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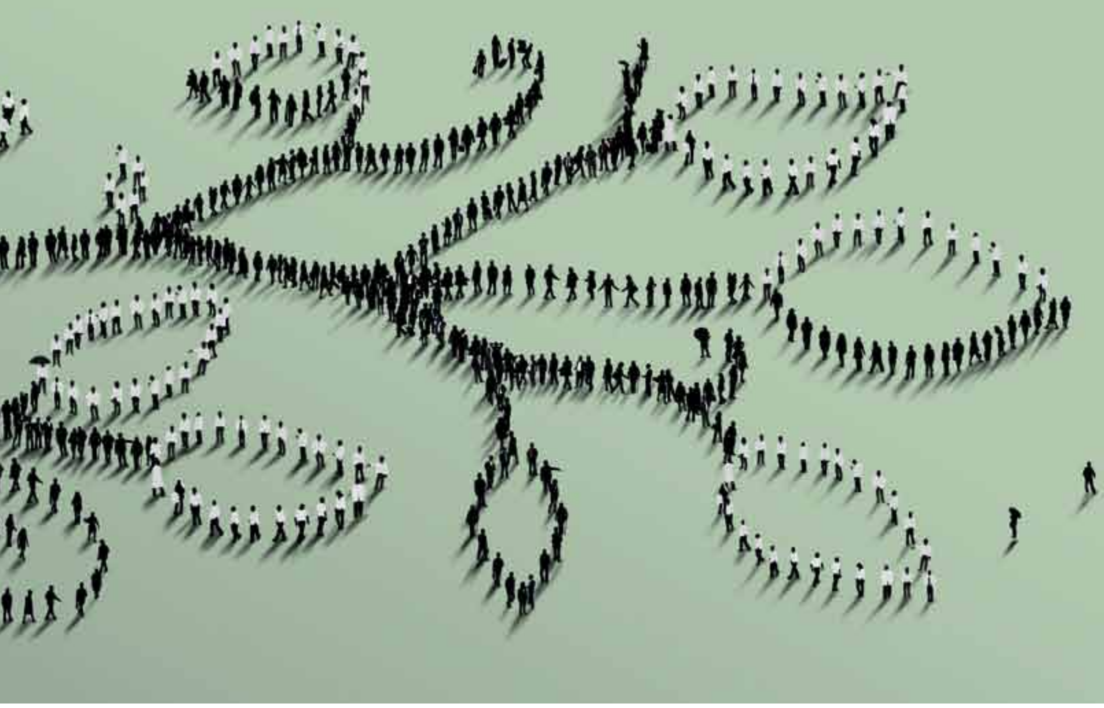


Banking in Sub-Saharan Africa

Jihad Jhaveri - Investment Analyst

"In this article, I will explore some of the macroeconomic themes in Africa and link these to the substantial opportunities and growth potential for banking that we see.

Against the challenging backdrop of lower commodity export prices, the GDP growth in the Sub-Saharan Africa region is still expected to have averaged a healthy 5% in 2013 and to be 6% in 2014[1]. This will be weighed down by South Africa, the region's largest economy, which is expected to have grown by a meagre 2% in 2013 and 2.9% in 2014 due to labour disruptions and slowing consumer activity."

[1] IMF (2013)

Banking in Sub-Saharan Africa

Sub-Saharan African growth was also resilient in the global financial crisis. In the five years to 2008, the region's 6.5% pa average GDP growth rate was only slightly derailed in 2009, before bouncing back up again.

Economic growth will boost bank earnings

The following four key contributors to continued strong GDP growth in Sub-Saharan Africa stand out:

Demographic dividend

Sub-Saharan Africa's population is set to grow from 910 million in 2012 to around 1.1 billion[2] in 2020 (Nigeria is expected to move from the seventh most populated country in the world in 2010 to the third in 2055). Importantly, the proportion of the working age population is moving strongly upwards in the long term, while the developed world and Asia are on a sharp downward trend (see graph below).

This will lead to an economic boost in Africa as the ratio of dependants to working adults drops substantially. These long-term demographic changes are already well underway and are leading to a rising middle class in Africa, and the resultant demand for consumer banking.

Growing investment in infrastructure

Africa has a large infrastructure deficit relative to other developing regions. BRIC[3] countries' power production (kilowatt-hours per person) is 2.4 times greater than Africa and road and rail densities are 4.9 and 2.3 times higher respectively. In 2010, the World Bank estimated that infrastructure spending needs in Sub-Saharan Africa were US$93.4 billion per year, including US$31 billion for the running and maintenance of existing capacity (on a GDP base of around US$1 trillion). Seeing that countries currently spend only US$45.3 billion per year, there is a substantial and growing spending backlog.

Governments are attempting to address this problem and, encouragingly, international capital markets are willing to help fund infrastructure projects. For example, in Zambia, substantial energy and transport projects are underway, including the flagship US$5.4 billion 'Link Zambia-8000' roads project. In 2012, the Zambian government issued a massively oversubscribed maiden US$750 million Eurobond at a very attractive rate of 5.6%. Further issues are likely to be at higher (more normal) interest rates.

Existing and future capital-intensive infrastructure projects will be very positive for the investment banking divisions of banks due to advisory fees and financing opportunities.

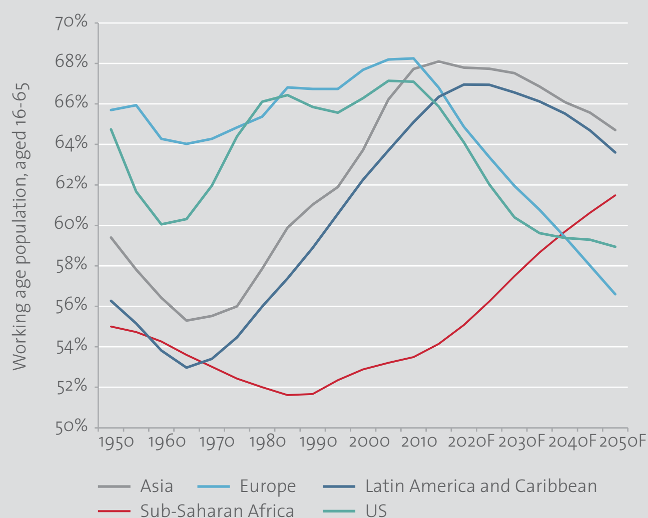
Mining growth and the focus on minerals beneficiation

Although timing will depend on the commodity price cycle, mining project pipelines in many African countries look robust in the long term, based on the quality of the resource bases.

