UP

April 2012

Kagiso Asset Management

Quarterly

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Acknowledgement: The box figures used in the images throughout this quarterly were originally conceptualised by Azuma Kiyohiko, the creator of Japanese comic Yotsuba. Amazon Japan subsequently commissioned Kiyohiko to make the figures into 3D characters.

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Dangerous distortions

Gavin Wood - Chief Investment Officer

"Investors currently face challenging choices and curious contradictions when exposing their assets to the prospective returns financial markets have on offer.

The problems stem largely from government and monetary authority interventions in response to the Global Financial Crisis.

These interventions have driven down prospective returns for investors at a time when the developed world economy is in brittle shape."

Dangerous distortions

Interventions from authorities

In 2008, facing a freezing up of financial markets and global economic activity and the possibility of a second Great Depression, stimulus was unleashed on the world economy on an unprecedented scale.

Governments spent more and taxed less, they bailed out ailing financial corporations and provided incentives for households to spend - racking up huge debt balances in the process. Between 2008 and 2011, the US, the Eurozone and the UK alone increased borrowings by almost US$10 trillion.

Central banks slashed interest rates to stimulate lending and economic activity. They then started buying massive volumes of bonds to bring down long-term rates and provide more liquidity to financial markets. The US Fed even told markets that short-term rates would remain at (practically) zero until 2013 (then revised this to 2014). Between 2008 and 2011, the US Fed, the European Central Bank and the Bank of England expanded their balance sheets, ie bought bonds, by US$4.3 trillion - nearly a threefold increase.

At the same time that central banks are directly helping governments fund their debt at cheap rates, financial regulators are requiring and/or encouraging financial institutions to invest less in equity and more in government bonds. This is via Basel III for banks and Solvency 2 for insurers. Defined benefit retirement funds are also being encouraged to match liabilities more closely with bonds.

These interventions have massively distorted asset prices and therefore prospective investment returns.

Challenging choices

Currently, US investors can choose to earn 0% on short-term deposits, 0.34% per annum on two-year bonds, 2.2% per annum on 10-year bonds or 3.3% per annum if they want to lock their money up in a 30-year bond. This is in an economy with inflation expectations above 2% per annum. Equity valuations look reasonable, but may be deceiving given that corporate profit margins are way above their long-term averages.

In South Africa, we can earn around 5% per annum on short-term deposits (a multi-decade low rate) and around 8.5% on long bonds. This in the context of inflation expectations above 5% per annum and current inflation in excess of 6% per annum. Our equity market is at an all-time high, with the industrial sector looking particularly pricey.

Curious contradictions

These interventions have resulted in contradictions that are historically anomalous and sometimes difficult to justify theoretically, for example:

- The credit rating agency, Standard and Poor's, downgraded the US to below a AAA rating for the first time in history, days after the US government raised its debt ceiling in August 2011 and US bonds subsequently *strengthened* (to record low yields).
- The colossal monetary stimulus has so far had limited impact on broad money supply or on bank credit extension and little discernable impact on global inflation.
- Poorer developing economies, such as the BRIC nations and particularly China, were approached for funding assistance by European leaders at the peak of the 2011 Eurozone debt crisis.
- SABMiller, the world's second largest beer brewer, was able to raise debt capital in January 2012 to finance its acquisition of Foster's in Australia at an interest rate substantial lower than the interest rate on new debt for Italy, the third largest country in Europe.

Sticking with absolute valuations

While the financial market conditions described above have created a fantastic environment for those raising capital, this is a dangerous environment for investors who are providers of capital.

As custodians of our clients' capital, we are particularly vigilant at this time. We will not be seduced by returns that appear attractive relative to alternatives that lock in historically low returns for long periods.

We will only invest where we see attractive returns on a clear absolute basis after careful analysis. To the extent that we do not find such opportunities, we will hold cash balances until such time as prospective returns are clearly attractive again. UP

Distribution: a hidden art in retail

Simon Anderssen - Equity Analyst

"Distribution describes the physical process of getting goods from the supplier's factory gate to the retailer's store shelf. It is something most shoppers take for granted, until it fails and their favourite product is not available.

The costs of distribution are significant and an efficient distribution strategy not only ensures happy customers, but also increased profitability. This is particularly true for food retailers due to the low selling margins and massive volumes (ie the complexity) involved in their businesses."

Distribution: a hidden art in retail

Within the South African food retail sector, distribution has gained extra attention from investors because of the different distribution models adopted by the large food retailers. Over the last decade, Shoprite and on a smaller scale Spar and Woolworths, have invested significantly in a centralised distribution model. In contrast, Pick n Pay has, until recently, maintained a direct-to-store delivery model.

The change in distribution strategy is potentially an opportunity for Pick n Pay to regain the market share it has lost over recent years, mostly to Shoprite, its largest competitor.

To some this represents an attractive investment case, but investors should first understand the challenge that lies ahead for Pick n Pay.

Understanding the different models

The key distinction between a direct-to-store delivery and a centralised distribution model relates to how the product arrives at the store. The charts below show the difference in the flow of goods from various suppliers to a fictional supermarket's stores (XYZ Foods).

In a simplified direct-to-store model, suppliers are responsible for delivering their products to every store. The retailer's employees receive the products and ensure that they are available for customers on the shelves. Customers may recognise this model as a long line of delivery vehicles waiting to offload at the back of the local supermarket.

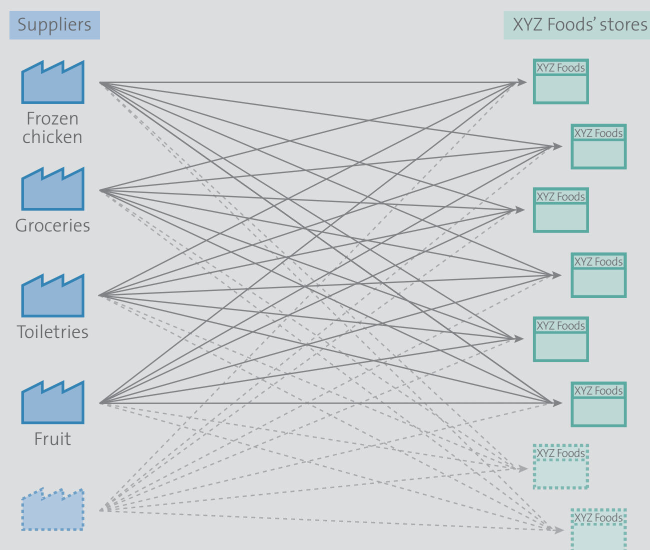
In this model, each store co-ordinates with suppliers for a delivery. There is often a long delay between deliveries, given the number of stores that each supplier must deliver to.

