UP

April 2013

Kagiso Asset Management

Quarterly

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FirstRand leads on innovation

Jihad Jhaveri - Investment Analyst

"FirstRand is a financial services holding company that owns industry-leading businesses in South Africa: an innovative retail and business bank (FNB), a very successful vehicle instalment finance business (Wesbank) and a well-respected investment bank (RMB).

The group has distinguished itself from its competitors by its strong focus on innovation and service to clients. The business' outperformance from a brand and a product perspective has, importantly, translated into superior financial performance."

FirstRand leads on innovation

Our clients' portfolios have benefitted from a large weighting in FirstRand shares over the last few years. A key reason for the group's financial outperformance has been a very successful retail customer acquisition strategy that has translated into increased sustainable profits. In this article we look at FirstRand's retail strategy, as summarised in the chart below.

Success in acquiring more customers

FirstRand has a well thought out and well executed strategy for attracting new customers. At the centre of this strategy is product innovation, an area where the bank has managed to add value to customers:

- FirstRand was first to market with a fully functional banking application for tablets and smartphones. It complemented this software development with a tablet offering. As a result, the bank quickly became the largest Apple retailer in Africa.
- The group greatly strengthened its rewards programme (eBucks), which was well received by customers.
- The bank successfully overcame customer inertia around moving bank accounts by ensuring that it had the infrastructure in place to accommodate large volumes of new customers. This infrastructure allowed FirstRand to offer high levels of assistance to new customers in the process of switching banks.

These efforts to acquire new customers were successful, with FirstRand's total number of transactional account customers increasing by 9% for the year to June 2012. Other banks have also claimed to grow clients over this period but, for us, the true success of FirstRand's strategy is the value that the group has been able to derive from the increase in clients.

Benefits of increased customer base

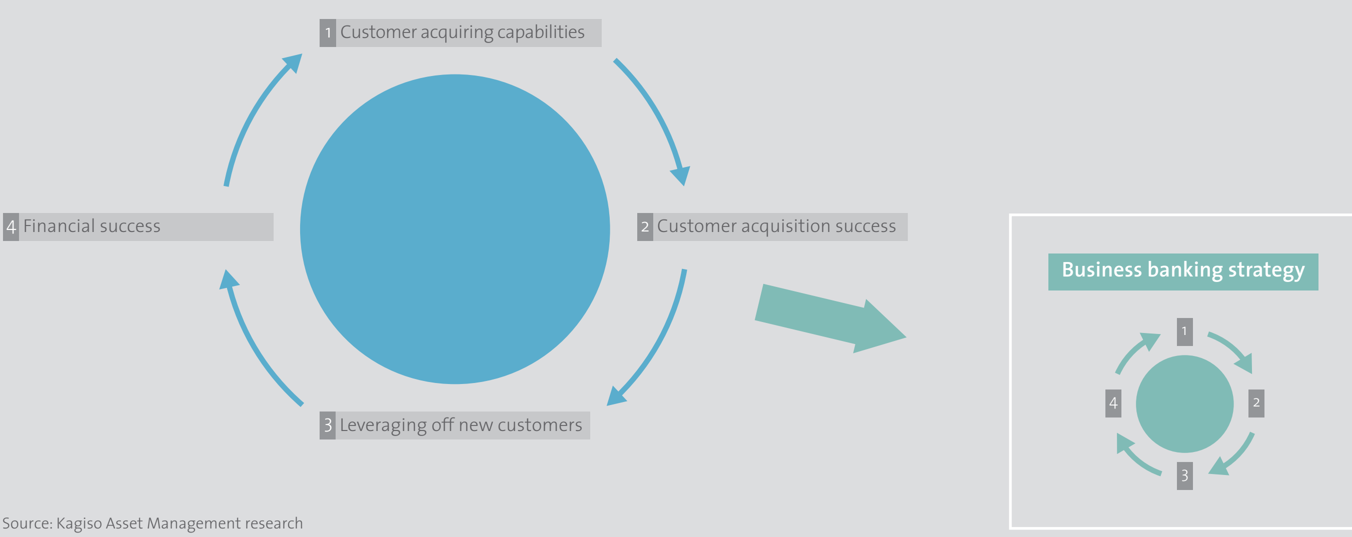
Bigger market share of retail deposits

Due to the relatively low discretionary savings rate in South Africa and the higher degree of contractual savings, a large portion of the available funding for banks comes from institutional markets (pension funds, provident funds and asset managers).

This institutional funding is more costly than retail and corporate deposits. An important spin-off from FirstRand's retail strategy is that the group has been able to attract valuable retail deposits.

Over the two years to June 2012, FirstRand as a whole has been able to decrease its exposure to expensive institutional funding to 37% of total funding from 40%, while increasing corporate, SMME, and (importantly) retail funding exposure. The chart on the opposite page (left) shows the meaningful growth in the group's market share of retail deposits over this period.

Retail banking strategy



Source: Kagiso Asset Management research

Driving customers towards electronic banking

By design, the target market for the marketing drive is consumers with a tendency to use electronic banking channels rather than the more expensive physical branch channels. The pricing of the fee packages and the great functionality of the banking applications reinforced this behaviour.

For the year to June 2012, the volumes of branch transactions were largely flat, while electronic transactions were up 12.3%. Driving large numbers of consumers towards lower cost banking channels has helped FirstRand control expenses better than its competitors.

Financial success

Importantly, we have seen that the success of the group's retail strategy has translated financially into increased retail revenues relative to the other large retail banks. The chart below (right) shows that FirstRand has gained significant market share of retail revenues. Revenues are defined as net interest income together with non-interest revenue (NIR), which is made up of fees and commissions that are generated by customer activity. NIR does not require the bank to place its balance sheet at risk and is therefore an extremely valuable source of revenue. It is also important to note that, within total revenue, FirstRand's market share of retail NIR has grown.