In Zambia, in particular, a very successful drive to incentivise global mining companies to invest in large scale copper projects means that copper production is expected to grow strongly over the next few years (from 825 000 tonnes in 2012 to 1.4 million tonnes by 2017). This will have a substantial impact on the country's GDP and is expected to provide huge opportunities for Zambia's banks.

In 2010, Uganda announced the discovery of 2.5 billion barrels of commercially viable oil deposits. Since then, drilling results have continued to be positive, which should be very beneficial for the economy.

Global demographic trends



Source: Standard Chartered, UN World Population Prospects (2012 revision)

[2] UN Population Division, Standard Chartered

[3] BRIC: Brazil, Russia, India, China.

Source: World Development Indicators, McKinsey Global Institute, Standard Chartered

In Botswana, banks are focussing on the opportunities resulting from De Beers Diamond Trading Company, which recently relocated from London. Immediate opportunities include providing finance to sightholders and, in the longer term, the funding of diamond beneficiation projects.

Increased intra-African trade flows

Intra-African trade (defined as intra-African exports as a percentage of total African merchandise exports) is only 11%[4], compared to 50% for developing Asia and 70% for Europe. There is a huge political and economic necessity to increase intra-African trade through the rationalisation of trade tariffs and the building of trade infrastructure. Any progress on this front will boost banks' revenues, particularly in areas of foreign exchange trading and trade finance.

Kenya stands out as being particularly well placed to benefit from increased regional trade flows in East Africa. Kenya has a well-educated work force, large trade ports and is the fifth largest economy in Sub-Saharan Africa. It is characterised by relatively large contributions from its wholesale, retail, transport and manufacturing sectors. Successful Kenyan food retailers have already expanded aggressively into East Africa and Kenyan-manufactured grocery products are popular in Uganda. Kenyan retailer Nakumatt recently acquired three of Shoprite's stores in Tanzania, reflecting its growing regional dominance. The country is also regarded as a natural gateway to exciting growth in the newly formed South Sudan (Standard Bank's South Sudan operations are run out of Kenya).

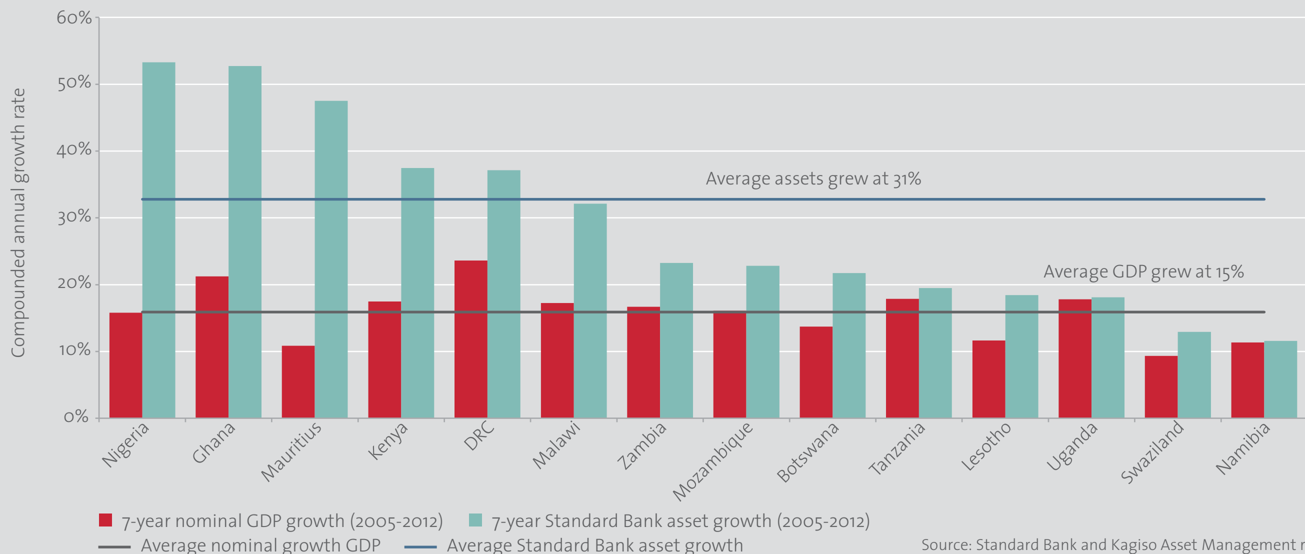
Robust outlook for African banks

From 2006 to 2011, African banks grew their revenues at roughly twice the average GDP of the countries in which they operated.[5] Standard Bank's Sub-Saharan portfolio (see chart below) clearly shows that the bank's average asset growth over the last seven years has been about twice the average nominal GDP growth rate of the country in which it operates.

Looking ahead, banks' revenues should continue to outpace the strong GDP growth rates of the countries in which they transact due to a combination of the economic growth contributors outlined above, and the fact that banking penetration will increase off a low base. This outlook is the primary reason for our client portfolios holding a sizeable position in Standard Bank, which has a substantial existing profit contribution from Africa (ex-South Africa) and is growing this very rapidly. UP

[4] UNCTAD Economic Development in Africa Report (2013)
[5] Standard Chartered

Sub-Saharan Africa nominal GDP vs Standard Bank's financial asset growth



Source: Standard Bank and Kagiso Asset Management research

Insuring US health

Justin Floor - Investment Analyst

"Good health ranks high in an individual's needs. Consequently, an efficient and capable healthcare system is a vital part of any developed society. Healthcare businesses can be profitable investments due to the defensive cash flows (an essential consumer expenditure), pricing power and high margins. However, these businesses generally need to navigate a highly regulated environment, with extensive state intervention."

Our research has identified two US health insurance companies that we believe are well placed to benefit from the shifting dynamics within the US healthcare sector - Humana and UnitedHealth Group. Both companies have long operating histories of profitability and have built substantial economies of scale in the health insurance market.

