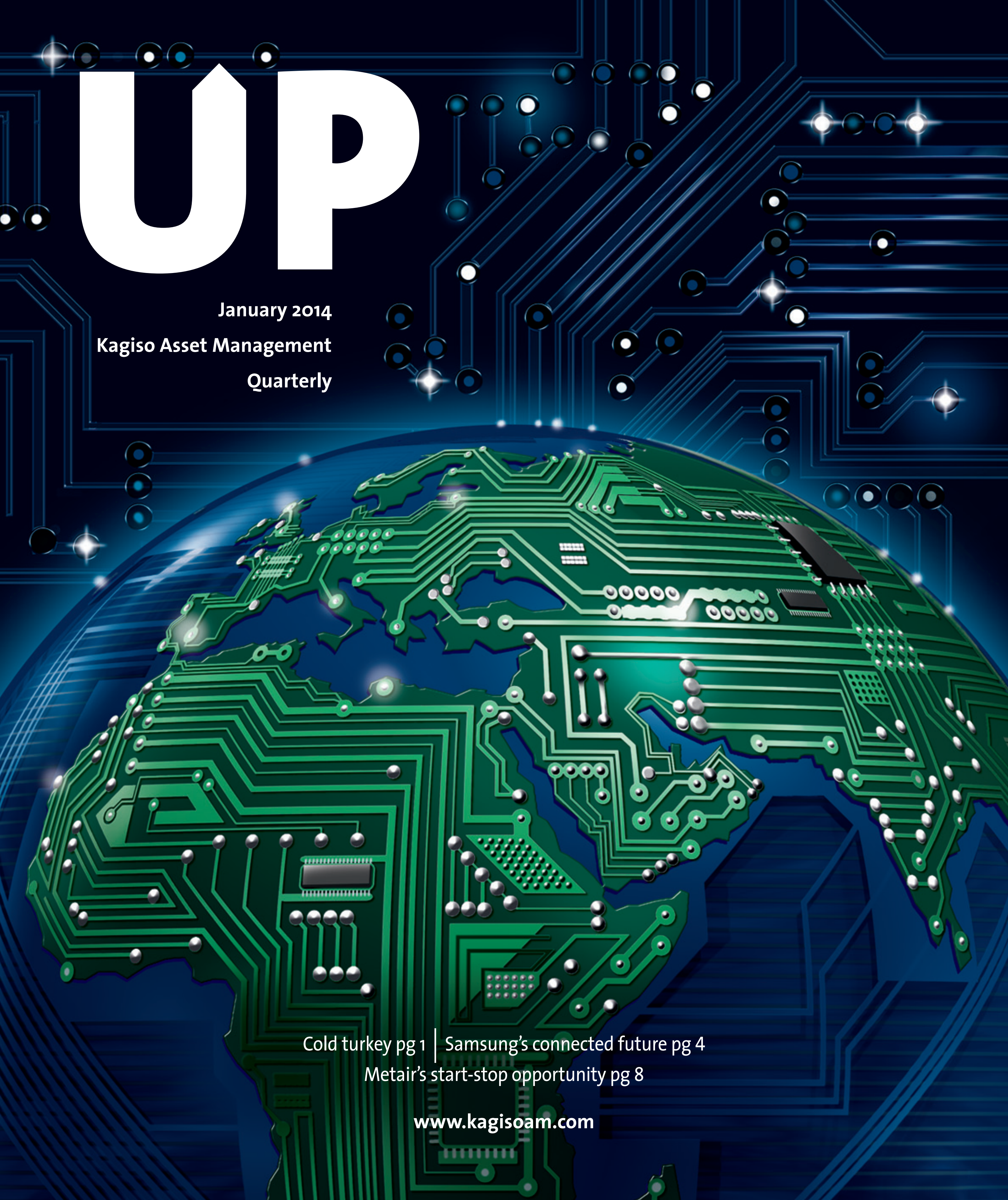
UP

January 2014

Kagiso Asset Management

Quarterly



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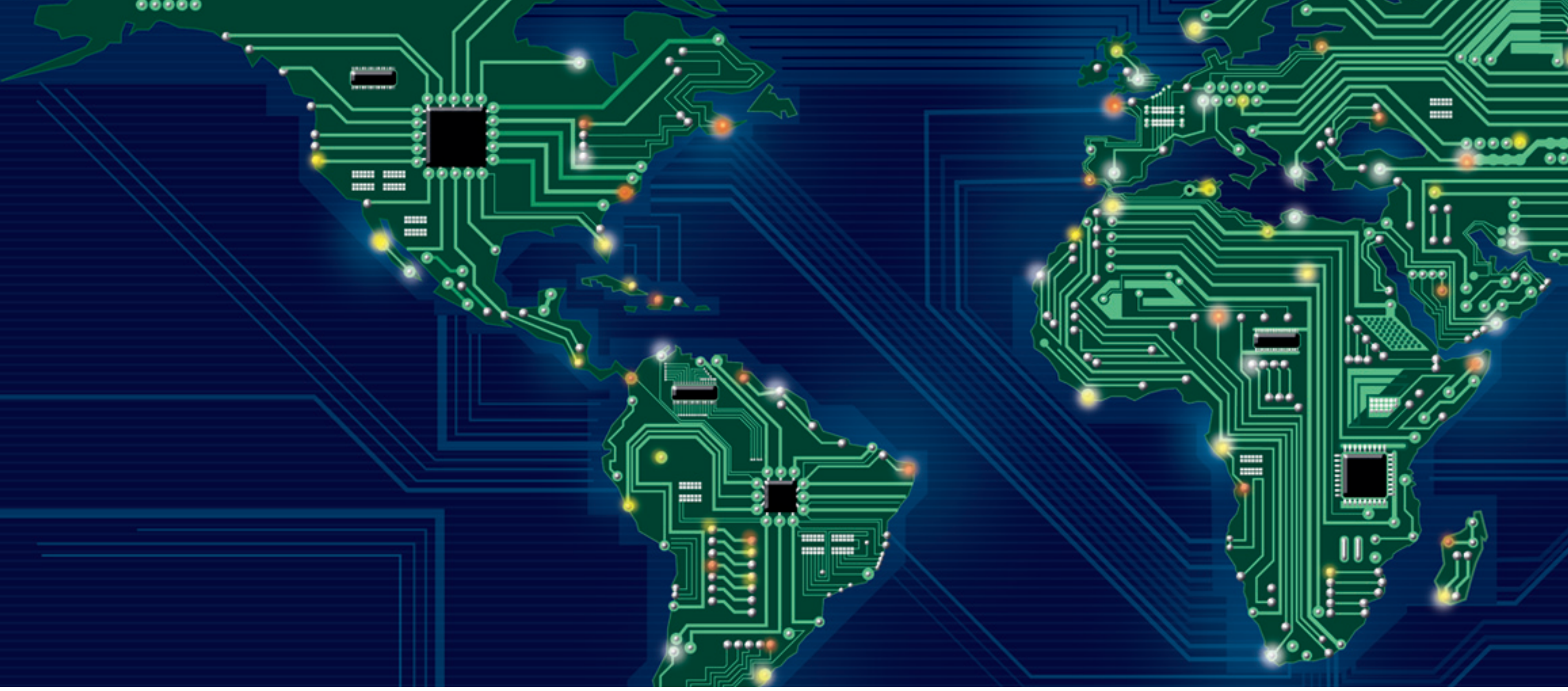


Cold turkey

Gavin Wood - Chief Investment Officer

"We have entered 2014, a mere five years since the financial world was in free-fall as a result of the US subprime mortgage market imploding and the unwinding of the preceding credit-fuelled excesses. Eminent financial institutions, such as Lehman Brothers, AIG and Bear Stearns went down in what has become known as the Great Financial Crisis. Market participants were panicking, fearing economic collapse, and selling their assets for whatever price they could get. It was the best buying opportunity of this generation."

Cold turkey

Five years on and most markets are at all-time (or at least multi-year) highs, marking a massive rise in asset prices from the March 2009 bottom. Uncertainty about the risks that the future holds in markets, as priced by the VIX index (currently around 13%) is at a near-record low. Optimism priced into markets is very high.