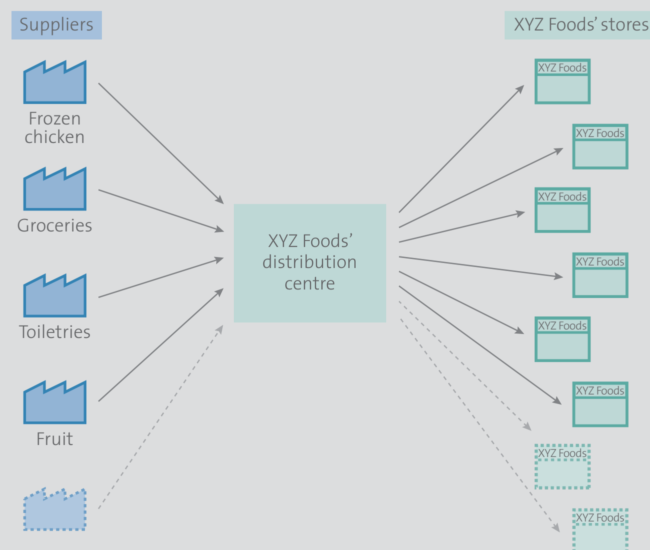
In contrast, in a centralised model the supplier delivers products in bulk to the retailer's distribution centre (a very large warehouse). Here, the retailer is able to maintain and control its own stock levels by consolidating the needs of each store. This means that it can send multiple products to each store with each delivery.

Under a centralised distribution model, each store can receive the same quantity and range of products from fewer individual deliveries. The operational benefits of this model are significant.

The benefits of centralised distribution

The main aim of any distribution strategy is to increase sales by ensuring that the products that customers want are available. Failure to achieve this leads to lost sales and





Source: Kagiso Asset Management Research, Investec Securities

unhappy customers. More frequent deliveries from a central warehouse help stores to replace stock timeously.

However, the benefits of a centralised model extend further. More frequent deliveries of each product mean that each store, and therefore the combined group, can hold less inventory. This is positive for investors because less cash is tied up in idle inventory, allowing management to either invest for future growth or pay dividends to shareholders.

Fewer inventories held in the store also allow a retailer to reduce the size of the storage area (sometimes 40% of the total leased store space). This can result in an increase in the actual trading area, with the potential of higher absolute sales for the same lease cost. It can lead to a reduction in the amount of space leased and therefore a lower lease expense. In addition, fewer deliveries mean less staff to receive and unpack products at the store.

A centralised distribution model will focus equally on improving the process of taking stock from the back of the store to the shelf and on getting the product to the store.

For example, investors may have noticed how the crates that products are unpacked from differ between the country's supermarket groups. This is because they are specifically designed based on each retailer's needs. They are also specifically packed to ensure the contents are unpacked in sequence based on the unique layout of products in each store - saving time in the unpacking process.

Each of these initiatives should translate into higher profitability. However, it is difficult to isolate the impact of a specific distribution strategy on a company's profitability from other trends within a company. This is because the benefits of an efficient centralised distribution strategy extend across an entire organisation.

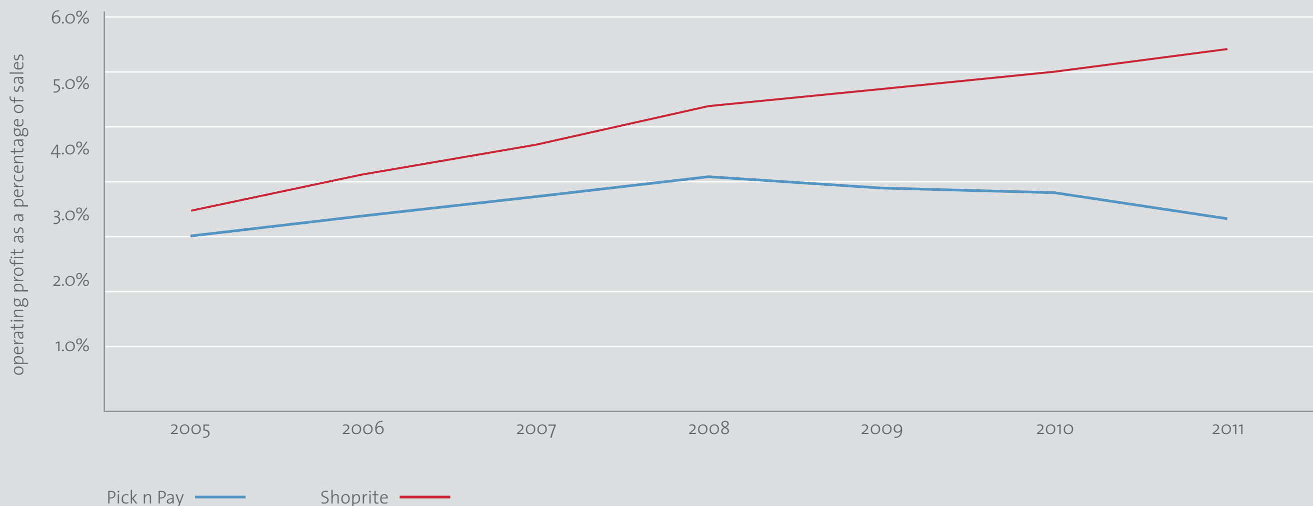
The graph below highlights the expanding gap between Shoprite and Pick n Pay's operating profit margin, which is partly the consequence of their divergent distribution strategies.