The US healthcare market

The US healthcare market is the largest in the world with absolute expenditure of US$2.7 trillion in 2013 (18% of GDP). The market has grown rapidly from 13% of GDP in 2000 and is projected to approach 20% of GDP by 2022 (more than US$5 trillion).

Looking at a breakdown of this US healthcare spend (see chart over the page), the bulk is allocated to hospitals and care facilities, to physicians and clinical services and to prescription drugs. Slightly over 6% of spend is allocated to health insurance (profit and operating costs) and 3.4% to medical equipment.

Despite the high levels of healthcare expenditure, the US healthcare system stands out as inefficient. Health outcomes (for example life expectancy) lag similarly developed nations, which spend far less as a percentage of GDP on healthcare and related goods and services.

The key participants in the healthcare system are the providers (medical professionals, hospital groups, medical equipment manufacturers and pharmaceutical companies) and the funders (individuals, employers, the state and insurance companies).

US health insurance

The listed health insurance sector has a long and successful history in the US. Unusually for a developed nation, the US has historically not had universal insurance coverage, resulting in about 15% of Americans being uninsured in 2013.[1]

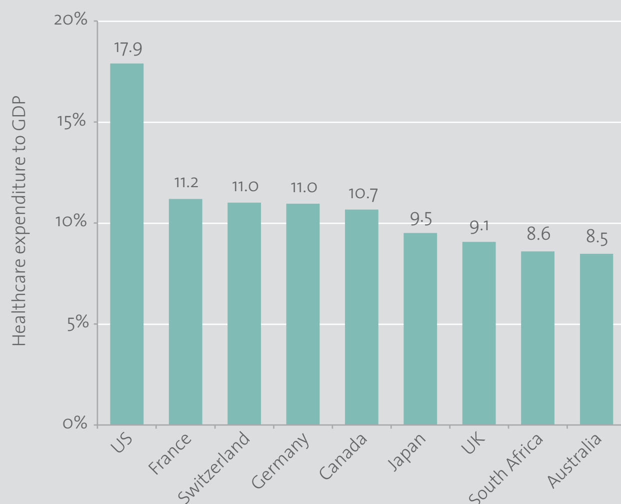
The net cost of private health insurance (ie the portion of premiums not being spent on healthcare benefits and products, including operating costs) represented 6.5% of total spend, or US$180 billion in 2013. This is projected to grow at 6.3% per year to US$313 billion by 2022.

The breakdown of coverage in the healthcare market is:

- 53% of the population has health insurance through an employer;
- 32% are on government provided health insurance, split evenly between Medicare (for those over the age of 65) and Medicaid (a social healthcare program for individuals with low incomes); and

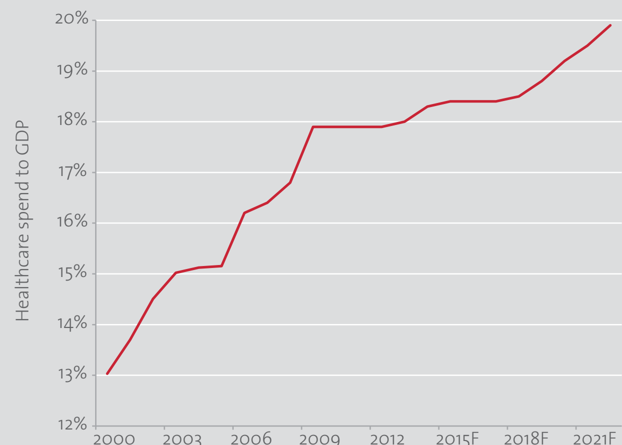
[1] US Census Bureau

Relative healthcare spending



Source: OECD

Sharp increase in US healthcare spend



Source: OECD, Centers for Medicare and Medicaid Services

Insuring US health

- 15% pay for health-related goods and services out of their own pocket.

Members have the choice of opting for either non-profit or for-profit healthcare plans, some of which are provided by listed companies. Insurers have businesses in the employer, individual specialty (eg dental and eye plans) and government markets.

The advantage in Medicare

Medicare is the social healthcare programme established by Congress in 1965 to provide health cover to people over the age of 65. Termed 'Original Medicare', it is administered by the federal government and operates on a fee-for-service model. This model has, for various reasons, proved inefficient.

As a result, Medicare Advantage was introduced in 1997 as an option to reduce the administrative strain on the federal government. This gave eligible Medicare beneficiaries the possibility of joining a private health plan, which is funded from premiums paid by the US government. Participants generally receive benefits in excess of those available under the original Medicare model, including reduced cost sharing, drug benefits and wellness and prevention programmes.

Unlike in South Africa, where healthcare funding companies (such as Discovery) can only make profits from administration, US health insurers can make a profit from the administration and underwriting legs of the value chain (in the same way as a short-term insurer would). As a result, their profits are a function of the number of new members, the number of members requiring administration and members' health claims.

The US, like other developed nations, is experiencing significant demographic shifts due to an ageing population. A combination of a falling birth rate (although still healthy relative to some European nations and Japan) and ever-improving longevity means that the natural proportion of older people in the population is increasing. In addition, the US experienced a very significant surge in births in the 10 years following the 2nd World War, and these 'Baby Boomers' have been turning 65 since 2010.

The number of people reaching 65 years of age each year is expected to grow from the current rate of 1.2 million per year (or 3 300 per day) to two million per year by 2027 (6 000 per day). This means that the percentage of the US population eligible for Medicare is set to increase from around 16% currently to more than 21% in the next 15 years.

This will result in structurally high membership growth for these plans for a long time.

The impact of Obamacare

In 2010, the enactment of the Patient Protection and Affordable Care Act (also known as 'Obamacare' after it formed a pivotal pillar in President Obama's election campaign) introduced important changes to the US healthcare industry.

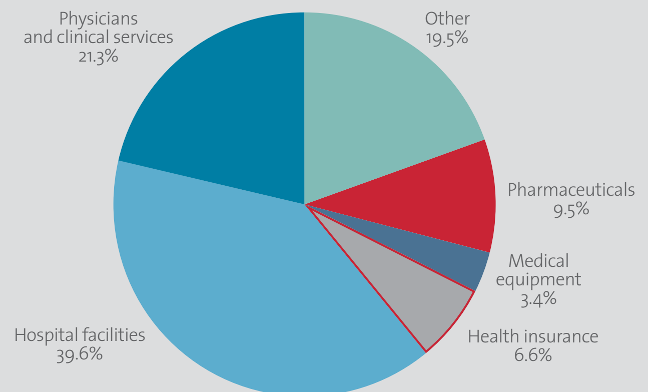
The box on the opposite page provides a summary of key adjustments and how these will affect the healthcare market.