Interventions in markets

While there has been unprecedented government intervention in the global economy to stave off the crisis and its after-effects (from bailouts to fiscal stimulus and from open-ended Eurozone protection measures to Abenomics), nothing looms larger in markets than the actions of the US Federal Reserve.

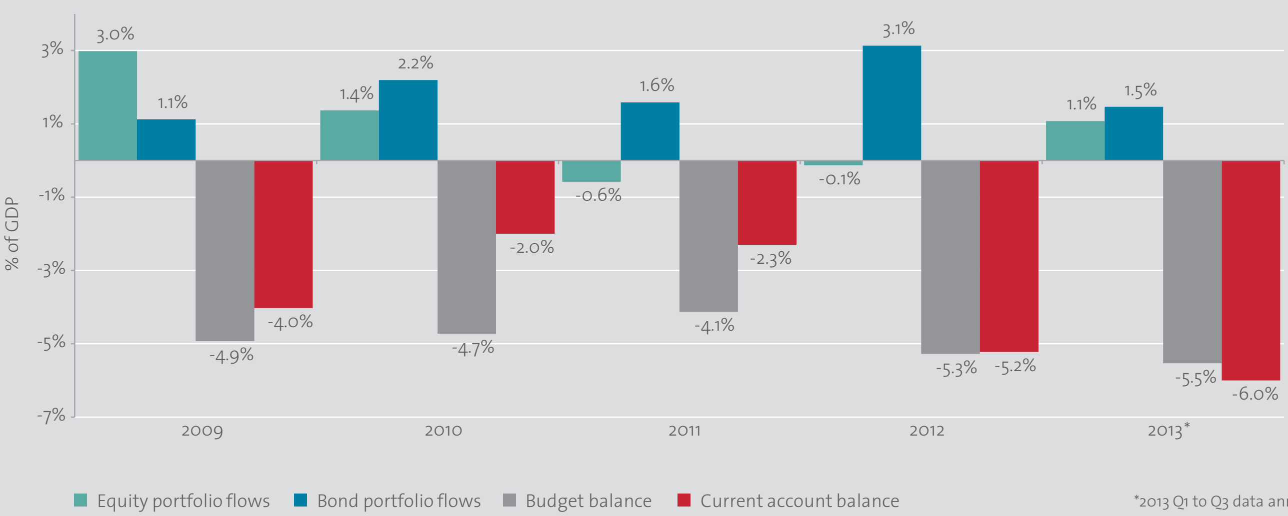
Their policy rate has been kept at practically zero for over five years and they have indicated an intention to keep it there for a few years more. Not content with merely anchoring short-term rates at zero, they have targeted long-term borrowing costs by purchasing bonds in the market with newly-created dollars - thereby reducing the stock of these bonds in private hands and forcing down yields. The Fed has more than quadrupled its assets over this period to more than US$4 trillion currently - roughly 25% of US GDP and more than the GDP of Germany, the world's fourth-largest economy.