Appreciating the challenges

The benefits of a centralised distribution model are not achieved overnight. To appreciate why, it is helpful to consider the scale of the challenges.

Spar, for example, supplies over 800 franchise stores across the country with various categories of products that require different storage environments and logistics.

Operating profit margin



Source: company reports and Cadiz

Distribution: a hidden art in retail

For instance, ice cream has a relatively long shelf life but must be kept frozen, whereas fresh fruit must get to the store quickly but should not be frozen. Yet each of these products must travel to the same store in the same vehicle and pass through the same distribution centre. Add to this equation the reality that each store can have several hundred suppliers, and the complexity of the task increases rapidly.

No quick fix

Overcoming this challenge requires experience. To gain experience, companies need to invest significantly in distribution centres, vehicles, equipment and skills.

Shoprite has consistently increased its capital expenditure to maintain and expand its operations over the last 12 years. The graph below shows how its investment, as a percentage of sales, has increased, while Pick n Pay's has remained relatively constant. Much of this difference can be attributed to Shoprite's investment in centralised distribution centres and the associated infrastructure.

The consequence of this investment profile is that Shoprite currently owns numerous centralised distribution centres with a combined area of over 420 000m^2. Pick n Pay's sole distribution centre in Gauteng is 65 000m^2 and is not yet operating optimally. The group is unlikely to match Shoprite's distribution capacity in the foreseeable future, despite the ambitious expansion plans underway.

This capacity gap is also a proxy for the expertise and knowledge Shoprite has accumulated and embedded in its operations over the last decade.

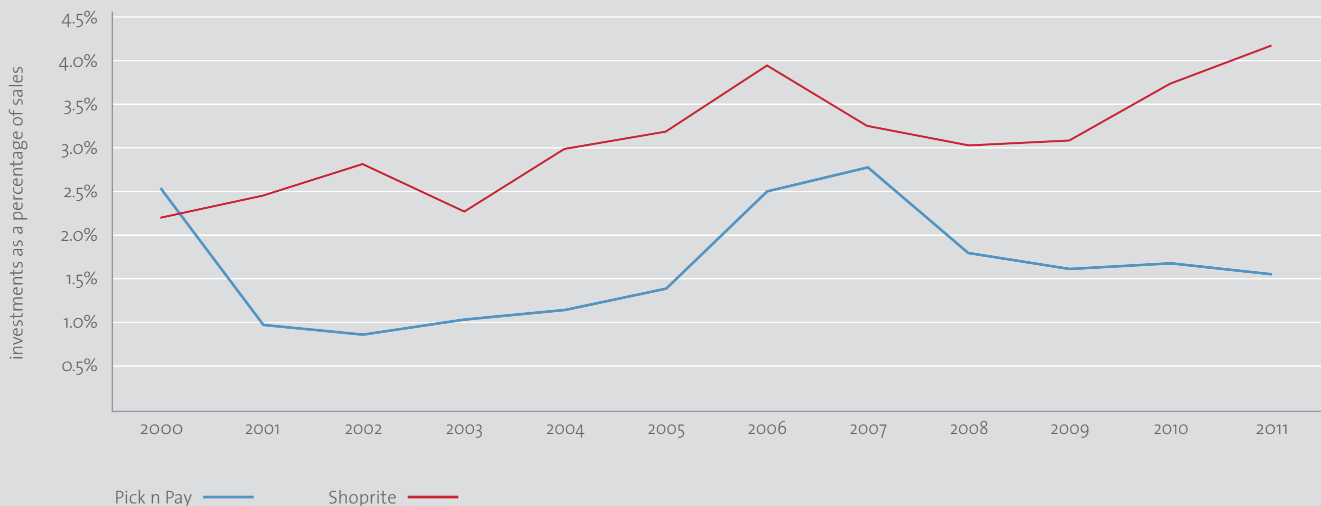
For this reason, it is a surprise that Pick n Pay has decided to outsource all distribution functions to third parties. This is a risk as the retailer may fail to internalise the distribution expertise into its own operations and become dependent on a third party to deliver a core function to the group.

Looking to the future

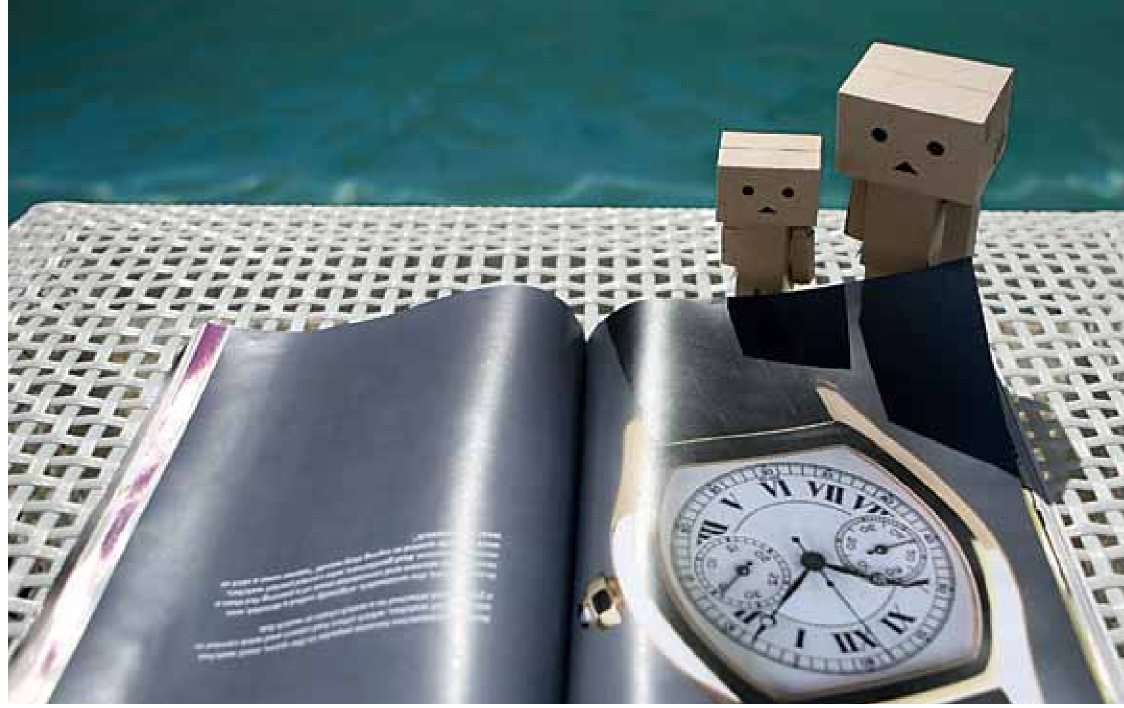
With discipline and time, Pick n Pay's investment in a centralised distribution strategy should translate into increased profitability, after initially consuming significant cash from the business.

