
Sasol	2.3%
Tongaat Hulett	2.1%
Prudential plc	1.9%
Anglo Platinum	1.9%
Datatec	1.7%
<b>Total</b>	<b>30.7%</b>

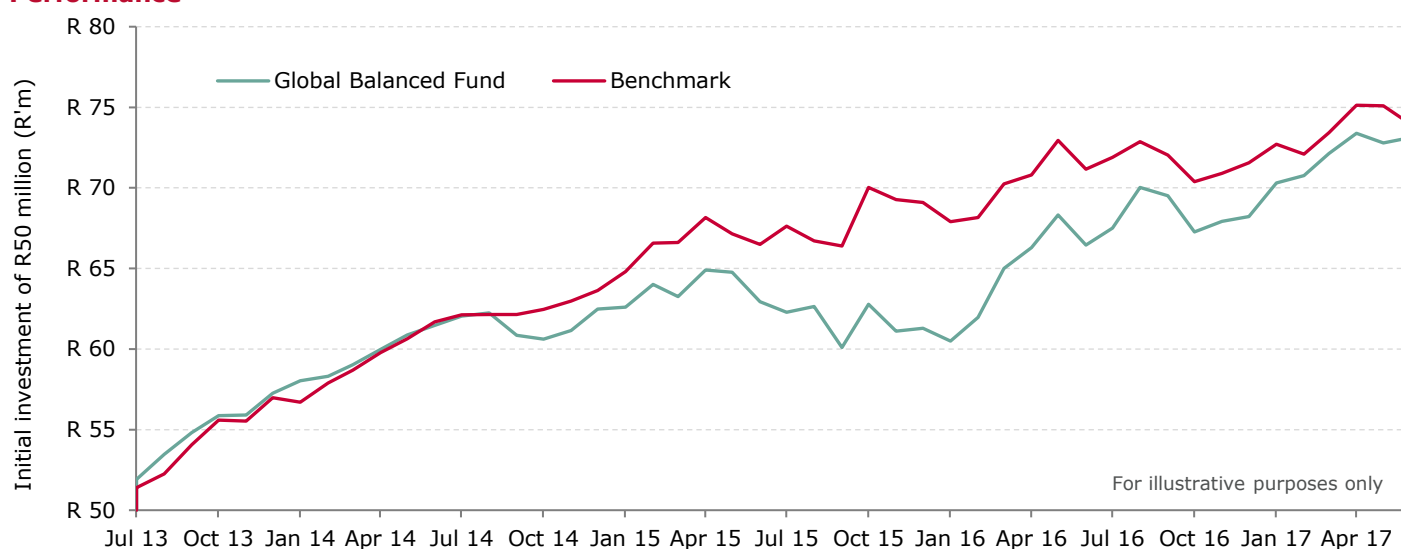
#### Quarter ended March 2017

Naspers	8.0%
Old Mutual	3.5%
Northam Platinum	3.4%
AECI	3.3%
Equites Property Fund	2.9%
African Rainbow Minerals	2.2%
Sasol	2.1%
Tongaat Hulett	2.1%
Anglo Platinum	2.1%
Mondi	1.7%
<b>Total</b>	<b>31.3%</b>

### Key indicators

Equity markets (total return)	End of quarter figure
Latest consumer price inflation (CPI % YoY)	5.4%
Repo rate (%)	7.0%
3m JIBAR	7.3%
10-year government bond yield	8.9%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	3.4%
FTSE/JSE All Share Index	-0.4%
FTSE/JSE Listed Property Index	0.9%
BEASSA All Bond Index	1.5%
Commodities and currency	
Platinum (\$/oz)	-2.5%
Gold (\$/oz)	-0.6%
Rand/US Dollar (USD)	-2.6%

### Performance<sup>1</sup>



Source: Kagiso Asset Management, I-Net

### Annualised performance

	Fund	Benchmark	Outperformance
1 year	10.0%	3.9%	6.1%
2 years	7.8%	5.5%	2.3%
3 years	5.9%	6.2%	-0.3%
Since inception	10.0%	10.3%	-0.3%

<sup>1</sup> Fund performance figures are gross of management fees and Capital Gains Tax and net of Withholding Tax. Calculations are based on a lump sum investment, with income reinvested and all performances are annualised. Please note that market and exchange rate fluctuations may affect the value, price or income of investments. Past performance should not be used as a guide for future performance.

### Risk statistics

	Fund	Benchmark
Annualised monthly volatility	7.0%	5.8%
Annualised monthly tracking error	4.6%	n/a
Information ratio*	-0.1	n/a
Sharpe ratio	0.5	n/a
Maximum gain <sup>#</sup>	24.5%	11.2%
Maximum drawdown <sup>#</sup>	-7.4%	-3.5%
% Positive months	72.9%	66.7%
Beta vs benchmark	0.9	1.0

\* Information ratio =  $\frac{\text{outperformance}}{\text{tracking error}}$

<sup>#</sup> Consecutive months of change in the same

**Benchmark** Median return of Alexander Forbes Global Large Manager Watch

**Launch date** 1 July 2013

**Fund size** R 1.18 billion

**Fund mandate** Regulation 28 compliant global balanced fund

**Vehicle** Pooled and segregated

**Minimum investment** Pooled no minimum  
Segregated R50 million

The fund returned 1.4% this quarter, outperforming the benchmark by 0.7%. This performance was due to high exposure to global stocks where our stock selection was strong, and generally good asset allocation. The fund has returned 10.0% per annum since its inception almost 4 years ago.