Due to disclosure norms, retail revenue includes vehicle asset finance (VAF). Although FirstRand's Wesbank has been a remarkable success story over the last few years, excluding VAF, retail market share gains at the bank have still been strong.[1]

A virtuous cycle

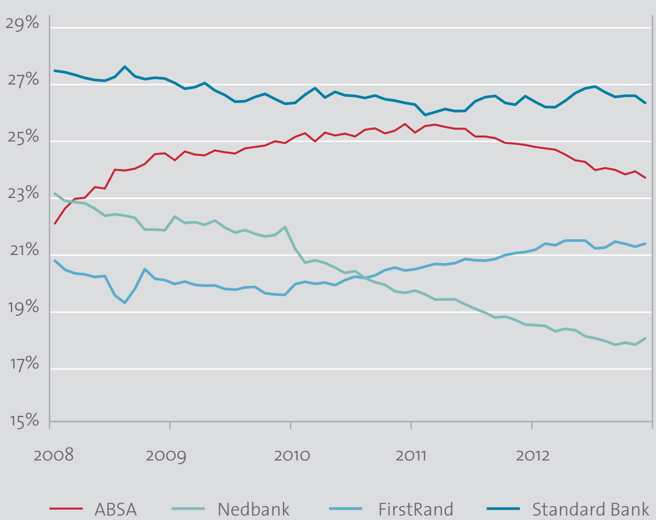
As FirstRand acquires more clients, there are economies of scale in the business which reinforce the positive features described. In an environment of increased regulatory and competitive pressures on retail fees and margins, this allows the group to plough back some of its gains into more competitive pricing for its customers, leading to a 'virtuous cycle'.

FirstRand's next focus is to take the basic ingredients of the successful retail drive and target increased business banking market share in a similar way. The group also plans to roll out technology-based innovations into Africa and India. Zambia is bracing itself for a 'Steve-style' advertising campaign to encourage switching and to highlight FNB's innovations.

History has shown that market share gains and losses are cyclical and we are acutely aware that all of the large retail banks are extremely strong players. Nevertheless, we expect FirstRand's positive operational momentum to yield further success. UP

[1] Market share statistics excluding VAF do not include Nedbank due to disclosure differences.

Market share of retail deposits



Source: BA900 Reserve Bank data, SBG Securities and Kagiso Asset Management research

FirstRand's market share of retail revenues

Source: Company reports and Citibank research

Tobacco stocks set for further growth

Aslam Dalvi - Investment Analyst

"A glance at the tobacco industry would suggest relatively weak fundamentals given increasingly aggressive regulatory pressure and rapidly falling demand.

While these are valid concerns, a more detailed analysis reveals why, despite these risks, the tobacco industry has been among the best performing stock market sectors over the last decade."

From 2002 to 2012, earnings in the global tobacco industry increased by 12% per year, while shareholder dividends grew at a slightly higher rate of around 14% per year. The key to this performance has been strong pricing power, which has allowed tobacco companies to offset volume and cost pressures by increasing prices.

Over the next decade, pricing power will remain the most important lever to mitigate the effects of regulation and rapidly declining volumes. This structural advantage, driven largely by the tax regime in place for tobacco, should ensure another decade of profit growth for the industry.

Tobacco consumption

In terms of volumes, tobacco is a declining industry. Lower consumption has been driven primarily by deteriorating affordability, heightened awareness of the health risks associated with smoking and stricter regulation.

Over the last 15 years, prevalence, which measures the number of smokers per 1 000 people, has been steadily declining. According to research by Euromonitor, global prevalence has declined from around 24% in 1997 to 22% currently. Per capita consumption (PCC), which gauges cigarettes smoked per person per year, tells a similar story. With the exception of China, PCC has been declining by around 2% per year since 2001.

The outlook for tobacco consumption remains weak and we expect the number of smokers to decline rapidly over the next two decades. This is supported by the fact that prevalence among young people, aged 16 to 24 years, has declined twice as fast as the average rate of decline of the broader smoking population. Consequently, as older and higher PCC smokers ultimately exit the smoking population, there is a lesser corresponding uptake from younger smokers, leading to a gradual acceleration in volume declines.

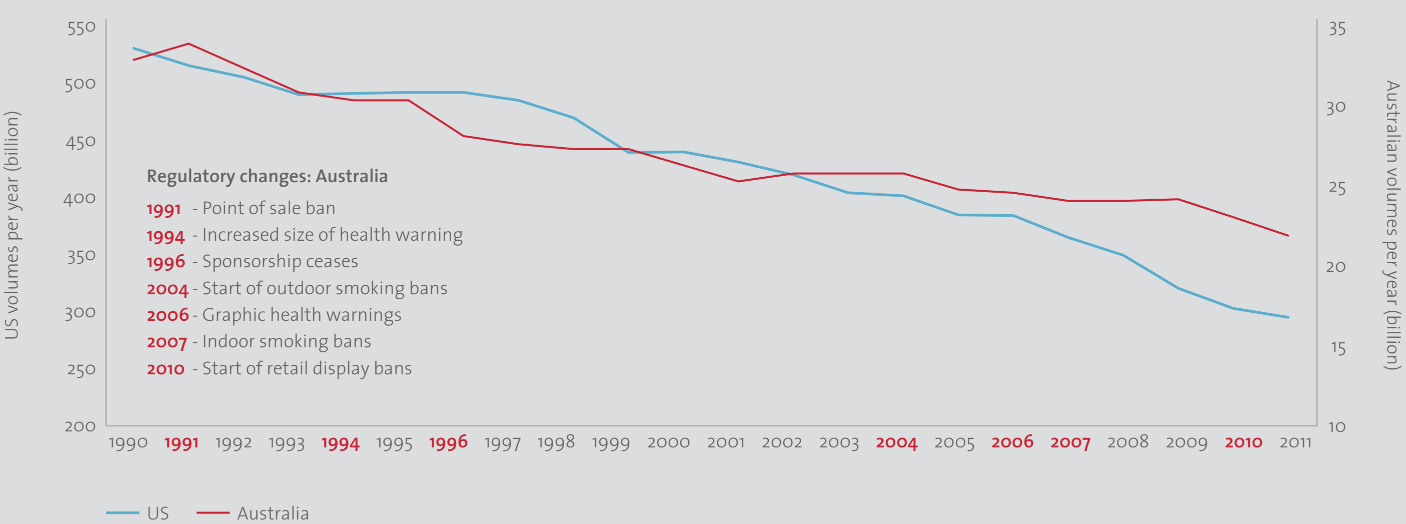
Regulation

Regulation is a key industry concern, especially the new developments around plain packaging. Current adverse regulations can be traced back to the publication of the Doll Report in 1950. This report is widely considered as the first academic study to firmly establish smoking as a key cause of lung cancer.