The risk is that investors underestimate the many challenges that Pick n Pay still needs to overcome in this journey. One could therefore mistakenly assume that current expenditure on centralised distribution infrastructure will certainly and imminently translate into earnings growth. UP

Capital expenditure as a percentage of sales



Source: company reports and Cadiz



Good times for Richemont

Aslam Dalvi - Equity Analyst

"Richemont operates at the high end of the luxury market, boasting strong heritage brands such as Cartier, Alfred Dunhill, Montblanc, van Cleef & Arpels and Jaeger-LeCoultre. These brands are centuries old, arguably irreplaceable and well recognised among the wealthy worldwide.

The company derives around 95% of its profits from the sale of luxury watches and jewellery. Although Richemont has exposure to 'soft' luxury in the form of leather and clothing, on a profit basis, these products are not significant."

Good times for Richemont

Our investment thesis for Richemont revolves around three pillars: a robust sales outlook (given the company's exposure to the world's wealthy and to fast growing emerging markets), high barriers to entry and an attractive valuation.

Exposure to the world's wealthy

With the high price points for luxury items, high net worth individuals (HNWI)[1] are the main customers for companies like Richemont. Analysing changes in wealth is therefore important in understanding the long-term demand for luxury goods and the growth outlook for Richemont.

Research from wealth consultants, Cap Gemini, shows that - despite the recessions in 2001 and 2008 - the number of HNWI has continued to grow (see chart below). More importantly, their absolute wealth has followed a similar trend and levels are now well above their previous peak in 2007. The trends over the last decade highlight the fact that Richemont's customer base and purchasing power continues to grow, despite the current economic hardships plaguing developed countries.

In line with long-term historic trends, we see the number of HNWI and their wealth continuing to increase. This growth outlook supports our view that luxury goods consumption will remain robust and that Richemont's sales will therefore continue to grow.

Attractive emerging market growth

Luxury sales tend to be highly correlated with GDP growth. As a result, Richemont's exposure to emerging markets, where growth continues to be robust, is another key attraction. We estimate that around 45% of sales occur in emerging markets.

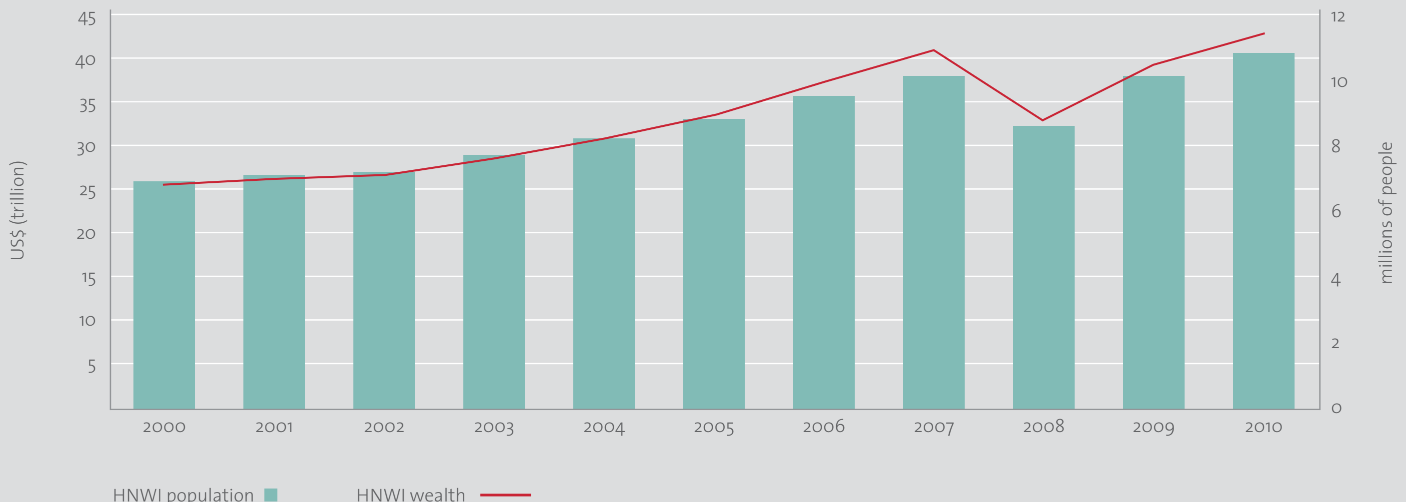
The Asia Pacific region, which accounts for 35% of sales (of which China is the bulk), is particularly attractive from a growth point of view. We believe that the market is underestimating the growth potential in China and other emerging markets.

While it is important to focus on GDP growth, it is also key to analyse the changing wealth structure within countries in order to more accurately assess the potential for growth in luxury demand.

Studies have highlighted that income inequalities have been growing in most developed markets. This means that HNWI' rate of income growth has been significantly higher when compared to that of low income earners.

[1] In the financial services industry, these individuals are generally defined as having liquid financial assets of US$1 million or above.

HNWI growth and wealth trends



Source: Cap Gemini

In the US, for example, income inequality - as measured by the Gini coefficient[2] - has risen from 0.39 in the early 1970s to around 0.46 by the early 2000s. The impact of this change is better understood when looking at how absolute incomes have changed in the US (see graph below).

Research from the Economic Policy Institute shows that, from 1979 to 2007, inflation adjusted incomes of the top 0.1% of US households grew by a massive 390%, while the incomes of the bottom 90% of households grew by only 5%. This material difference explains why consumption growth from the wealthy was significantly higher than other sectors over the period.