The investment thesis

Humana is a mid-sized company with a market capitalisation of around US$17.2 billion. It derives 67% of revenue from its Medicare Advantage division, which is one of the market leaders (with a 17% market share).

UnitedHealth Group is the largest healthcare insurance provider in the US with a market capitalisation of US$76 billion. It has a well-diversified earnings base and is a leader in almost all segments, including Medicare Advantage. A key differentiator

Share of US healthcare spend (2013)



Source: Centers for Medicare and Medicaid Services

is the group's fast-growing Optum division, which provides systems and consulting services to the US healthcare market. Due to the rapid growth expectations for this division, it should contribute more than 40% to UnitedHealth's future earnings.

Both Humana and UnitedHealth have:

- significant market presence and enjoy substantial economies of scale;
- extremely strong balance sheets and excellent cash generation; and
- strategies of vertically integrating healthcare services and more intelligently managing care in order to capture more of the value chain and keep costs down. Humana, for example, has partnered with Discovery's Vitality to offer its members integrated incentivised wellness, in the same way as Discovery has done locally for many years.

A well-aged opportunity

The US healthcare market represents the largest pool of healthcare expenditure in the world and some excellent long-term investment opportunities.

The current system is under a lot of pressure to become more efficient, with concerted forces of regulation, social and political pressure as well as competition all acting to drive down medical costs going forward. Out of the role players, it is the funders (including insurance companies) that are best positioned to navigate and adapt to the changes as their success is aligned to achieving a more efficient healthcare system.

We have identified excellent cash-generating businesses with robust long-term prospects that are benefitting from substantial membership growth - all at very attractive valuations. These investments have already performed extremely well for clients invested in our funds with global exposure and remain attractive holdings. UP

What is Obamacare?

Official name: Patient Protection and Affordable Care Act
Passed into law: 23 March 2010
Effective date: 1 January 2014
Stated aim: To increase quality and affordability of health care and insurance

Key measures:

- Universal coverage – tax penalties apply for individuals and businesses without insurance
- Health insurance exchanges established in each state to facilitate comparison and buying of insurance
- Expansion of Medicaid programme for low-income families
- Elimination of pre-existing conditions and exclusion restrictions
- Profit margin limits
- Imposes significant taxes on participants in the healthcare system (medical device tax, insurance tax)
- Reduction in government funding to private insurance plans

Main impacts on the market:

- Significant membership growth
- Pricing headwinds
- Industry taxes levied on insurance company premiums - US$8 billion in 2014, increasing to US$14.3 billion in 2018
- Funding pressure on healthcare providers and significant shift to risk-sharing arrangements and vertical integration strategies

From b-commerce to e-commerce

Abdul Davids - Head of Research

"The rapid evolution of the power and functionality of technology platforms such as PCs, laptops and mobile devices (smartphones and tablets), coupled with the ease of use and accessibility of these devices, has opened up a myriad of new uses for them.

We are now using these platforms for such diverse activities as buying groceries, performing price comparisons, planning our leisure time and doing our banking."

In particular, electronic commerce (e-commerce) is rapidly taking market share from b-commerce (bricks and mortar [ie physical store] commerce). We set out a brief introduction to some of the early trends and the potential winners and losers that are emerging.

E-commerce relationships

E-commerce consists of various relationships between the respective types of participants: business to business (B2B), business to consumer (B2C) and consumer to consumer (C2C).

B2B purchases enable businesses to transact with each other through online platforms, whereas B2C transactions are either through the business' own online platform or third party platforms. C2C transactions typically take place through third party online platforms (such as Gumtree in South Africa).

E-commerce activities

Classified platforms list items for sale and enable online exchanges between buyers and sellers, typically C2C but also B2B and B2C. These platforms are localised and generally focus on consumers living in the same city to minimise the cost and logistics of completing a transaction.

Price comparison platforms empower users to quickly and effortlessly compare prices from a wide spectrum of suppliers, including physical stores. A South African mobile application example is PriceCheck, which is owned by Naspers.

Electronic retailing platforms are typically operated in a B2C environment, enabling consumers to purchase goods and services online. This business model requires substantial scale for success.

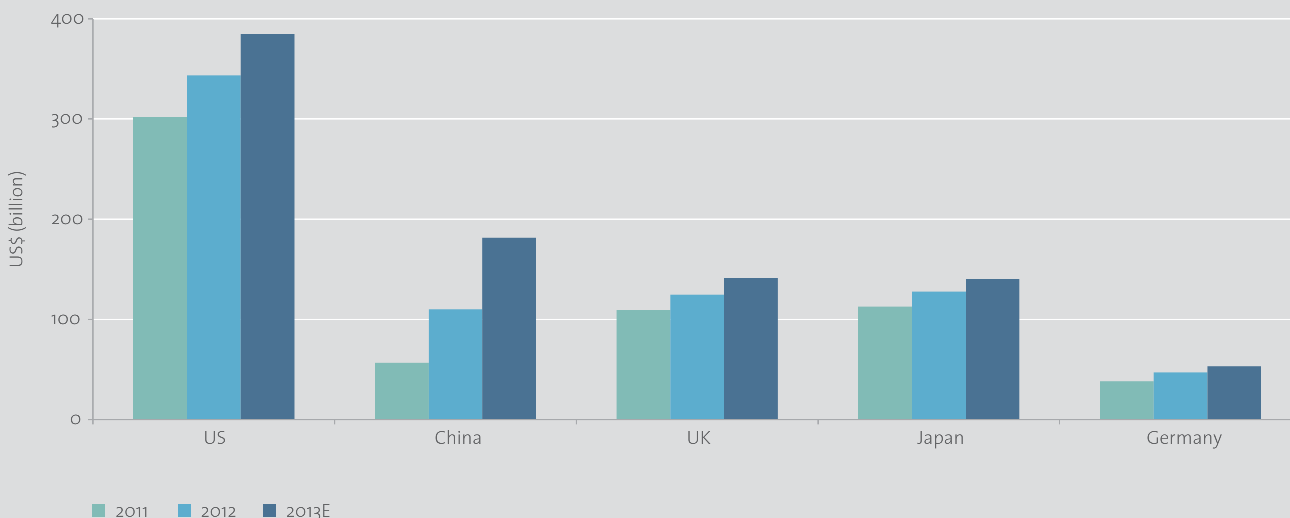
Payment platforms are sophisticated payment solutions that can verify prospective buyers' identities and safeguard sensitive information (such as credit card details) to minimise fraud. SnapScan is an example of a South African mobile payment platform and Paypal is the largest global example.