The intention behind this grand monetary experiment is to spur on US economic activity through lowering borrowing costs for firms and consumers, weakening the dollar and encouraging expenditure via the 'wealth effect'. However, the real economic impact of this easy money appears to have been limited as growth is lacklustre and unemployment is stubbornly high. It has not stoked inflation as many had predicted - US inflation is now around 1.2%, from 1.1% five years ago. The impact on financial markets and asset prices, however, has been immense: record low bond yields, record high equity prices and remarkably low volatility - steady, trending 'green on the screen'.

The impact on SA asset prices

South Africa has been a particularly welcoming destination for the world's excess liquidity during this period. Our economy in general overspends each year, as evidenced by a persistently high current account deficit, currently over 6% of GDP. This has primarily been funded by material portfolio flows into our large, liquid and well-regulated bond and equity markets. Our government has been hungry for funds from abroad, with its fiscal deficit running at around 5% of GDP. These dynamics are illustrated in the graph below.

Foreign portfolio flows funding SA's deficits



*2013 Q1 to Q3 data annualised

Source: I-Net and Bloomberg

Foreign equity investors have been attracted by our well-managed companies, strong corporate governance, economic growth (slowing now) and access to exciting growth prospects of African countries to our north. Foreign bond investors have been attracted by our 'high' yields and well-managed fiscus.

The graph below shows how these foreign investors have particularly bought up South African industrial shares and government bonds over the period. They now hold an all-time record of around 50% of industrial and 38% of bonds, importantly at a time when these markets are at their peak sizes. Financial shares have also been bought, but to a lesser extent and resources shares have been sold down slightly.

The total returns from these asset classes (2008 - 2013) are shown on the same graph, disaggregated into the contribution to total returns from income distributions (company dividends, bond coupons), from earnings growth and from re-rating. 'Re-rating' is the improvement in the price of an asset relative to its recent earnings (or yield for bonds). It can be understood to represent some combination of, firstly, increased optimism regarding the prospects for the asset and, secondly, the asset's price simply implying lower future returns (ie becoming more expensive). The largest targets for foreign buying have clearly produced the best returns, with a significant portion of the returns coming from re-rating in both cases.

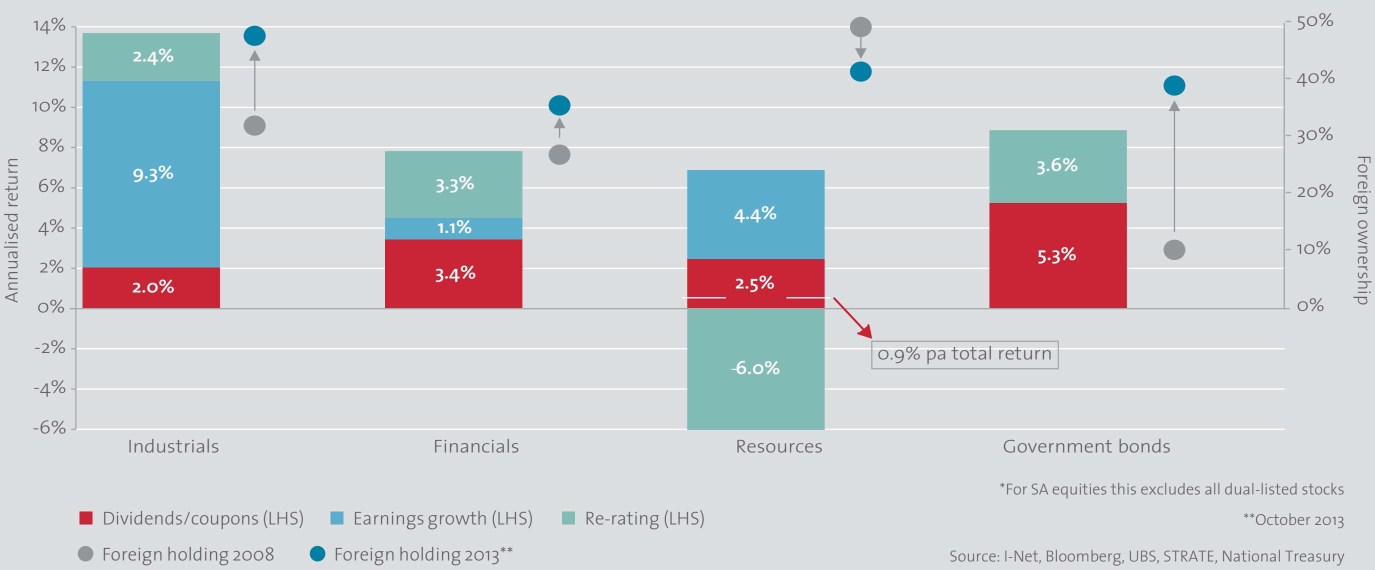
Industrial shares have also grown earnings rapidly (to what we view as unsustainable levels in many cases), some benefiting from a strong consumer cycle and some from the weakening currency last year. Resources shares, sold by foreigners, have barely produced any return over these six years, due to the significant (6% pa) de-rating they have experienced, despite growing earnings and paying dividends.