A few years after the Doll Report was published, this view became more widely accepted and governments began to tighten regulation in the industry.

In 1965, the US passed the Federal Cigarette and Advertising Act, which required a generic health warning to be placed on all cigarette packs. In the early 1970s, we started to see a ban on radio and television advertising. The first graphic health warnings followed in the early 2000s. Public smoking bans

US versus Australian volume comparison



Source: BofAML, Avior and Kagiso Asset Management research started in 2004 and retail display bans came into force in 2010. Last year (2012) was another important regulatory year, with the introduction of plain packaging in Australia.

Plain packaging

Plain packaging regulation covers the aesthetics of tobacco packaging with prescribed colours, fonts, graphic warning sizes and layout. Investors' concerns about plain packaging centre on the commoditisation of the industry, which will likely lead to down trading and an increase in illicit trade. Both of these outcomes will negatively affect industry profitability. While we share these concerns, we believe it is important to consider the historical impact of regulation.

Effect of regulation

Empirical evidence does not seem to support the contention that increased regulation leads to a sharper decline in prevalence. For example, a comparison of volume performance in Australia and the US shows little difference in the long-term rates of decline despite more relaxed tobacco regulation in the US (see chart on the previous page). A 2011 study by Deloitte, which focused on the impact of packaging regulation, also found little evidence that these regulations had any long-term effect on consumption trends. The research covered 27 countries from 1996 to 2009.

Pricing power and industry structure

In our view, pricing power is a structural advantage that can be used by the industry to offset volume weakness and regulatory pressure. The high level of pricing power is a function of the high taxes applied to tobacco products and a very favourable industry structure. To fully understand this, we need to review the pricing structure of a typical pack of cigarettes (see chart below).

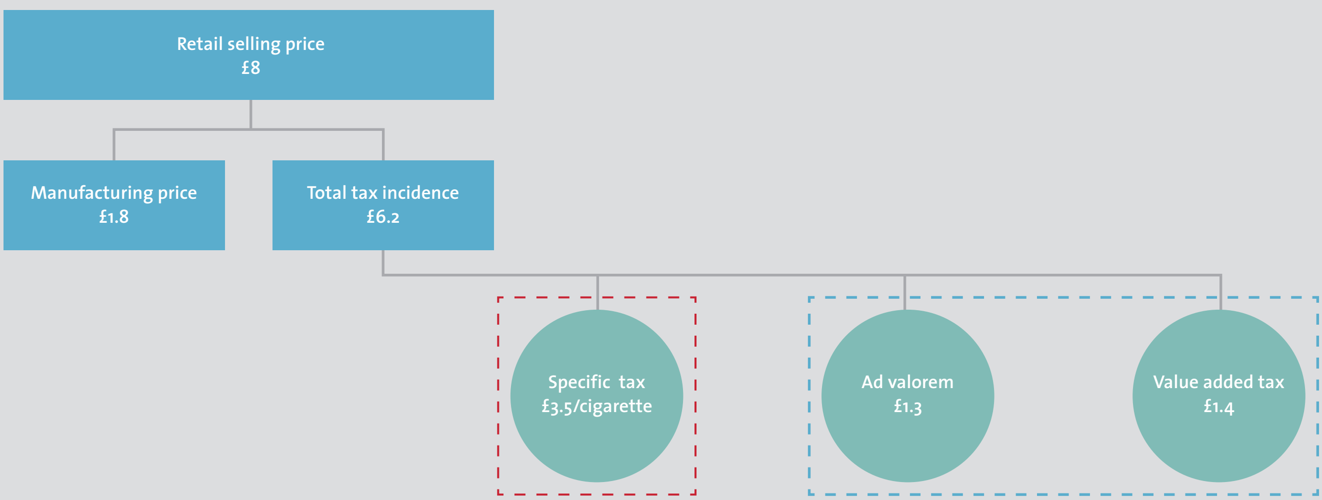
The retail price of cigarettes can be broken down into two parts - the manufacturing price and the tax component. The tax component can be further broken down into a fixed component (often referred to as a specific tax), and a variable component such as VAT, which is calculated as a percentage of the retail selling price.

A key contributing factor to pricing power is the high tax component in a typical pack of cigarettes. As shown in the chart, the tax component in a typical pack of cigarettes in the UK constitutes around 80% of the retail selling price (the retail price of a pack of cigarettes is £8, with the manufacturing price at £1.8 and the tax component at £6.2).[1]

The leverage or pricing power comes from the fact that a manufacturing price increase of 10% would only increase the retail selling price by around 2%. This favourable pricing

[1] (as at March 2013)

Typical pricing structure of a pack of UK cigarettes



Source: Kagiso Asset Management research dynamic provides manufacturers with significant room to manage their share of the proceeds and is further strengthened if the tax regime has a high fixed tax component. Under a fixed tax structure, the tax component remains unchanged as manufacturers increase their share of the proceeds, leading to significantly more leverage as the final retail price changes by only a fraction of the manufacturing increase.

This leverage is the key reason for tobacco companies' success in growing profits despite significant volume pressure.

We can see the successful implementation of this when looking at markets such as the UK, Australia and Canada. In the UK, despite volume declines of around 40% over the last 15 years, net sales for Imperial Tobacco have grown to £936 million from £623 million (see chart below). The experience is similar in Australia, where despite industry volumes declining by 30% since 1990, industry net sales have grown to approximately AUS$2.5 billion from AUS$250 million.