A significant market opportunity

Online shopping and transacting is a global consumer trend that is forcing traditional retailers to create effective mobile presences to protect themselves against losing market share to their e-commerce competitors. Even when consumers shop in-store, their shopping experience often starts earlier with online price comparisons - often on mobile devices.

We believe consumers will continue to shift spending from traditional retailers to multi-channel online options due to the latter's lower prices, greater convenience, broader selection, better availability of product and more accessible product information.

Top five countries for B2C e-commerce sales (2011-2013)



Source: Citi Research, eMarketer (January 2013)

From b-commerce to e-commerce

The internet brings transparency of pricing, which empowers consumers and realises substantial savings for them. It has also changed the traditional retail model by shifting the balance of power from the retailer to the consumer.

The fast-moving consumer goods (FMCG) grocery products group is the one category that remains relatively untapped by e-commerce (except perhaps in the UK). This is mainly due to the uniform pricing of food retailers, the fairly low margins achieved by traditional retailers and the convenience that a large store footprint brings. However, we believe that the FMCG market will also change towards e-commerce over the next few years.

Quantifying the market

In 2013, online sales increased by an estimated 18.3% to US$1.3 trillion worldwide. Online sales are forecast to grow by an average 17% per year until 2017 (to around US$2.3 trillion).[1]

The US still dominates global e-commerce sales (see chart on the previous page). However, e-commerce sales represent only around 10% of total retail sales in the US due to the existing physical retail footprint. China is expected to exhibit the highest e-commerce growth over the next few years, with an estimated average growth rate in excess of 40% per year until 2017.

The Asia Pacific region is expecting the world's highest e-commerce growth rates due to its large population and low current e-commerce presence. The relatively low established physical retail footprint (such as the malls in South Africa), and the inconvenience and unpleasantness of a physical shopping experience due to the population density and traffic congestion increases the attractiveness of online shopping.

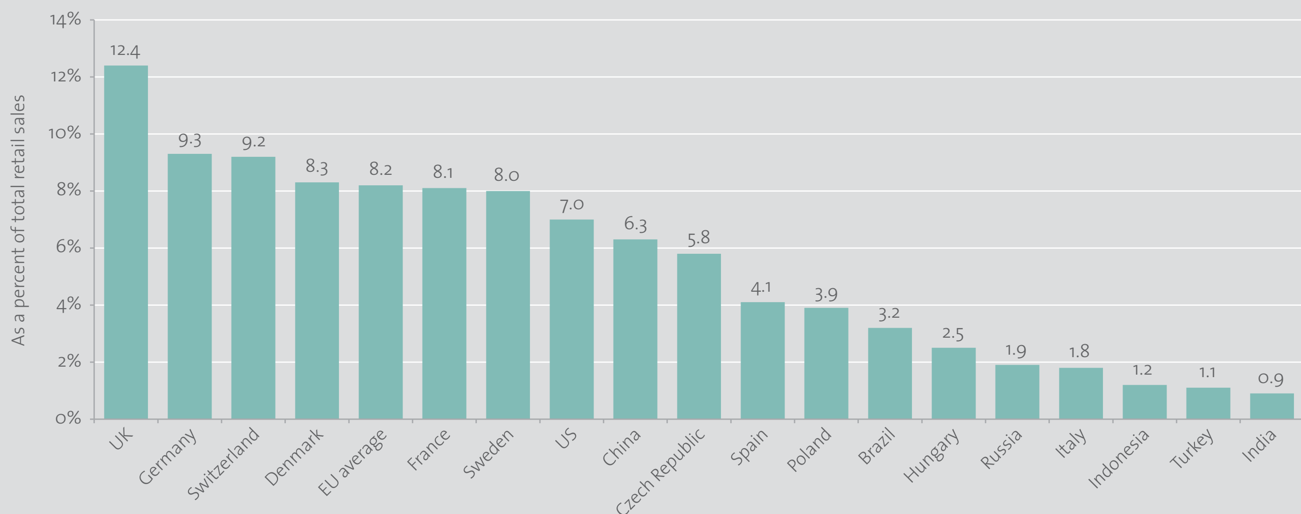
In South Africa, the lack of fast and reliable broadband has been the biggest inhibitor of e-commerce adoption. Online purchases currently make up only 1.2% of total retail spend and are expected to grow to around 1.5% by 2016.[2]

Separating the winners from the losers

In the US, Amazon dominates the e-commerce landscape with an estimated 14% market share in a highly fragmented market. Outside of the US, South African-listed Naspers has made investments in key emerging markets, including Brazil, Russia and Eastern Europe. Despite being at an early stage, e-commerce in these markets is showing very strong growth trends (see chart below).

[1] Citigroup, eMarketer
[2] eMarketer

Global e-commerce sales (2012)



Source: Euromonitor data, Centre for Retail Research, yStats.com, Forrester Research Inc.

Naspers's e-commerce businesses

The Allegro group, a multinational Naspers-owned internet group, has auction and fixed-price transaction platforms (e-tailing), classifieds platforms (auto, real estate, jobs and travel classifieds), price comparison, social shopping sites and a payments platform. A number of these services operate across Poland, the Czech Republic, Slovakia, Hungary and other Eastern European countries. Allegro controls more than 50% of all e-commerce traffic in Poland (C2C, B2C and classified platforms), while in Eastern Europe it is larger than the number two and three players combined. E-commerce competition in the Eastern European markets is limited to regional players as each country has its own language and cultural particularities.