Looking forward

Prospectively we believe that, in a world of slowing stimulus and gradually improving economic activity in developed economies, industrial shares and government bonds are particularly vulnerable to foreign selling, given their significant foreign ownership. There is a risk of considerable capital loss in these asset classes as they revert back towards more realistic valuations, and perhaps overshoot due to foreign selling. Resources shares, and to a lesser extent financials, appear inexpensive to us (as do many smaller industrials) and are significantly less vulnerable to foreign selling.

Our clients' portfolios are well positioned to exploit this outlook. UP

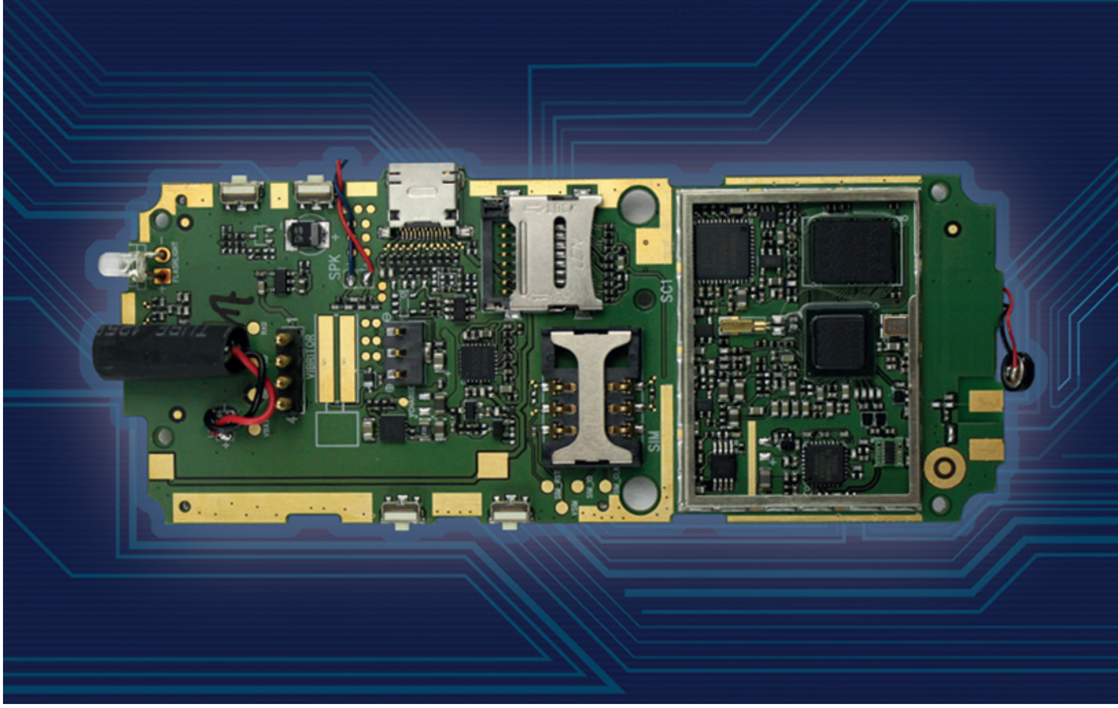
Disaggregated returns and changes in foreign holdings* (2008-2013)



*For SA equities this excludes all dual-listed stocks

**October 2013

Source: I-Net, Bloomberg, UBS, STRATE, National Treasury



Samsung's connected future

Ross Heyns - Investment Analyst

Samsung Electronics (Samsung)[1] is a South Korean firm that manufactures a wide range of electronic products and components. The company holds the leading market position in most of its key products.

In a world that is becoming increasingly interconnected, Samsung is uniquely positioned to benefit from the next phase of advanced consumer electronics. The web of internet connectivity is reaching deep into our everyday lives and should soon become ubiquitous in cars, medical devices and security systems - even extending to fridges, washing machines, garden irrigation and domestic lighting.

[1] Samsung Electronics is the large, listed electronics arm of the broader Samsung Group.

In future, it will be possible to perform previously manual tasks remotely or automatically with the advent of the 'smart home', 'smart office', 'smart car' and 'smart health care'.

Products

Samsung has capitalised from the first phase of mobile connectivity with its success in smartphones and semiconductors. These businesses currently contribute the bulk of the company's profits and are discussed in more detail further on. Samsung also produces a wide array of other devices and components that position it for future growth in a connected world. It is the leading manufacturer of LED display panels and produces a range of electronic products (such as televisions, laptops and tablets) as well as domestic and industrial appliances (such as fridges, washing machines and air conditioners). In addition, it designs and manufactures advanced sensors and imaging equipment used in healthcare and the hardware used in wireless networks.