Importantly, pricing power for tobacco companies tends to increase over time. This is due to the fact that taxes generally grow ahead of manufacturers' proceeds, leading to tax representing an ever larger share of retail prices. This is again evident when looking at a market like the UK, where tobacco tax has risen to around 80% of retail prices from just 73% in 1991.

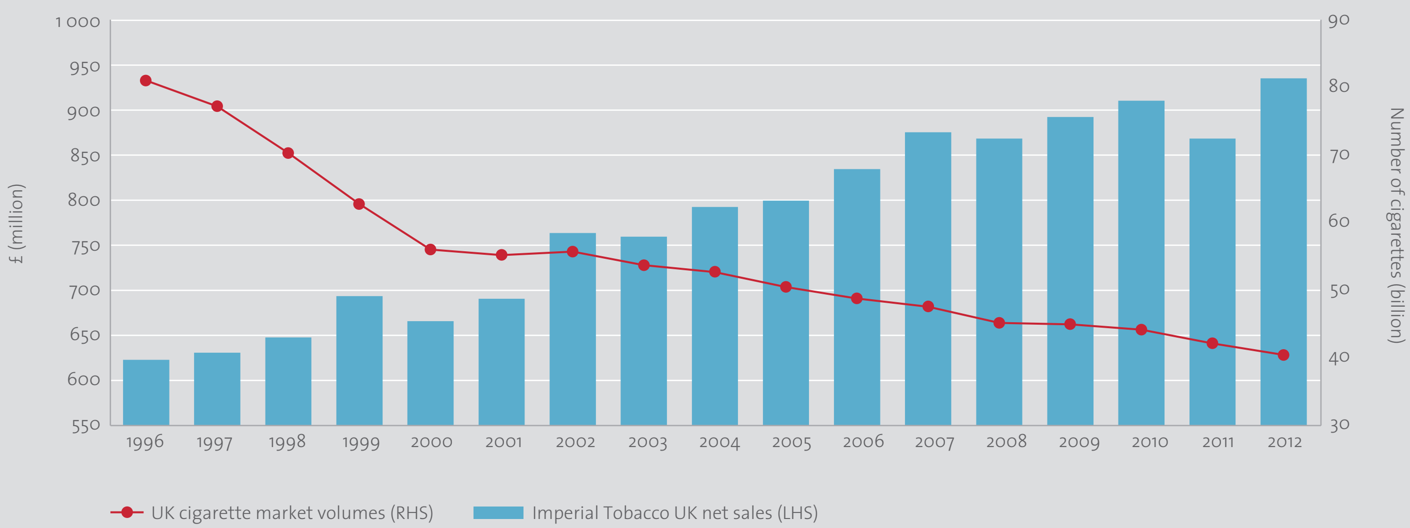
Also contributing to tobacco industry pricing power is a benign competitive environment as a result of a highly consolidated and concentrated industry structure. The top four largest tobacco companies currently account for 70% of the estimated 6.1 trillion cigarettes sold annually across the world. Limited competition on pricing between formal tobacco producers is very good for profitability prospects.

Positive outlook

Despite a weaker volume outlook and uncertainty around regulation, tobacco companies have sufficient pricing power to manage these challenges and grow earnings.

South African investors can invest in the global tobacco industry through locally-listed British American Tobacco (BAT). The company benefits from pricing power and is reasonably well positioned from a regulatory and volume decline point of view. We estimate that around 70% of BAT's profits come from emerging markets, where regulatory pressures are lower and volume decline prospects are less severe. In a market where the broader consumer staples universe is expensive, tobacco stocks remain attractive. UP

UK volumes versus Imperial Tobacco UK net sales



Source: BofAML and Imperial Tobacco

Unsecured lending: gathering clouds

Simon Anderssen - Investment Analyst

Unsecured lending is a risky business. Unlike secured debt (loans with a home or car as collateral), if a borrower is unable to repay an unsecured loan, the lender has no claim on the borrower's assets and may have to write off the full amount of the outstanding loan.

While lenders have some recourse should borrowers default on payment, the law ultimately provides borrowers with various forms of protection.

To compensate for this risk, lenders can charge hefty interest rates on unsecured loans, often three times higher than on secured debt. While these loans are being repaid, the high interest rates generate very attractive returns for lenders, which in turn attracts many new lenders to the unsecured market.

Over the last three years, the big four banks have aggressively marketed their unsecured lending products to challenge the established specialised unsecured lenders, such as the furniture retailers, Capitec and African Bank. Numerous new lenders have also emerged, ranging from insurance companies to low-income clothing retailers.

Supply responds to profit

In just over three years, personal loans have rocketed from R41 billion in 2008 into a R140 billion unsecured liability against the balance sheet of South African households (40% per year). This value of unsecured credit is comparable to the value of the outstanding debt supporting all the cars we see on our roads. Yet, unlike vehicle finance, there are no assets backing this liability should borrowers run into financial difficulty.

The National Credit Act (NCA), which was introduced in 2007, was a key enabler of the growth in unsecured loans. The NCA set up a favourable regulatory framework for the industry and increased the rate that lenders could charge on unsecured loans. It also formalised additional fees that significantly increase the overall returns earned on unsecured loans.

Demand supported by a structural shortfall

Clearly, unsecured credit would not have grown so substantially had there not been significant demand. The weak financial position of most South African households has fuelled demand for expensive, easily-accessible credit. Record low interest rates have also raised the average loan balance for a given instalment.

The chart below shows household net income (after deducting expenses, taxes and the cost of debt) per income decile[1]. In 2005, net income was negative for 90% of households in South Africa. Remarkably, in 2012 it is still negative and has in fact worsened for 80% of households. The easiest way for a household to consistently fund the shortfall between income and expenses is to take on debt.