It also highlights two other important points that are relevant to our investment case: firstly, over long periods of time, the wealth level of HNWI has grown well ahead of GDP. Secondly, studies that used GDP as a proxy for consumption growth would have materially underestimated the growth potential in the US market.

We argue that this phenomenon is presenting itself in China and several other eastern emerging markets. In China, for example, the Gini coefficient has risen from 0.32 to 0.47 over the last two decades.[3] Given Richemont's exposure to these emerging markets, revenue growth over the medium term should continue to be robust.

High barriers to entry

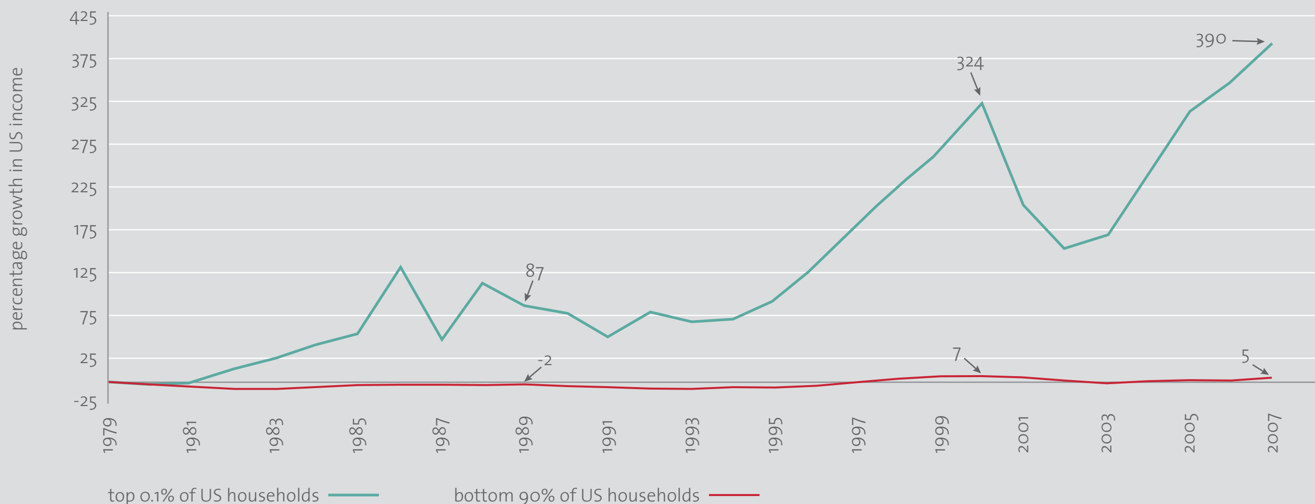
The luxury watch industry has high barriers to entry, which is a hallmark of a good quality business. These barriers exist due to Richemont's strong brands and the technical requirements of manufacturing Swiss mechanical watches.

Unlike most consumer brands in existence today, Richemont's key watchmakers are centuries old. In comparison to a more globally-recognised brand such as Samsung, Richemont's key brands are far older - Cartier was established in 1847 (see additional information on the next page), International Watch Company in 1868, Jaeger-LeCoultre in 1833, Piaget in 1874 and Vacheron in 1755. Replacing these heritage brands today is impossible, making Richemont a premium asset among other consumer-focused companies.

The second barrier to entry relates to the fact that Swiss watches are manufactured to very strict technical criteria by highly qualified and experienced craftsmen. This means that

[2] The Gini coefficient is a number between zero and one that measures the degree of inequality in the distribution of income in a given society (0.0 = minimum inequality; 1.0 = maximum inequality). [3] Income Distribution in the Chinese Economy: Recent Trends and Challenges (2011).

Percentage growth in US income



Source: Economic Policy Institute

Good times for Richemont

these watches cannot be easily manufactured or replicated without the necessary watchmaking skills, which are in short supply.

Strong balance sheet and attractive valuation

We estimate that the company will have over €3 billion in cash on its balance sheet when it reports within the next few months. This equates to around 12% of its current market capitalisation.

If we strip out the cash from the valuation, we find that Richemont is currently trading on a normalised price:earnings (PE) ratio below 15x. This is an attractive valuation when compared to the broader South African industrial sector at 18x and Richemont's historical average PE of 22x.

Key risks and conclusion

While the fundamentals of our investment case for Richemont are positive, there are some concerns. In particular, these relate to the degree to which sustainable economic activity will be impacted by the deleveraging facing developed countries.

Richemont's sales are dependent on a strong economy and slowdowns in sales severely impact the company's earnings, given its high fixed cost base.

Despite these risks, we are confident that, over the medium to longer term, the company will continue to deliver robust sales and earnings growth. Richemont provides investors with access to a quality business with strong fundamentals at a fair price. UP

Cartier

Cartier is one of Richemont's most prized assets, with a rich history dating back to the early 19th century. The business started as an upscale jeweller, before evolving into a fully integrated watch and jewellery company.

Cartier's history begins with Louis Francois Cartier (1819-1904) who, in 1847, officially opened the business in Paris. Early on, the company was very successful as it expanded to the more fashionable Palais-Royal district. Its reputation for fine jewellery and high craftsmanship immediately set the brand apart from others and later Cartier became known in certain circles as the 'Jeweller of the Kings'.

Alfred Cartier, Louis' son, took over the business in 1874, but it was Alfred's three sons who later turned the company into a global empire. Over the next century, Cartier expanded with new branches opening in New York, London, Moscow, Hong Kong and Geneva. The strength of the brand was already evident when Cartier continued to expand throughout the First World War, opening branches in Cannes and Monte Carlo.

By 1968, Cartier had evolved from a family business into a multinational organisation. In 1972, after the death of the last of Louis' sons, a financial syndicate acquired Cartier. Johan Rupert (current Executive Chairman of Richemont) was part of the syndicate and this transaction effectively marked the beginning of Richemont and Cartier's relationship.