The rapid rise of smartphones

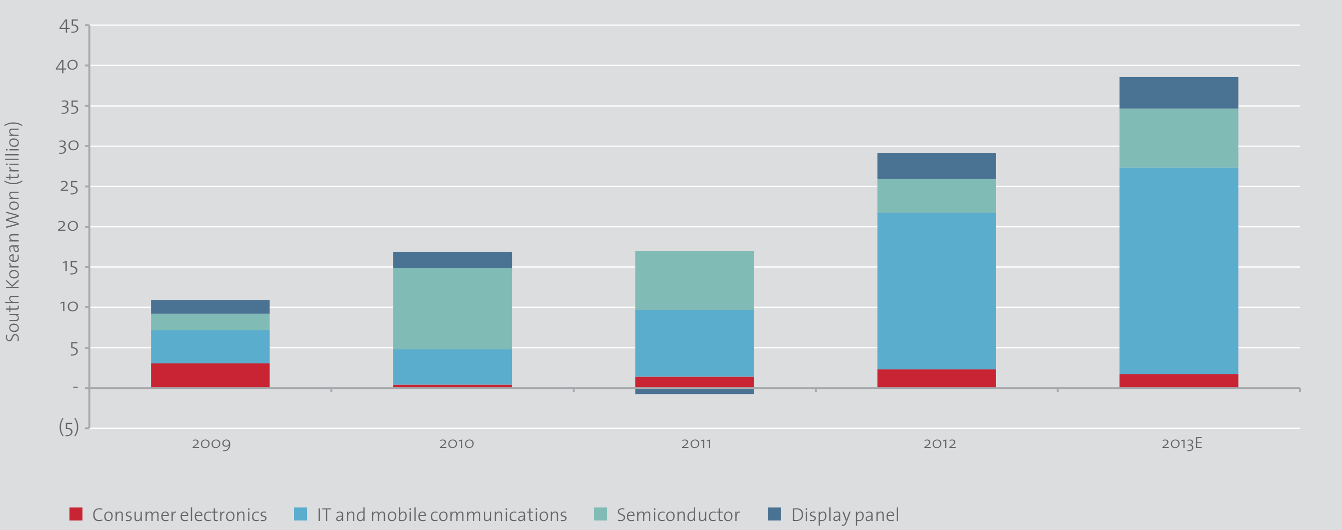
The chart below shows the dramatic rise in profits from Samsung's IT and Mobile Communications (IM) division, in which smartphone sales are the main contributor. Samsung has a long history of producing mobile phones, but its leading position (alongside Apple) in the global smartphone profit pool is a recent development.

The introduction of the iPhone in 2007 had a dramatic and disruptive impact on the global mobile phone hierarchy. This initiated the rapid growth in the premium smartphone category and resulted in the demise of the established market leaders as their technology became obsolete (see graph on the next page).

During the migration to high-end touchscreen smartphones, Samsung managed to build a formidable position in the global handset market and is now the world's largest manufacturer of smartphones (and mobile handsets in general). This position has provided the company with scale benefits that place it at a cost advantage unmatched by peers.

The chart over the page (right) shows that Samsung and Apple are the largest players in the global smartphone market with a 45% market share between them. Interestingly, they account for more than 100% of industry profits (some of their competitors incur losses, which reduce overall industry profits). The benefits of scale and pricing power clearly show through in an industry that requires heavy investment in research and development with short product cycles.

Operating profit contribution



Source: Company reports and Kagiso Asset Management research

Samsung's connected future

Samsung has the added benefit of vertical integration (ie it manufactures most of the components that are used in its devices), allowing it to participate in a larger share of the smartphone value chain. Vertical integration also allows the company to develop its devices in tandem with the development of its component parts. This ensures that devices include the latest hardware and reduces the lead time between model releases - helping to cement Samsung's leading market position.

Growth in smartphone profits will almost certainly be significantly slower going forward but we expect Samsung to defend its current position. Samsung continues to invest in research and development and uses vertical integration and an efficient supply chain to stay ahead of the technology curve. While demand for high-end smartphones is likely to mature and the devices will become more commoditised, there remains substantial scope to increase sales of mid-range smartphones in developing markets where penetration remains low. This broadening of the smartphone category and the growth in other devices, such as tablets, will compensate for maturing high-end smartphones within the IM division.

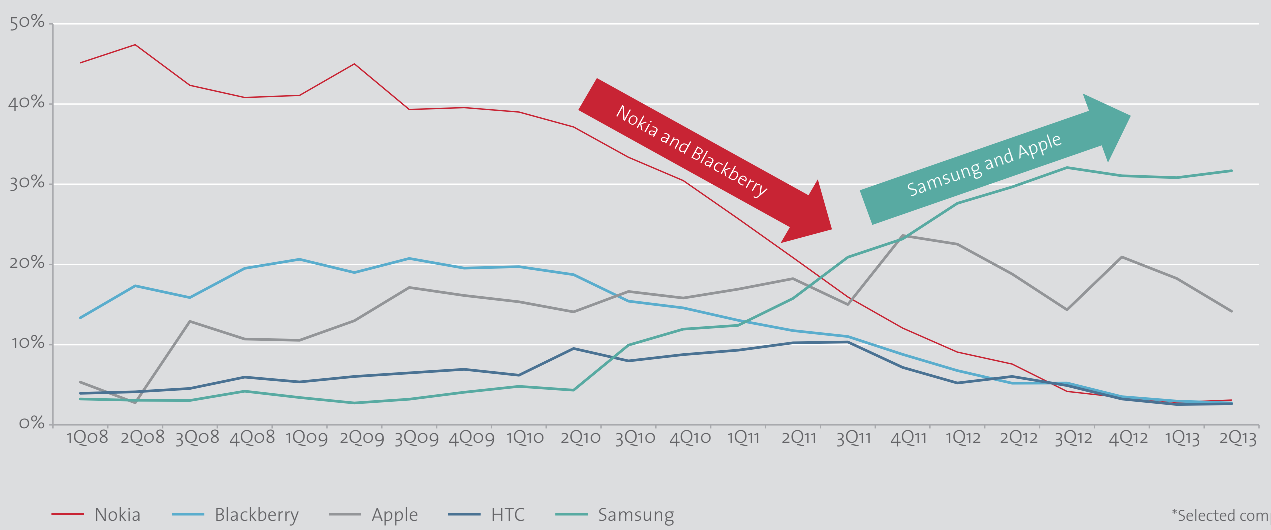
Semiconductors: the next profit growth area

Samsung's semiconductor division has underperformed in recent years. However, industry dynamics are now improving and the profit contribution from this division should grow. Samsung has long been the leader in advanced memory chips and continues to deliver significantly superior profit margins compared to competing manufacturers due to scale benefits and technology leadership.