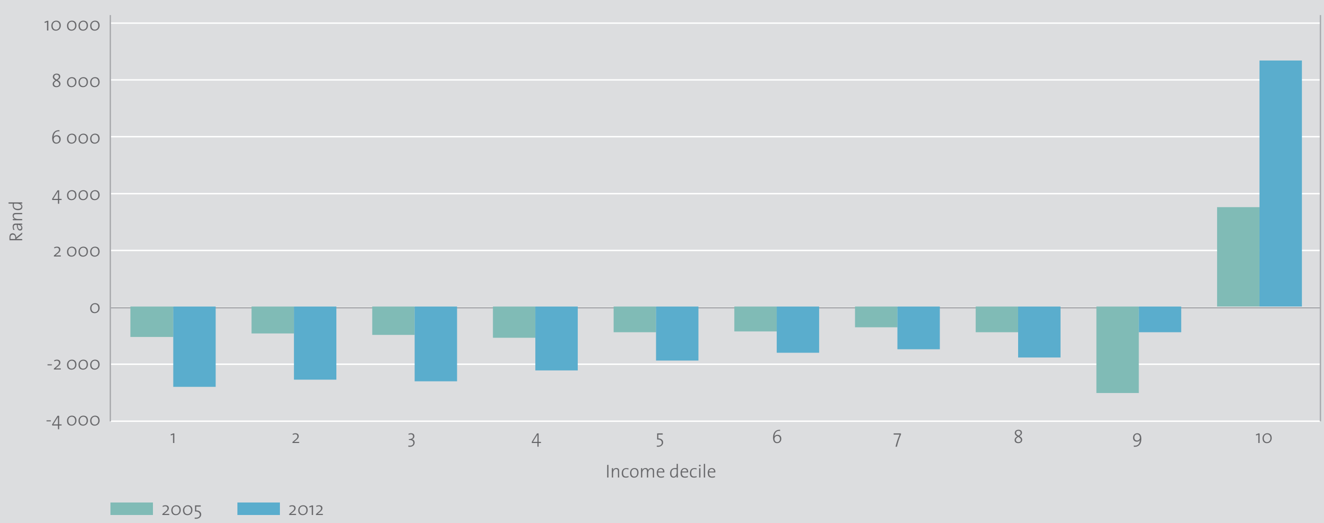
Overcoming the affordability issue

Growth in unsecured credit began with small, short-term loans. However, to sustain a monthly consumption deficit over many years, small loans needed to roll over into larger loans.

Three main trends over the last three years have made this possible. Firstly, real income growth meant there was more

[1] Ranked by income, each decile represents 10% of all the households.

Household monthly income after expenses and debt costs



Source: RenCap

Unsecured lending: gathering clouds

money available for borrowers to increase monthly instalments and therefore loan size.

Secondly, lower market interest rates and competition between lenders led to a decline in average interest rates charged on unsecured loans. Lower interest rates resulted in borrowers being able to take on more debt for the same monthly instalment.

Lastly, lenders have increased the repayment term on loans granted. For instance, it is now possible to repay a R220 000 loan over 84 months, at an all-in rate of 21.6% per year.

What exactly is driving demand for these large loans? Lenders suggest that unsecured loans are mainly being used for home renovations. However, this does not seem to be the case as retail sales of hardware and building supplies have lagged general retail sales and actually slowed over the last two years. We suspect that the surveys on the uses of unsecured credit are very unreliable.

Cause for concern

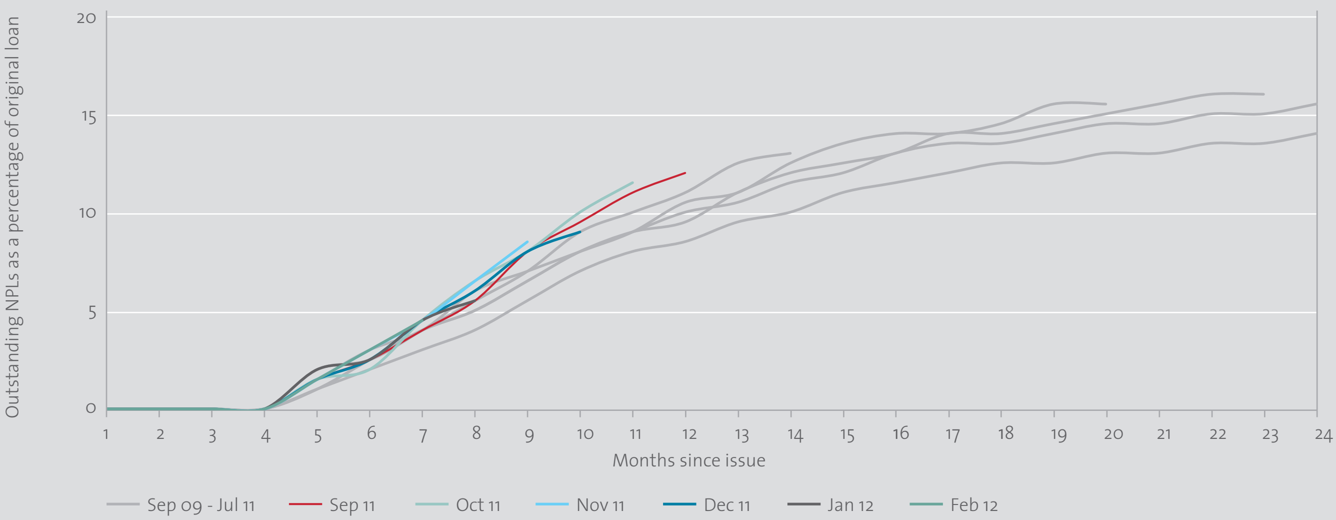
We believe that unsecured loans have really been used to fund current consumption and inflate retail sales, and that, despite meaningful increases in formal sector incomes over the last three years, households remain financially distressed. This cycle of credit cannot continue indefinitely as the levers available for lenders to continue increasing loan values (instalment, rate and term) are nearly exhausted.

Business and government can no longer afford to increase real wages at the levels that have previously fuelled higher instalments and loans sizes. Additionally, higher wage bills mean fewer meaningful job creation opportunities for the unemployed.