Oil: the pain of rampant fuel prices

Abdul Davids - Head of Research

South African motorists are keenly aware of how much it is currently costing them to fill up their vehicles at the pumps.

With the dollar/oil price above US$120 per barrel and the prospect of higher fuel levies, domestic retail fuel prices have surpassed their previous peak of July 2008 and have exceeded R11 a litre for the first time.

The burning questions for motorists are: what is driving the oil price and, more importantly, will it decline in future?

Oil: the pain of rampant fuel prices

The fuel price in South Africa is linked to the price of fuel quoted in US dollars at refining centres in the Mediterranean area, the Arabian Gulf and Singapore. Consequently, domestic fuel prices are influenced by international crude oil prices, international supply and demand balances for petroleum products, and the rand/US dollar exchange rate.

With the recent increases in the fuel and Road Accident Fund levies, taxes account for an additional 48% of the basic fuel price. However, the single largest determinant of domestic retail fuel prices remains the US dollar price of crude oil.

Oil supply - a concentrated market

Crude oil is a fossil fuel and differs from many other commodities in that each barrel of oil produced is consumed and needs to be replaced.

Most other commodities, such as copper and platinum, can be recycled, thereby providing an additional source of supply.

Global oil supply is dominated by conventional crude oil producers such as Saudi Arabia and other oil-exporting countries, mostly Organisation of Petroleum Exporting Countries (OPEC) member countries.

However, non-conventional sources of oil supply such as oil sands, coal-to-liquids and gas-to-liquids are becoming increasingly profitable given the higher oil prices.

The Middle Eastern OPEC members, led by Saudi Arabia, control around 55% of the world's conventional oil reserves and around 50% of crude oil reserves, including oil sands.

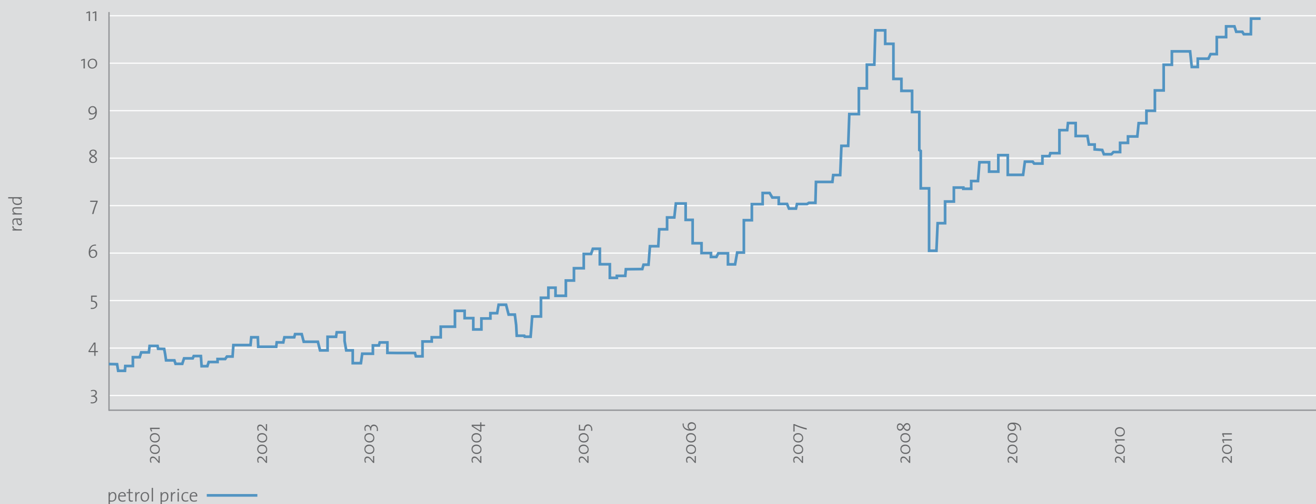
These countries currently supply around 40% of the daily global oil supply of roughly 87 million barrels of oil. They remain the lowest-cost producers of crude oil.

However, geopolitical concerns around potential supply disruptions from the Middle East have impacted crude oil prices. Saudi Arabia is the biggest oil producer and has sufficient spare capacity to replace any shortfall from other OPEC countries.

OPEC's cartel-like structure and production constraints in Iraq and Libya have ensured that oil prices remained relatively high over the past years, despite the weak state of the world economy.

OPEC's willingness to be the swing producer (ie it produces the difference between the demand for oil and the supply from non-OPEC sources) and to cut production during periods of

Retail petrol price



Source: Department of Energy, INet

weaker demand has provided significant price support in more recent years.

The biggest risk to this supply discipline is a repeat of the mid-1990s, when there was disunity within OPEC and oil prices dropped to below US$20 for lengthy periods of time.

Non-OPEC producers' share of global supply peaked at around 70% in 1986 and has been declining ever since. This market share is forecast to decline further to below 40% of global supply by 2013.

The emergence of non-conventional sources of oil like oil sands and, more recently, shale oil, has partly been driven by higher oil prices and by technological advances such as horizontal drilling techniques. These unconventional sources of oil supply are expected to have a dampening effect on oil prices in future years.

US dominates oil demand

The US is the largest importer and consumer of oil at around 29% of daily oil demand. US oil demand growth has been muted at around 1% per annum over the last five years.