The company produces two main types of memory chips: DRAM and NAND (or flash memory). DRAM provides the processing power that allows the device to perform required tasks, while NAND is used for storing data. NAND is found in memory sticks and the memory drives of smartphones, tablets and lightweight laptops. It is increasingly popular in portable electronics as it is robust and uses less power than standard hard drives. Samsung also manufactures mobile Application Processors (APs), where it has a dominant market position in standalone APs. The AP is the chip that runs smartphone applications and performs tasks such as memory management, graphics processing and multimedia decoding.

Samsung supplies these semiconductors to its own devices and to competing electronics manufacturers. Despite a sometimes adversarial relationship, Apple remains Samsung's largest external customer for semiconductors. Supplying components to other device manufacturers allows Samsung

Evolution of global smartphone market share*



*Selected companies

Source: Citibank and Gartner

to share in the success of competitor products and places it at the forefront of hardware development.

Samsung's focus on DRAM and NAND memory has ensured its technology leadership position, providing scale and pricing power. This has allowed the company to remain profitable over the last few years, while most competitors have been loss-making. Recent market consolidation should result in more sustainable profitability going forward as manufacturers are expected to exercise greater discipline in capacity investments. We expect improved profitability from the semiconductor division as the market balance improves, with demand driven by the proliferation of increasingly sophisticated consumer electronics.

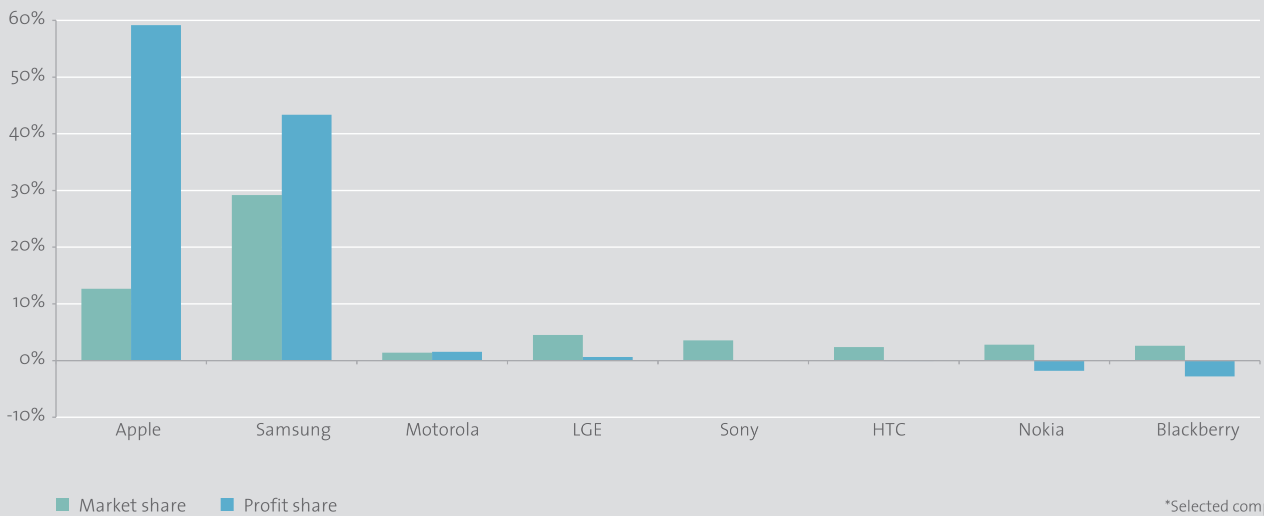
Valuation

Despite Samsung's global reach and leading position in almost all of its markets, it can be bought for a remarkably low price (a substantial discount to almost all South African listed companies). The company is very cash generative, has accumulated a substantial cash balance and continues to add to this significantly each year. In addition to the attractive valuation, Samsung provides South African investors access to a quality global company that has exposure to very different economic prospects to those of domestic companies.