In Brazil, Naspers owns a majority stake in São Paulo-headquartered Buscapé, a digital commerce platform that operates in Latin America and targets retailers, distribution companies, advertising agencies and financial markets. Online shopping growth in Brazil, Latin America's largest e-commerce market, comes mainly from emerging middle-class consumers who recently started banking. According to data from internet technology company comScore, Buscapé had the highest number of monthly unique visitors to any e-commerce site in Brazil (16 million), followed by MercadoLibre, Latin America's number one e-commerce site.

Naspers recently acquired stakes in Flipkart and Redbus, two Indian e-commerce businesses. Flipkart is the largest e-commerce site in India and Redbus is India's largest bus ticketing platform, issuing more than one million tickets a month.

The multinational media group also owns 29% of Mail.ru, one of Russia's largest internet companies which focuses on social media, entertainment and communication. Naspers recently announced the merger of its Slando.ru and OLX.ru businesses with Avito, to create Russia's largest classified website and the third largest after Craigslist and 58.com.

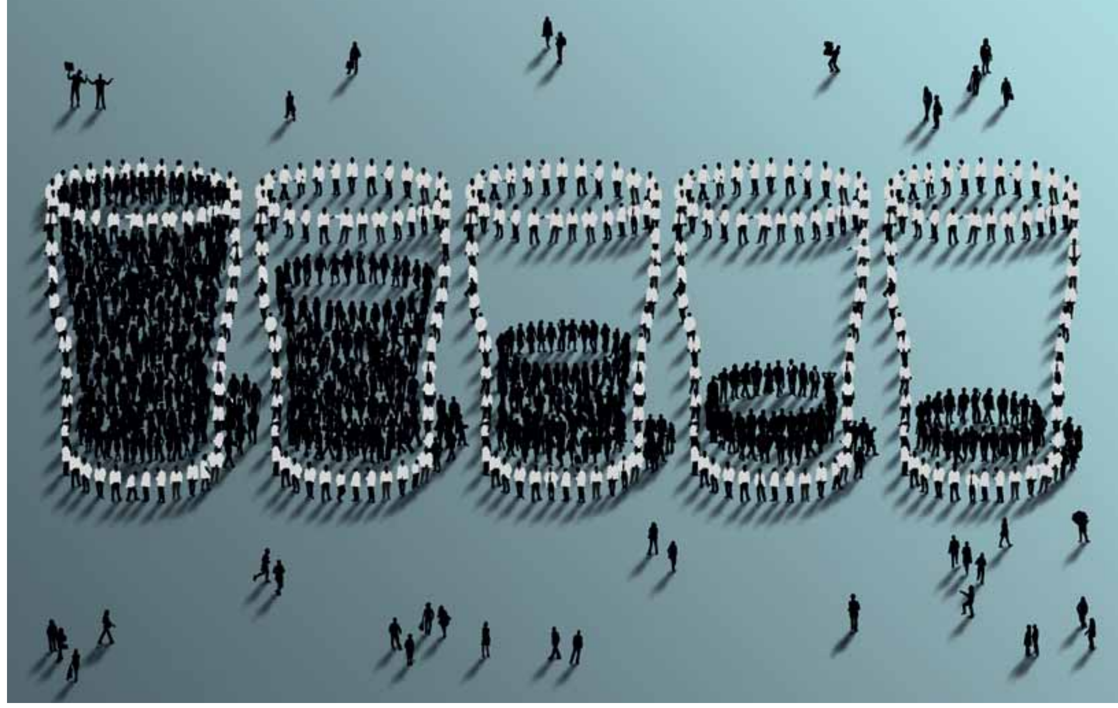
Additionally, Naspers has exposure to the fast growing Chinese e-commerce market through its 34% shareholding in Tencent. In March this year, Tencent announced it would merge its e-commerce assets with China's second largest e-commerce player, JD.com. The deal will result in Tencent transferring its e-commerce assets and some cash into JD.com for a 15% stake in the new company. Strategically, this is a significant transaction as it creates a much larger second player in the market and improves scale in areas such as warehousing and logistics, while improving profitability. Following the JD.com deal, the new entity will have a share of between 25% to 30% of the B2C market in China, which is expected to grow at around 30% per year over the next three years.[3]

In South Africa, Naspers owns online retailer Kalahari.com (through its subsidiary MIH Internet Holdings), classified online platform OLX (one of the largest online classified companies in emerging markets) and price comparison site PriceCheck.

Looking forward

Naspers's strategy of investing in non-English speaking e-commerce markets ensures that it does not go head-to-head with the big US competitors such as Amazon and eBay and, thereby, potentially entrenches a dominant market position for itself. Naspers will ultimately be a winner if it can use this market dominance to improve its path to profitability in the fast-evolving e-commerce industry. UP

[3] iResearch



The breadth problem in SA's equity market

Satish Gosai - Head of Trading

"Active portfolio managers aim to successfully apply their investment processes to add value to their clients by outperforming the market and their competitors. However, as I show below, active portfolio management is not without its constraints.

In particular, South Africa's hugely concentrated equity market imposes onerous constraints on large managers relative to their more nimble competitors, who have far more choice."

The concentrated SA equity market

As shown in the chart below, the South African equity market is extremely concentrated: ie a very small number of large shares make up the bulk of the value of the total stock market. Based on market capitalisation, 61% of the South African equity market is made up of just 10 shares and 20 shares make up 73% of the market, highlighting just how concentrated it is.

The sectoral structure of the South African equity market has changed over the past few years. Driven by relative sector performance, the market is now dominated by industrial shares compared to a much larger resource weight 10 years ago. As at the end of December 2013, the sectoral breakdown of the market was 51% industrials, 31% resources and 18% financials.

Breadth and other investing constraints

In a paper published in 1989, 'The fundamental law of active management', the academic Richard C. Grinold set out that a portfolio manager's ability to add value to clients is a function of two factors. The first is the portfolio manager's skill in taking correct decisions and forecasting expected returns. The second is the breadth of opportunities the manager has, over which to exercise this skill. This can be understood to be the size of their investable universe (the number of instruments they have to choose from) and their time horizon.

In 2002, further research by Clarke et al. introduced a third component to understanding active portfolio management. This component, the transfer coefficient, factored in the portfolio manager's restrictions when transferring their ideas into their portfolios.