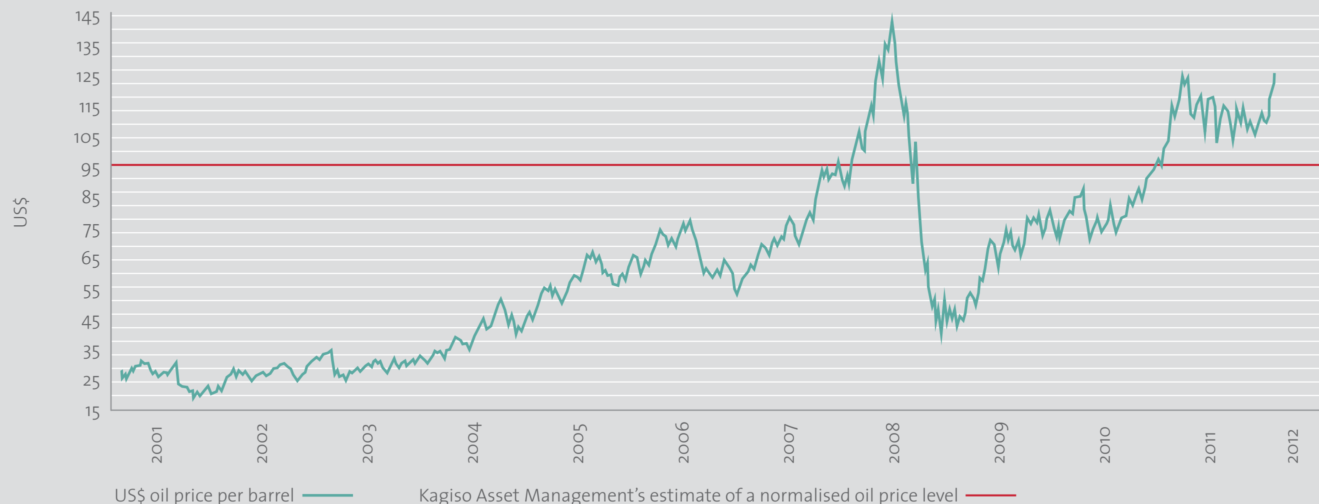
Global oil demand has been increasing at around 2% over the same period, with Chinese demand, which has been advancing at around 5% over the last five years, dominating overall demand growth. As a result, China accounts for around 9% of global oil demand.

China's oil demand market share is fairly low compared to its demand market share in other commodities such as copper and iron ore. This is mainly due to the low passenger vehicle penetration compared to other developed countries.

Global oil demand contracted by 1.4% in 2008/2009 as record high oil prices contributed to demand destruction and alternatives to crude oil became more viable. Many oil-importing countries are actively seeking ways to reduce their dependency on crude oil and are investing in hybrid and electric motor technology.

These initiatives are likely to contribute to further demand destruction in the future. However, crude oil will continue to benefit from robust demand as long as the internal combustion engine dominates global transportation.

Longer-term Brent Crude oil price



Source: INet

Oil: the pain of rampant fuel prices

Determining a 'normal' oil price

The graph on the previous page highlights the longer-term Brent Crude oil price in US dollar terms, together with our estimate of a normalised level for the oil price (represented by the solid horizontal line).

Constrained oil supply and robust demand growth contributed to oil prices reaching record levels in July 2008 (together with significant speculative activity). In the aftermath of the 2008 global recession, oil prices plummeted as speculators unwound their positions and concerns around global growth impacted on oil demand forecasts.

Oil prices rebounded strongly in 2009 and have subsequently been on an upward trajectory. This is because OPEC countries require oil prices to be at around US$100 to balance their fiscal budgets.

These budgetary requirements, together with supply discipline, should result in oil prices remaining above US$90 per barrel for the foreseeable future. In addition, the high cost of bringing on non-conventional oil supply like Canadian oil sands entrenches OPEC's dominance of the oil supply cost curve.

This is highlighted in the chart below, which depicts the major oil producers and their respective cost of production (the size of the bars represents the size of the country's oil reserves).

Saudi Arabia is the largest and lowest cost oil producer with a cost of production of around US$45 per barrel of oil. However, the country required an oil price of around US$70 to balance its budget in 2010.

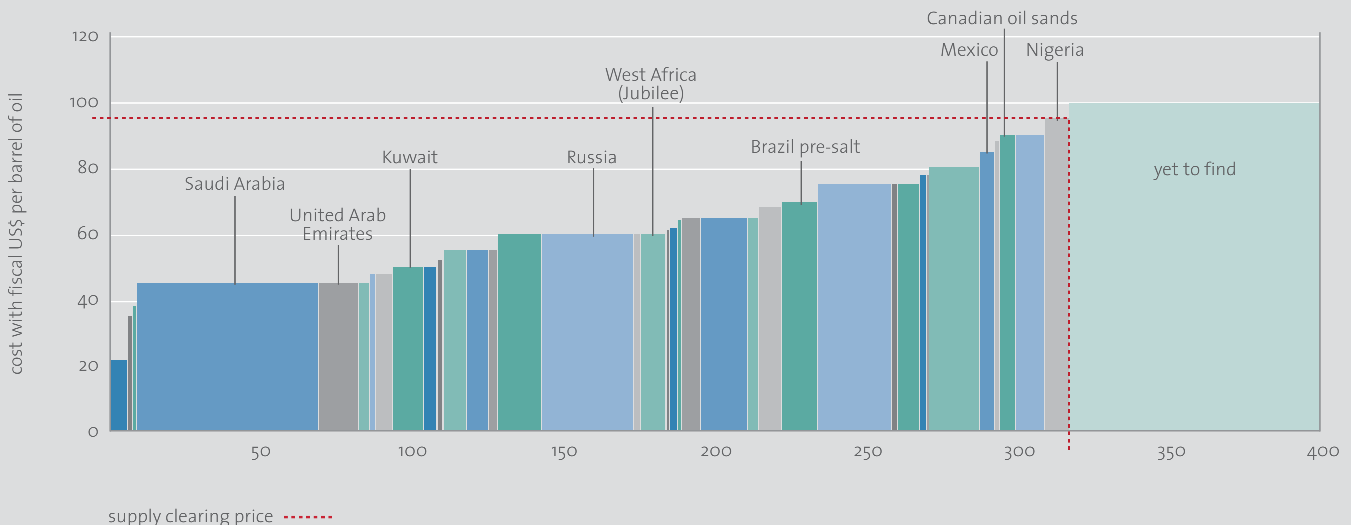
Conclusion

In summary, geopolitical tensions around Iran and other Arab countries have contributed to the current elevated oil prices. Any resolution of these tensions should result in a substantial price reduction in the short term.

In the medium term, a recovery in global economic growth will support oil demand and oil prices. Over the longer term, oil prices will be determined by the marginal cost of non-conventional oil and OPEC's fiscal requirements.