### **Global economic backdrop**

There has been a fairly meaningful and synchronised improvement in global growth in 2017. Sentiment indicators remain positive, and there are now early signs that business investment is improving. Although inflation rates across the world have generally increased this year, developed market core inflation (stripping out the effect of food and energy prices) remains weak.

In the US, consumer and business confidence remain high and private sector investment is slowly picking up. Despite a tightening labour market, there haven't yet been meaningful wage increases – a critical lever for meaningful consumption growth. The implementation of well signalled corporate tax cuts is needed to prevent confidence retreating.

European business confidence has picked up materially over the quarter, and is being followed up by marked improvements in industrial production and retail sales. Political risk has declined following the election of a new centrist government in France. Despite an improving backdrop, GDP growth is expected to be only moderately better this year. Japanese GDP growth is moderately stronger this year with much improved business confidence, particularly relating to capital expenditure plans.

Emerging market economies have shown good growth in 2017 so far, with increased exports and generally improving trade balances due to the synchronised global recovery. There has also been a marked increase of capital flows into emerging markets. China's central bank has tightened monetary policy this year, somewhat reigning in excessively high levels of credit growth. With credit growth slowing after a period of rapid expansion, and debt servicing costs rising, Chinese economic activity is likely to slow from current levels.

### **South African economic backdrop**

The local economic outlook has worsened over the quarter as confidence has been dented by the actions of government and continuous news of rampant corruption in the public sector. The cyclical rebounds in agriculture and mining have not been enough to offset weakness in consumption and manufacturing sectors. State owned enterprises continue to be generally mismanaged, the mining sector faces a huge threat from a poorly constructed new Mining Charter and rhetoric emerging that suggests tampering with the independence of the Reserve Bank. This environment ensures that business confidence, and the private sector's appetite for investment that is necessary to create growth, is severely suppressed. A positive is that strong, broad-based emerging market inflows are supporting the rand and, together with a weak oil price, are dampening inflation and creating room for moderate interest rate cuts.

The outcome of the ANC elective conference in December will be very important in determining the direction of future policy and the government's capacity to effectively implement it, and hence medium-term growth prospects.

### **Market review**

For a number of years, extreme unconventional monetary stimulus in the form of price agnostic asset purchases have distorted asset prices across the globe. Bond yields remain very low, and equity prices are generally 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, accompanied by increased event-driven market volatility (internationally and locally) is causing welcome increased dispersion across equities, as well as across asset classes – and is bringing about a better environment for stock pickers.

Over the quarter, developed equity markets were again strong across the board in dollar terms. Hong Kong (up 8%), Germany (up 6.8%) and France (up 9.2%) were again the outperformers. Emerging markets were also strong (up 6.4% in dollar terms).

The local equity market lost 0.4% over the quarter resulting in a low one-year return of 1.7%. Industrials (up 3.4%) outperformed again this quarter, with Naspers contributing materially (up 9.9%). Other heavyweight global constituents were also moderately positive (Richemont up 2% and British American Tobacco up 1.4%). Telecommunication company performance was mixed. With the exception of Shoprite (up 3.0%), retailers were materially weaker (Massmart down 22.5%, Truworths down 17.4%, Woolworths down 11.8%, Pick 'n Pay down 9.1%). Food producers were also weak (index down 8.3%).

The basic materials sector was negative this quarter (down 7%). Underperformers were Harmony (down 34%), Northam (down 21% and reversing the previous quarter's gain), Sibanye (down 19%), Impala (down 19%), and Anglo American (down 14%).

Financials were flat this quarter (up 0.3%). Insurers were generally weaker (life insurance index down 1.8% and non-life insurance index down 6%). Banks were very mixed. Capitec (up 10%) Barclays Africa (up 7%) and Investec (up 6.2%) outperformed, whilst Nedbank (down 11%) lagged. Local property counters were on average moderately higher (index up 0.9%) as were UK property stocks (Capital & Counties up 4%, Hammerson up 2.6%, and Intu Properties up 1%).

Bonds (ALBI up 1.5%) underperformed cash (up 1.9%) but outperformed equities (-0.4%) over the quarter. Despite major local policy risks and a weakening economy threatening fiscal stability, strong foreign appetite for emerging market bonds has provided significant support to our bond market. Globally, long-term bond yields have largely stabilized after the uptick in the second half of 2016 (EU and UK rates were marginally higher whilst US rates moved lower).

### **Fund performance and positioning**

Strong contributors this quarter were Naspers, our global stocks, and Datatec. Datatec's share price rose 16.7% over the quarter as the company announced the sale of its developed market hardware distribution business to Synnex Corporation in the US. The sale, of the majority of its Westcon business, was concluded at a very attractive price resulting in good value unlock to shareholders. Key detractors were Northam Platinum, African Rainbow Minerals and Metair.

Our exposure to yield asset classes (bonds, local property and preference shares) also contributed positively. Local equities were the largest negative contributor to performance.

Another strong rise in global stock markets, together with good stock selection, meant a meaningfully positive contribution from our global holdings despite a stronger currency. As in the prior quarter, strong contributors were insurer Esure (up 49.7% year to date), insurance price comparison company Gocompare.com (up 49% year to date) and Chinese ecommerce company JD.com (up 54% year to date). Global pharmaceutical company Novo Nordisk was also a strong contributor.

Against a global backdrop of improving economic growth, high asset prices, rising political uncertainty in many countries, and a potentially disruptive Chinese economic rebalancing, we are 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 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 appropriately positioned. We retain very high exposure to global holdings, 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 and certain platinum group metals ETFs.

We continue to see more attractive risk-adjusted yields in shorter-duration instruments and now have no local government bonds. We maintain a small hedge against our equity exposure and maintain a high exposure to foreign equities.