There are a number of factors that affect managers' ability to transfer skill into their portfolios. These include trading liquidity, the market capitalisation of the company and regulatory restrictions.

Limitations to large SA managers as they grow

Due to the extreme concentration in the South African equity market, the size of an investment manager's firmwide equity assets under management can materially reduce the breadth of their investable universe.

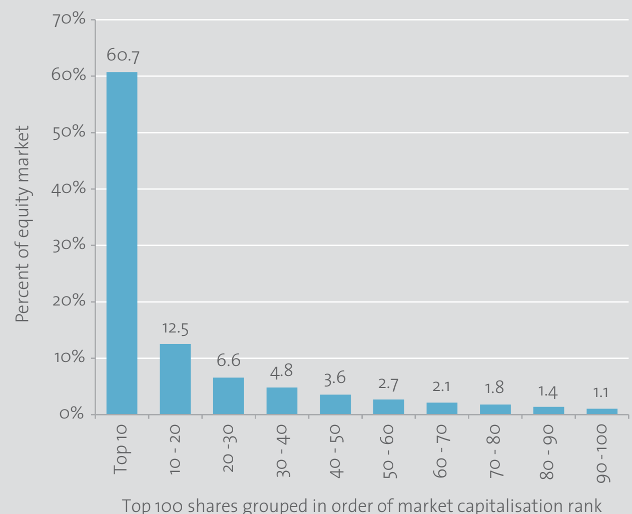
The chart over the page displays the investable universe of shares which can make up at least 5% of different sized asset managers' portfolios. We show the universe with two constraints - one manageable and one very restrictive, ie owning not more than 10% or 25% of any one company's shares. It is evident from the chart that the larger the assets under management, the smaller the investment universe becomes.

For example, a portfolio manager who manages R60 billion of equity assets has 37 choices of companies that can make up at least 5% of its portfolios, without owning more than 10% of any one company. A manager with R200 billion in equity assets will find that the comparable investable universe shrinks to just 12 shares. This large manager additionally has only 27 shares in its universe if it relaxes the constraint and is able to hold up to 25% of any one company.

Subsequent risks

In order to maintain breadth as equity assets under management grow, the percentage of any one company held consequently needs to increase. The risks that arise from owning a large percentage of a company are two-fold. Holding large percentages of companies increases the time taken to trade into and out of those positions. Larger managers are simply less nimble in exploiting price movements. In addition, there is likely to be a negative share price impact from trading large proportions of

Breakdown of the SA equity market



Data is taken from FTSE JSE All Share Index
Source: Bloomberg, Kagiso Asset Management research

a company - the managers' buying or selling actions cause them to realise a worse price.

This dynamic is negative for the large manager's clients who have likely been attracted by strong performance. Significant growth in assets under management clearly reduces breadth for the portfolio manager and, therefore, the performance-generating ability that attracted the clients reduces with the larger asset base. Prospective outperformance is likely to be lower than historically achieved performance that was generated off a smaller asset base.

Scale considerations in other asset classes

Less efficiency in the South African fixed income market provides advantages to scale for the larger fixed income manager. Reasons for this include the large lot sizes of bonds, an ability to influence pricing on illiquid instruments and more pricing power with the banks that trade bonds.

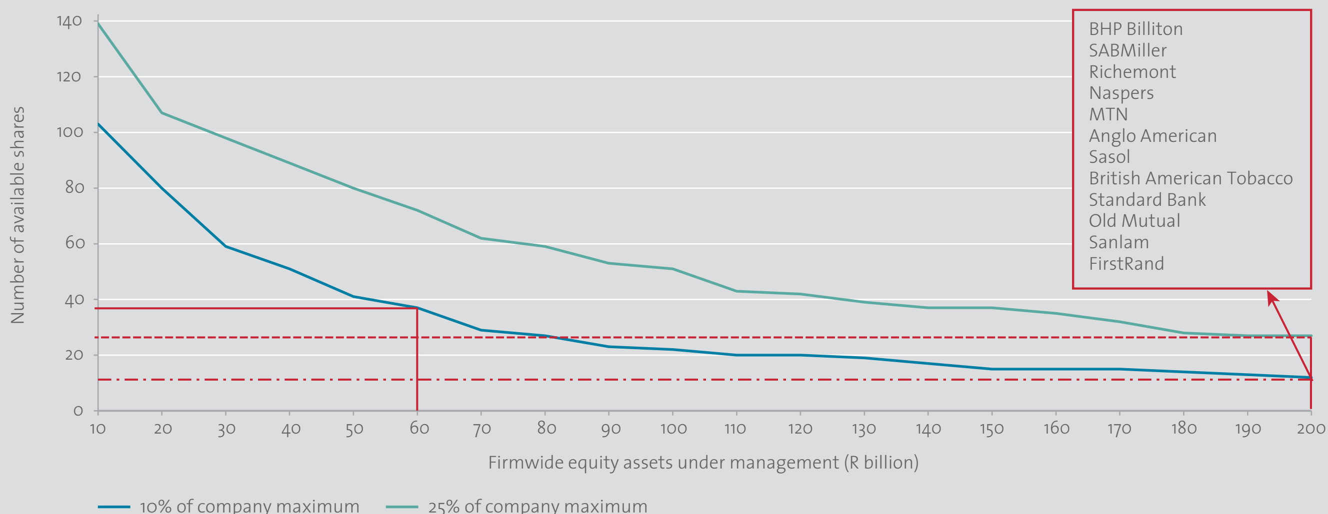
International equity is also very scalable. Given the size of global equity markets, particularly developed economies, local portfolio managers are able to efficiently implement investment ideas with minimal constraints.

Our position on market breadth

As a medium-sized asset manager, we are favourably positioned to deal with the market breadth problem. Compared to larger equity managers, our relatively greater investable universe allows for more efficient transfer of skill into client portfolios. This universe enables us to either hold very different portfolios compared to those of the larger asset managers, or very similar ones should we so choose.