South African motorists are currently hard hit by record fuel pump prices. However, the good news is that oil prices should retreat and stabilise at around US$95 per barrel in the near future, providing much-needed relief. UP

Cost curve of future oil supply



Source: International Energy Agency, Deutsche Bank

A golfing pilgrimage

Roland Greaver, Chief Executive Officer

"Last year I was fortunate enough to tick off a high ranking personal 'bucket list' item when I attended the 'British Open', which was recently renamed the 'Open Championship' golf tournament. What an unforgettable experience!

The Open Championship is the most important and highly regarded of the four 'major' golf tournaments of the year (the Masters, the US Open, the British Open and the PGA Championship) and takes you back to the origins of the game."

A golfing pilgrimage

US golfer, Lee Trevino, commented: 'To me, the British Open is the tournament I would come to if I had to leave a month before and swim over.'

The 2011 tournament was not contested at St Andrews - the oldest golf course in the world and one of the premier golf clubs in the UK - but took place at the equally grand Royal St George's golf club, located in a small town called Sandwich, on the east coast of England.

This club was founded in 1887 in a setting of wild dune lands. Its 'challenge trophy', which dates back to 1888, is one of the oldest trophies in golf. The club was awarded royal status by King Edward VII in 1902.

Links course

The distinguishing feature of the tournament is that it is played on a links course, which is the oldest style of golf course, originating in Scotland. The word links comes via the Scottish language from the old English word 'hlinc' - 'rising ground or ridge' - and refers to an area of coastal sand dunes and sometimes to open parkland.

Traditional links courses are built along the seaside, laid out naturally (ie the undulating fairways and greens have many unusual bumps and slopes), and have numerous deep bunkers or 'pot' bunkers to prevent the coastal winds from blowing the sand away.

Volatility

The Open Championship on a links course presents a huge challenge for even the most experienced golfer due to the unpredictable and, at times, extremely volatile weather.

Many a great US player has taken some time to embrace the Open Championship. When Bobby Jones first played the old course at St Andrews, he tore up his scorecard in disgust. Only many years later did he come to love it.

Howling gales

With this in mind, I had high expectations for an exciting tournament and was not disappointed. During the final two days, players were challenged to the extreme with howling gales, which had spectators frequently running for cover.

I tried to persevere but my waterproof gear was not nearly enough protection from the cold, blustery winds that came in from the ocean. Playing conditions were at their worst and I developed a new respect for the professionals who managed to skilfully chip and drive the little white ball so that it flew low into the wind, achieving much shorter distances than normal.

The caddies had to be adept at umbrella management, failing which many an umbrella landed up in the 'brolly graveyard' on a designated spot on the course.

Three-shot victory

Irish golfer, Darren Clarke, won the tournament in a three-shot victory, much to the delight of the locals. At one stage in the game, Clarke was challenged by US counterpart, Phil Mickelson, who made a charge and tied Clarke for the lead. The atmosphere in the stands became extremely tense but Clarke managed to post back-to-back birdies to eventually secure the trophy.

Looking back

I left the UK reflecting on the experience I'd had: the combination of the spectacular but difficult terrain of the tournament, the volatile weather conditions and the determination of the players, who stuck to their game plan despite extreme conditions.

It was hard not to draw parallels with the investment world. Posting a good score on a links course in rough weather conditions is similar to trying to achieve one's desired outcome with a well-constructed investment portfolio in the current market environment.

I resolved to make St Andrews the next destination for my 'golfing pilgrimage', especially if the visit can be combined with playing a round or two before or after the tournament. UP

Kagiso Asset Management Funds

Performance to 31 March 2012	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Collective Investment Scheme Funds[3]						
Equity funds						
Equity Alpha Fund	9.8%	25.1%	10.0%	23.1%	26-Apr-04	1.46%
Domestic Equity General Funds Mean	9.5%	20.4%	6.1%	17.1%		
Outperformance	0.3%	4.8%	3.9%	6.0%		
Islamic Equity Fund	3.8%	-	-	17.7%	13-Jul-09	1.31%
Domestic Equity General Funds Mean	9.5%			18.0%		
Outperformance	-5.6%			-0.4%		
Asset allocation funds						
Balanced Fund*	-	-	-	10.0%	3-May-11	n/a
Domestic AA Prudential Variable Equity Funds Mean				7.8%		
Outperformance				2.2%		
Islamic Balanced Fund*	-	-	-	0.4%	3-May-11	n/a
Domestic AA Prudential Variable Equity Funds Mean				7.8%		
Outperformance				-7.4%		
Protector Fund	2.2%	9.6%	6.0%	11.5%	11-Dec-02	1.46%
CPI + 5%[4]	11.2%	10.2%	12.1%	10.9%		
Outperformance	-9.0%	-0.6%	-6.0%	0.6%		
Stable Fund*	-	-	-	8.7%	3-May-11	n/a
Return on large deposits**				6.8%		
Outperformance				2.0%		
Institutional Funds[5]						
Equity funds						
Managed Equity Fund	10.1%	25.0%	10.0%	14.5%	1-Sep-06	
FTSE/JSE SWIX All Share index	11.6%	22.6%	8.0%	12.4%		
Outperformance	-1.5%	2.4%	2.0%	2.2%		
Core Equity Fund	9.9%	23.4%	9.0%	19.9%	1-Nov-04	
FTSE/JSE SWIX All Share index	11.6%	22.6%	8.0%	18.9%		
Outperformance	-1.7%	0.7%	1.0%	1.0%		
Asset allocation funds						
Domestic Balanced Fund[6]	10.8%	22.4%	-	9.4%	1-May-07	
Peer Median[7]	13.1%	22.5%		9.2%		
Outperformance	-2.2%	-0.1%		0.2%		

[1]Annualised; [2]TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling 12-month period to 31 December 2011; [3]Source: Morningstar; net of all costs incurred within the fund; [4]CPI for March 2012 is an estimate; [5]Source: Kagiso Asset Management; gross of management fees; [6]Domestic Balanced Fund and benchmark returns to 29 February 2012; [7]Median return of Alexander Forbes SA Manager Watch: BIV Survey; * These funds were launched on 3 May 2011 and, therefore, performance figures since inception are not annualised; ** Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

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