Positioning for the future

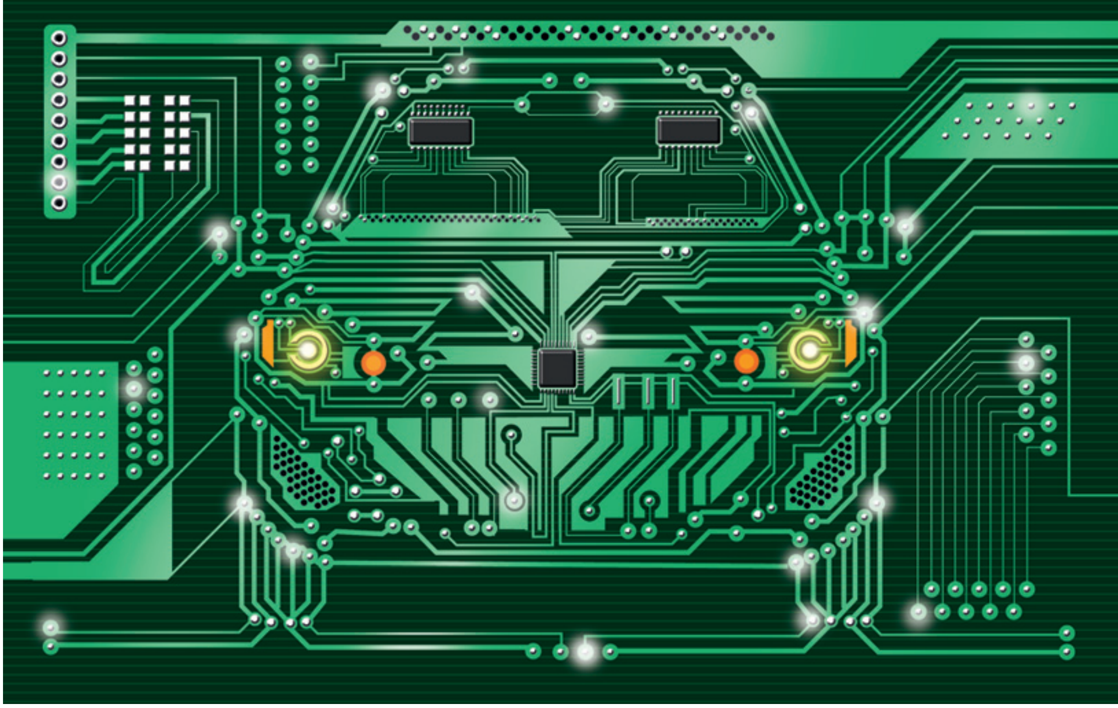
Our clients' investment in Samsung has already delivered strong returns and we believe that there is significant further upside. Samsung is a technologically diverse company that is able to use its scale to profit from highly competitive industries and continues to invest in research and development to entrench its leading position. While growth from mobile devices will slow, improving conditions in its semiconductor business should drive growth over the next few years. Beyond this, the vast suite of products outside of these core divisions, combined with the continued investment in new hardware, ideally positions Samsung to benefit from the interconnected world of the future. UP

Division of the global smartphone market*



*Selected companies

Source: Citibank



Metair's start-stop opportunity

Simon Anderssen - Investment Analyst

> Vehicle manufacturers, also known as Original Equipment Manufacturers (OEMs), across the world are racing to meet tightening emissions legislation. They are investing heavily in technology to achieve increased fuel economy and lower vehicle emissions through innovations such as engine downsizing, turbocharging and weight reduction. They are also looking at start-stop engine management systems as a cost effective solution.

JSE-listed Metair is one of a handful of global component manufacturers with the technology to supply the batteries used in start-stop systems. Through recent acquisitions, the company is deftly positioning itself to supply the European market, where start-stop systems are expected to be standard in most vehicles by 2020. We view this as an exciting and transformational opportunity for Metair and have positioned our clients' portfolios to benefit from this opportunity.

History

Metair is an automotive components manufacturer with close ties to Toyota South Africa as both companies were founded by Dr Albert Wessels in the 1960s. Metair initially produced pressed body panels for Toyota and other local vehicle assemblers. Over time, the business expanded and evolved to manufacture a variety of components, such as suspension springs, moulded plastic consoles and heating and ventilation systems.

In 2006, the Wessels family, through the holding company Wesco, divested their interest in Metair to investment companies CoroCap and Royal Bafokeng Holdings. This brought about a change in management and a renewed focus on growth.

Metair benefited from its relationship with Toyota, which then comprised 85% of group revenue, because the OEM was in the process of doubling local production to target the export market. However, the financial crisis wreaked havoc with the local industry and Toyota was particularly hard hit. From production of over 180 000 vehicles in 2008, Toyota cut output to 105 000 in 2009 - a 42% decline.

Focus on diversification

While this was a challenging period for Metair as profits vanished, the business responded with a determined focus on cash flows and cost competitiveness. Its product range was narrowed to capitalise on areas of competitive advantage that were sustainable. For example, it continued with its Smiths Manufacturing division, which assembles ventilation and air-conditioning units that are light weight, yet cumbersome to move around. This increases the transport cost relative to the value of the item, making them less appealing for local OEMs to import.

Metair's ability to defend and grow its OEM business in a fiercely competitive global market needs to be evaluated in the context of the decline in South Africa's manufacturing competitiveness against low-wage countries in the East, such as Thailand and China.

Metair has benefitted from government's support of the automotive industry, first through the Motor Industry Development Plan from 1995 and then the Automotive Production and Development Programme (APDP) from 2013. The impact of these policies is substantial in maintaining an automotive industry in South Africa. There are mixed views on whether they are appropriate for our economy given the cost to the fiscus (and indirectly the cost to consumers through more expensive motor vehicles) and the relatively low labour-intensity of the sector. There is therefore a risk that government incentives will shrink when the APDP expires in 2020.

Metair is actively addressing this risk through a combination of international expansion and increased exposure to the aftermarket segment (see left chart on the next page). It also reduced its South African OEM sales to only 56% of group revenue in 2012.

First National Battery: an aftermarket jewel

The 'aftermarket' refers to the secondary or spare parts market for motor vehicles. Suppliers into the aftermarket typically have margins that are higher than those achieved by supplying OEMs. However, this channel is increasingly controlled by dealership service departments that lock vehicle owners in with motor or service plans.

Vehicle batteries are a unique aftermarket sub-category. Metair's wholly-owned subsidiary, First National Battery, is the largest supplier of lead-acid car batteries in South Africa, under the Raylite brand and through a network of 120 franchised Battery Centres.