We aim to continue to be able to deliver market-beating performance for our clients and this means that we will closely monitor the balance between South African equity market breadth and the potential to deliver outperformance. Before potential performance-generating ability becomes constrained by the equity market breadth problem, we will cap equity assets while continuing to grow our funds in other asset classes. UP

The investable universe for a 5% portfolio weight



Source: I-Net, Kagiso Asset Management research

Time to pause in Italy

Ross Heyns - Investment Analyst

"I travelled to Italy last year to visit Rome, spend a week sailing on the Amalfi coast and explore Tuscany. While the trip highlighted the distinct characters of the various regions, the common thread was people taking the time to enjoy the delicious food, natural beauty and ambience of the country."

Time to pause in Italy

Economic woes

Italy has been hit hard by the global financial crisis and ensuing sovereign debt troubles. Real GDP has fallen almost 9% since 2008[1], more than any other large wealthy economies, and government debt is greater than 130% of GDP - the second highest in the Eurozone after Greece.[2] Unlike many Southern European neighbours, Italy has not seen much benefit from integration into the EU and real GDP is now lower than in 2001.

Much of the country's economic stagnation is the result of structural problems, emanating from labour output lagging wage increases. Since adopting the euro, Italy can no longer adjust for this declining competitiveness by weakening its currency and structural reforms are difficult to pass through the legislative system, which is hamstrung by socialist influences in politics and powerful trade unions. Labour productivity has been trailing all OECD peers and is now below where it was in 2000. Other Southern European countries faced similar pressures after adopting the euro but productivity has improved after their governments undertook structural reforms following the financial crisis.

The current economic climate does not seem to have stopped Italians from enjoying life and I was surprised to see the number of young professionals carousing well past midnight in the middle of the week. Striking bus drivers and a few beggars suggested some signs of stress but, generally, the popular tourist areas I visited appeared unaffected. Admittedly, I did not visit the industrial regions that are most affected. Italy's economy is fairly fragmented geographically, with most of the manufacturing activity located in the developed industrial North, accounting for 90% of Italian exports[3].

Tourist economy

The towns that I visited were well supported by tourism, which often dominated their local economies. Popular debate has recently focused on the concentration of wealth among a small minority of the population - something I observed first-hand while sailing along the Amalfi coast. It is clear that the world's elite continues to enjoy enormous levels of wealth and has felt little impact from the current global economic environment.

[1] Goldman Sachs
[2] OECD
[3] Oxford University Press

An internet search revealed that the luxury yacht moored next to us one evening cost a modest R750 million second hand, or R5 million for a week to rent. I had expected to see a few luxury boats but was surprised by the vast number. Luckily, chartering an ordinary yacht is a relatively affordable way of seeing the coast and enjoying almost the same experience - if not in quite the same style.

Prior to the trip, I was a little nervous about testing my newly acquired skipper's license but I soon realised that driving was far more unsettling. However, navigating Italian roads did leave me confident in our clients' positioning in platinum. Cars have a hard life and it is rare to see vehicles more than a few years old without cosmetic damage as they are constantly threatened by buses on impossibly narrow roads, aggressive taxis and the famous Italian 'machismo'. Since 2007, vehicle sales have been weak and the age of the cars is beginning to show. Encouragingly for platinum-laden catalyst demand, diesel engines remain a familiar sight, influenced no doubt by the R22/l fuel price. This suggests that a recovery in European diesel car sales (a vital component of global platinum demand) is likely.

La Dolce Vita

While in Italy, I recognised a familiar theme of traditional manufacturing industries under threat from an increasingly global market place. Like South Africa, they are adapting to the change a little too slowly but there are still areas of growth and excellence. A lesson to take home from Italy is that, despite economic troubles, it is still possible to slow down and to enjoy life's simple pleasures. UP

Kagiso Asset Management Funds

Performance to 31 March 2014	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Unit trust funds[3]						
Equity Alpha Fund	25.2%	16.1%	22.8%	22.4%	26-Apr-04	1.48%
South African Equity General funds mean	20.7%	15.7%	19.8%	17.5%		
Outperformance	4.5%	0.4%	3.0%	4.9%		
Balanced Fund	17.1%	-	-	13.8%	3-May-11	1.62%
South African Multi Asset High Equity funds mean	15.5%			13.5%		
Outperformance	1.6%			0.3%		
Protector Fund	9.1%	7.5%	9.8%	11.3%	11-Dec-02	2.30%
CPI + 5%[4]	10.7%	10.9%	10.4%	10.8%		
Outperformance	-1.6%	-3.4%	-0.6%	0.5%		
Stable Fund	10.4%	-	-	9.8%	3-May-11	1.65%
Return on large deposits*	5.1%			5.2%		
Outperformance	5.3%			4.6%		
Institutional funds[5]						
Managed Equity Fund	26.3%	17.5%	23.5%	16.2%	1-Sep-06	
FTSE/JSE SWIX All Share Index	24.5%	19.3%	22.9%	15.1%		
Outperformance	1.8%	-1.8%	0.6%	1.1%		
Core Equity Fund	28.0%	19.4%	23.8%	20.8%	1-Nov-04	
FTSE/JSE SWIX All Share Index	24.5%	19.3%	22.9%	19.8%		
Outperformance	3.5%	0.1%	0.9%	1.0%		
Domestic Balanced Fund[6]	13.9%	12.4%	18.6%	10.5%	1-May-07	
Peer median[7]	16.0%	15.0%	19.8%	11.1%		
Outperformance	-2.1%	-2.6%	-1.2%	-0.6%		
Global Balanced Fund[8]	-	-	-	16.6%	1-Jul-13	
Peer median[9]				15.8%		
Outperformance				0.8%		
Sharia unit trust funds[3]						
Islamic Equity Fund	21.6%	12.5%	-	17.4%	13-Jul-09	1.27%
South African Equity General funds mean	20.7%	15.7%		18.4%		
Outperformance	0.9%	-3.2%		-1.0%		
Islamic Balanced Fund	17.9%	-	-	10.0%	3-May-11	1.57%
South African Multi Asset High Equity funds mean	15.5%			13.5%		
Outperformance	2.4%			-3.5%		

[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 March 2014; [3] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [4] CPI for March is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 28 February 2014; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [8] Global Balanced Fund and benchmark returns to 28 February 2014 and not annualised as fund less than 1 year old; [9] Median return of Alexander Forbes Global Large Manager Watch. * Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

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