Importantly, the prime interest rate is at its lowest level since the 1980s. Interest rate declines are unlikely given the inflation outlook, and any future rate increases will raise debt servicing costs and effectively reduce the value of loans that borrowers can afford for a given instalment and term.

Growth in unsecured lending will inevitably slow and may even turn negative. Although some lenders have already become more conservative, lower future growth in itself does not eliminate the risks embedded in current outstanding debt should borrowers default. We believe that we have not yet seen the full consequences of the credit cycle play out and expect it to have severe implications for lenders, and even more severe implications for retailers.

Vintage curves



Source: African Bank, Macquarie, Kagiso Asset Management research

African Bank, nowhere to hide

African Bank, which is the largest lender of unsecured credit in South Africa, is exposed to all aspects of our economy in varying degrees. We believe there is evidence of growing risk in its book, as shown in the 'vintage curves' chart.

The chart highlights the proportion of loans that have missed three or more instalments and are categorised as non-performing loans (NPLs). Each line represents all loans granted during a single calendar month (a 'vintage') and the horizontal axis shows how the proportion of NPLs increases as each vintage ages through time.

Recent vintages (coloured lines) have a greater proportion of individual loans that are non-performing than older vintages (longer, grey lines), and suggest that the average quality of African Bank's advances is deteriorating. This can be interpreted as a precursor to increasing NPLs and bad debts.

Risks to future profitability

To put this risk into context, at the end of September 2012, NPLs accounted for 28% of all African Bank's outstanding loans. In other words, a total of R15 billion worth of loans were already three months overdue in September last year. This is before the impact of any labour strikes in the transport, mining and agricultural sectors are taken into account.

We expect continued pressure on household finances and reduced access to unsecured lending to make it more difficult for borrowers to meet their loan obligations. This will drive the value of NPLs even higher and create a more challenging environment for African Bank to collect on all its loans.

As a result, the cost of credit will rise and the bank's future earnings will come under pressure. However, an even greater concern is the sheer magnitude of NPLs compared to the bank's earnings and the reasonable probability, in the current economic environment, of a significant write-off for loans that have defaulted.

We therefore remain concerned about the risks related to the growth in unsecured lending and have positioned our portfolios accordingly. These risks are pronounced in African Bank and will affect the group's future profitability. As a result, our client portfolios do not hold African Bank shares. UP

The bond market: history and outlook

Justin Floor - Investment Analyst

"Given their place as a building block within a multi-asset portfolio, the analysis and management of debt assets, or bonds, is an important area of focus for investment analysts. As an asset class, bonds provide an element of capital protection and some diversification to growth assets within a multi-asset portfolio.

The world bond market is a very large part of the global financial system. Currently, it is around US$100 trillion, or 140% of world GDP (up from 80% in 2008)."

This is almost double the size of the global equity market capitalisation of US$54 trillion and it therefore plays a key role in funding government and enterprise growth.

Issuers use debt instruments as a method of raising capital, sometimes at a cheaper rate than through the equity market or conventional bank loans. The repayment obligation of a debt instrument is generally fixed at inception of the loan, and issuers prioritise interest repayments above shareholder repayments. In addition, if a business is being wound up, bondholders take precedence over shareholders.

Bond prices are inversely affected by current interest rates and bond returns are highly sensitive to the eroding effect of inflation, given the fixed interest payment. Some bonds, particularly those issued by sovereign governments who can raise taxes, are considered risk-free. Others offer an additional yield to reward investors for taking on the risk of default.

History of the bond market

Global market

Interestingly, the world's first bond market was established before the first stock market. References to transferable credit agreements in ancient Babylon in the Hammurabi code of laws, one of the oldest writings of significant length in the world, are among the earliest available to financial historians.[1]

A flourishing Chinese bond market was a key driver of the prosperity of the Chinese empires. The ancient Greeks and Romans in turn used the bond market to finance maritime trade and showed the first signs of explicit pricing for credit risk: in times of peace bonds were sold at an interest rate of 20%, while in times of war the rate was 30%. The market obtained further traction in Renaissance Europe. Known as 'prestiti' in Italian, bonds were typically issued by city-states (such as Venice and Florence) to fund war expenses and shipping ventures, and were actively traded on the secondary market.

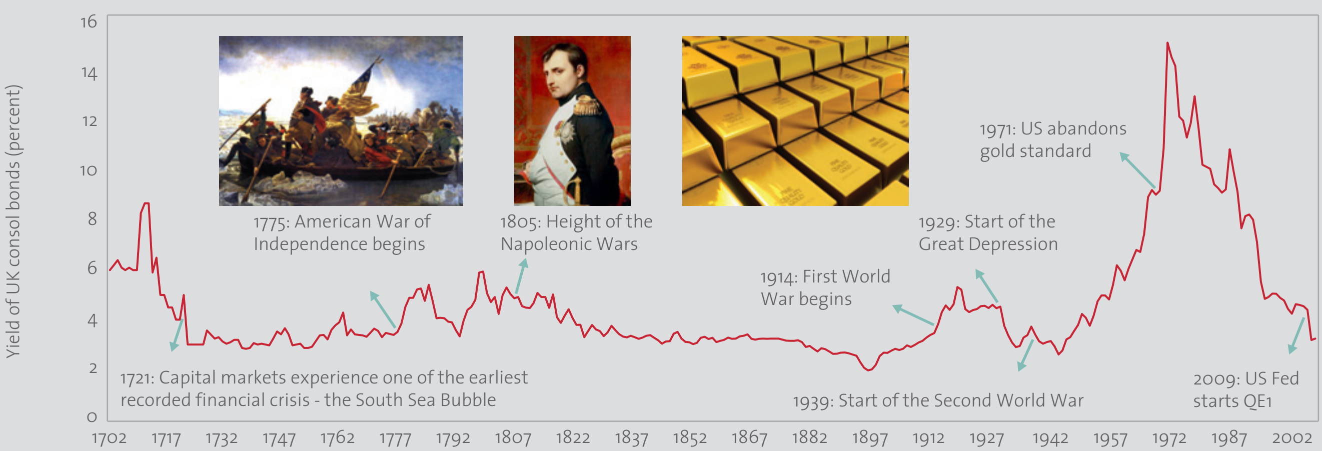
In 1702, England started issuing 'war consol' bonds with an indefinite term to maturity. These bonds were used extensively for various purposes, including funding the war against Napoleon. The bond market also played a key role in the 19th century, financing expenses during the American Civil War.

South Africa

The South African bond market was born out of its mining history and was used extensively to fund the sinking of new shafts and associated infrastructure development. The 1996 licensing of the Bond Exchange of South Africa marked the official start of a formal bond exchange in South Africa. In 2007, the exchange converted from being a mutual association of members into a public company. Two years later, it became a wholly-owned subsidiary of the JSE Securities Exchange.

[1] Bernstein, William. 'The Four Pillars of Investing. Lessons for Building a Winning Portfolio'. McGraw-Hill, New York (2002)

History of UK bond yields: 1702 - 2012



Source: Bank of England and Kagiso Asset Management research

The bond market: history and outlook

Domestic market structure

The South African bond market's total market capitalisation was R1.6 trillion at the end of March 2012, comprising 132 issuers and 1 084 listed debt instruments. Government continues to dominate primary listings and accounts for almost 60% of total issuance, while state-owned enterprises, corporate debt and securitisations make up the rest.[2]

Global monetary policy

Developed world economies have been very weak after the global financial crisis. Central banks and policy makers have responded to their weak economies by pursuing a policy of synchronised monetary easing in an attempt to stimulate growth.

With short-term rates already at all-time lows, central banks are trying to keep long-term rates low through a mechanism known as large scale asset purchases, or quantitative easing. This ensures that supply is constricted, asset prices rise and yields fall. This, in turn, stimulates economic activity as the long-term costs of borrowing fall throughout the economy.

Quantitative easing is achieved through central banks directly purchasing long-dated debt assets (usually government bonds but in the US mortgage-backed securities are also targeted), in what is effectively the printing of money by authorities to finance government debt.

The chart below (left) illustrates the unprecedented increase in central banks' assets since the financial crisis. This phenomenon has resulted in inflated asset prices on a global scale as investors, faced with extremely low long bond yields, have climbed up the risk curve looking for higher returns. This, in turn, has increased the demand for risky assets, such as those in emerging markets.

South African capital markets have been profoundly impacted by this global flow of liquidity. The effect on our government bonds is illustrated by the rapid increase in foreign ownership, seen in the chart below (right).[3]

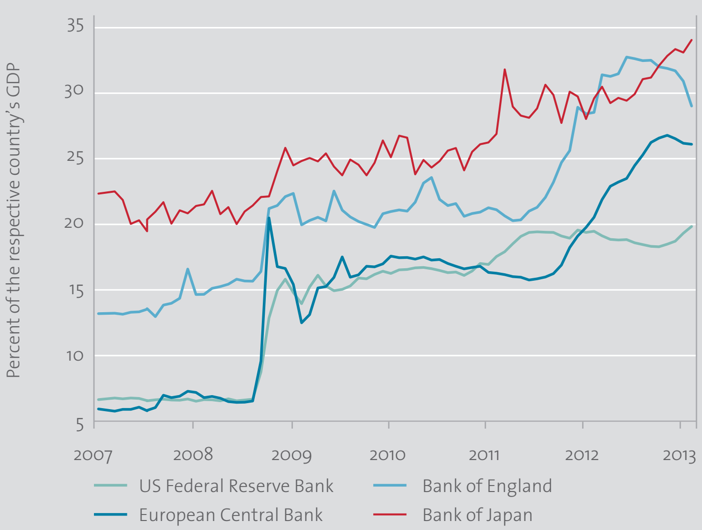
Implications for our portfolios

In addition to the distortions to the South African bond market as a result of global monetary policy, the market is facing a stuttering domestic economy with structural impediments. Other challenges include the high and increasing inflation rate, the country's twin deficit dilemma (the fiscal and current account deficits) and the prospect of ongoing currency weakness.

We are therefore wary of fixed rate government bonds, which we believe have become risky and expensive. We have high exposure to inflation-linked bonds and floating rate instruments with robust credit fundamentals, which we consider to be better placed to weather the gathering economic storms. UP

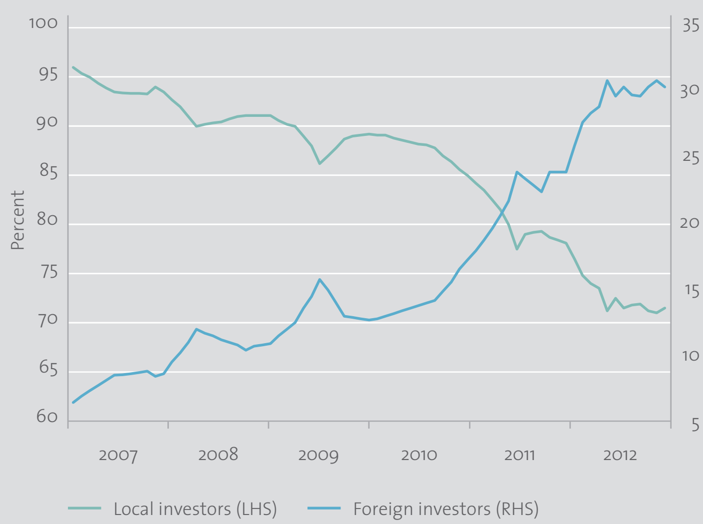
[2] National Treasury Debt Review (2012)
[3] Foreign investors owned approximately 37% of government bonds at the time of writing.

Central banks' assets



Source: Bank of England and Kagiso Asset Management research

SA government bond holdings (end March 2012)



Source: STRATE, National Treasury and Kagiso Asset Management

Ancient Croatia

Aimee Glisson - Analyst Associate

I was recently lucky enough to visit Croatia for the second time to attend an electronic dance music (EDM) festival called 'Outlook'. Croatia is fast emerging as a top European holiday destination and it's not hard to see why.

With its relative affordability compared to other Mediterranean countries, pristine pebbled beaches, turquoise water, historic monuments and beautiful long summer evenings, Croatia is an ideal holiday spot.

It also offers a perfect setting for outdoor music festivals and the country's rapidly developing music scene has ensured that it is home to various music festivals, including EDM, jazz and pop.

Affordability

One of the reasons why Croatia is attracting an increasing number of music festivals is that it offers a less expensive alternative compared to other popular European destinations. When taking transport, accommodation, food and entertainment into account, Croatia is certainly cheaper than Greece or Spain, for example. In fact, I was pleasantly surprised to find that a good meal of fresh seafood in a restaurant was more affordable than back home. Even truffles, a delicacy usually found only in gourmet cuisine, are abundant and affordable on the coast of Istria.

History

Croatia's history is an eventful and at times violent one, starting in the sixth century when the Croats migrated from the Ukraine and settled in what is now lower Hungary. The country's past is marked by several migrations at different times, many periods of rule by different kings, monarchs or governments and several damaging wars.

Key milestones include the union with Hungary in 1102 to 1527, when Croatia was ruled by both Hungarian and Croatian kings. In the period that followed up to 1918, the country was governed by the Habsburg Monarchy and, until the start of World War II in 1941, it formed part of the Kingdom of the Serbs, Croats and Slovenes. Croatia became a member of the Republic of Yugoslavia in 1945 but declared independence in the 1990s after the devastating War of Independence (1991 to 1995), which left many of its towns in ruins.

What followed was a period of post-war recovery and efforts to improve economic conditions by different new governments. Croatia joined the World Trade Organisation in 2000 and started a process of accession to the European Union (EU) in 2003, finalising a deal in 2011. It is due to join the EU in July this year.

Tourism key in war recovery

Croatia's tourism industry adds about 25% to its GDP (one of the highest contributions among European countries) and has been crucial in helping the country recover from its long history of wars. Driving through the countryside, I saw remaining evidence of the most recent War of Independence: desolate towns with their damaged buildings and landscapes speckled with crumbling stone fortresses.

Wars have strongly defined the country, to the extent that many of its tourist attractions are linked to former military bases. An example is the picturesque old town of Dubrovnik, a walled city that was originally built to house refugees in the 1600s. In the two decades since the last war, Croatia has worked hard at repairing its economy and attracting tourists. These efforts have been successful as tourism numbers have risen fourfold since the early 1990s, with over 10 million people visiting each year.

Impending EU accession

Despite the major strides made since the War of Independence, Croatia still faces challenges. Following the Global Financial Crisis, unemployment is high and the country is currently in a recession.

Croatia will soon enter the EU, as mentioned. There are ample economic benefits to EU membership, including access to funding programmes to aid the country's agricultural sector as well as increased trade with the EU powerhouses. However, it seems that Croatia is also looking forward to cutting ties with its Balkan 'brothers and sisters' and instead aligning itself with EU nations in the hope that its membership will provide political stability and prevent further conflict between ex-Yugoslav countries.

This should further aid the tourism industry, with fewer cross border-controls and easier access to and from the rest of Europe. My hope is that Croatia maintains its Balkan charm and affordability. UP

Kagiso Asset Management Funds

Performance to 31 March 2013	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Collective Investment Scheme Funds[3]						
Equity funds						
Equity Alpha Fund	14.0%	13.6%	11.4%	22.0%	26-Apr-04	1.48%
South African Equity General funds mean	17.3%	13.3%	8.6%	17.1%		
Outperformance	-3.3%	0.3%	2.8%	4.9%		
Islamic Equity Fund	12.7%	12.2%	-	16.3%	13-Jul-09	1.29%
South African Equity General funds mean	17.3%	13.3%		17.8%		
Outperformance	-4.6%	-1.1%		-1.5%		
Asset allocation funds						
Balanced Fund	13.3%	-	-	12.2%	3-May-11	1.82%
South African Multi Asset High Equity funds mean	16.3%			12.5%		
Outperformance	-3.0%			-0.3%		
Islamic Balanced Fund	11.6%	-	-	6.1%	3-May-11	1.70%
South African Multi Asset High Equity funds mean	16.3%			12.5%		
Outperformance	-4.7%			-6.4%		
Protector Fund	11.2%	7.0%	5.8%	11.5%	11-Dec-02	1.65 %
CPI + 5%[4]	11.3%	10.8%	11.7%	11.3%		
Outperformance	-0.1%	-3.8%	-5.9%	0.2%		
Stable Fund	9.4%	-	-	9.5%	3-May-11	1.60%
Return on large deposits*	5.2%			5.3%		
Outperformance	4.2%			4.2%		
Institutional Funds[5]						
Equity funds						
Managed Equity Fund	16.5%	15.2%	12.1%	14.8%	1-Sep-06	
FTSE/JSE SWIX All Share Index	22.0%	16.3%	11.0%	13.8%		
Outperformance	-5.5%	-1.1%	1.1%	1.0%		
Core Equity Fund	21.0%	15.9%	12.0%	20.0%	1-Nov-04	
FTSE/JSE SWIX All Share Index	22.0%	16.3%	11.0%	19.3%		
Outperformance	-1.0%	-0.4%	1.0%	0.7%		
Asset allocation funds						
Domestic Balanced Fund[6]	12.6%	13.3%	10.7%	10.0%	1-May-07	
Peer Median[7]	16.3%	15.9%	11.5%	10.4%		
Outperformance	-3.7%	-2.6%	-0.8%	-0.4%		

[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 2012; [3] Source: Morningstar; net of all costs incurred within the fund; [4] CPI for March 2013 is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 28 February 2013; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; * Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

KAGISO
Asset Management

Kagiso Asset Management (Pty) Limited

Fifth Floor MontClare Place
Cnr Campground and Main Roads
Claremont 7708

PO Box 1016 Cape Town 8000

Tel +27 21 673 6300 Fax +27 86 675 8501

E-mail info@kagisoam.com

Website www.kagisoam.com