This sub-category is attractive for a few reasons:

- Supply is typically protected from imports because batteries are heavy, and therefore expensive to transport, and environmental legislation often restricts trade in lead products.

Metair's start-stop opportunity

- Demand is inelastic as a vehicle without a functioning battery is of little use and purchase decisions are frequently based on availability, not price.
- Batteries have a natural four to five year replacement cycle.
- Aftermarket battery demand in South Africa is expected to grow as car sales over the last decade have exceeded the rate of scrapping. The vehicle population has therefore grown and aftermarket battery demand will continue to increase, with a four-to-five-year lag to account for the replacement cycle.
- A specific attraction of First National Battery is its closed lead recycling loop. Each time a new battery is sold, an old battery is scrapped for little or no fee. The company is the only South African manufacturer with the facilities to recycle and reuse the lead in new batteries. This is an advantage because the cost of recycled lead is usually lower than mined lead.

Together, these characteristics inform our view that First National Battery is the highest quality business in Metair's portfolio. Start-stop batteries are expected to enhance this value.

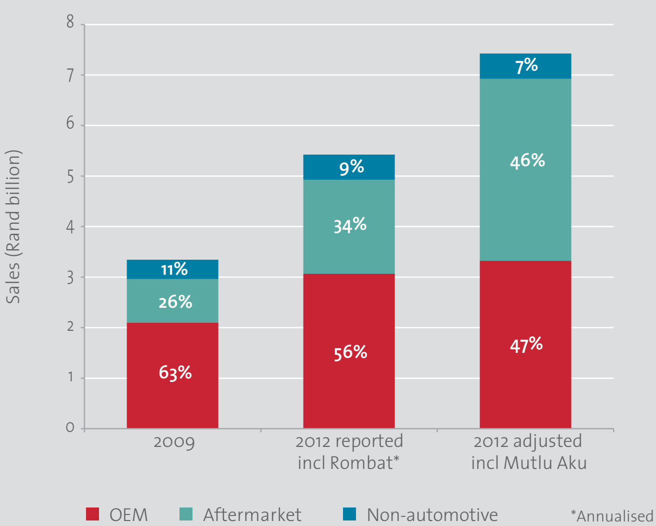
Start-stop batteries are the next decades' airbags

Tightening limits on vehicle emissions are forcing changes across all OEMs. Start-stop systems reduce emissions by 7-10% by switching off a vehicle's engine when idling or not in motion. When the engine is off, the vehicle relies on a battery to power all on-board electronics, including power-hungry air conditioning.

Start-stop batteries are physically larger than traditional lead-acid batteries. This is to increase the stored charge that is necessary to power the vehicle for extended periods without the engine running, and to survive the significantly greater number of engine restarts. Internally, a start-stop battery differs from a traditional lead-acid battery in a number of ways, including the ability to self-regulate operating pressure and the rate at which the cells discharge and recharge.

Start-stop is a compelling solution, along with other innovations in design, to achieve future emission limits as it optimises a well-established fuel source (gasoline and diesel). It also relies on existing fuel-distribution infrastructure, unlike, for example, electric vehicles.

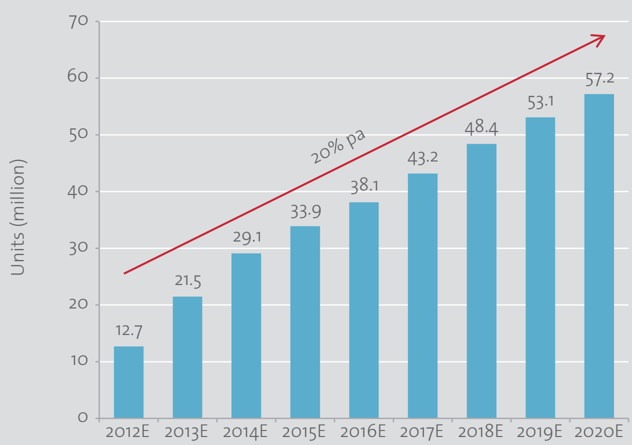
Metair's sales by market segment



*Annualised

Source: Company reports and Kagiso Asset Management research

Growing demand for start-stop batteries



Source: Frost & Sullivan forecasts

As a result, start-stop systems are expected to grow by 20% per year until 2020 (see right chart below). At this rate, a technology that is currently a relatively scarce feature will become ubiquitous by the end of the decade. This is similar to the safety initiatives in the 1990s that led OEMs to incorporate features such as airbags, that are considered standard in new vehicles today.

Alliances and acquisitions

First National Battery is one of a few international manufacturers with the intellectual property to manufacture start-stop batteries that meet the operating and safety requirements set by global OEMs. Interestingly, this knowledge comes from many years of making battery packs for cap-lamps used in underground mining.

The company refined this expertise in collaboration with an alliance of German carmakers. Following many years of research and development, the company today supplies all the start-stop batteries fitted in the BMW 3-series produced in South Africa and will supply the new Mercedes-Benz C-Class from 2014.

However, First National Battery's ability to capitalise on its technology asset is limited by its geographical distance to major production centres in Europe. Metair therefore set out on a disciplined acquisition-led growth path with the assistance of its OEM partners.

In 2012, Metair concluded the acquisition of Romanian battery manufacturer, Rombat, followed by a deal in December 2013 to buy Mutlu Aku in Turkey. Both acquired companies have desirable characteristics, including a dominant share of a growing domestic aftermarket business and the fact that they are major suppliers to local OEMs. These features support the acquisitions as standalone opportunities.

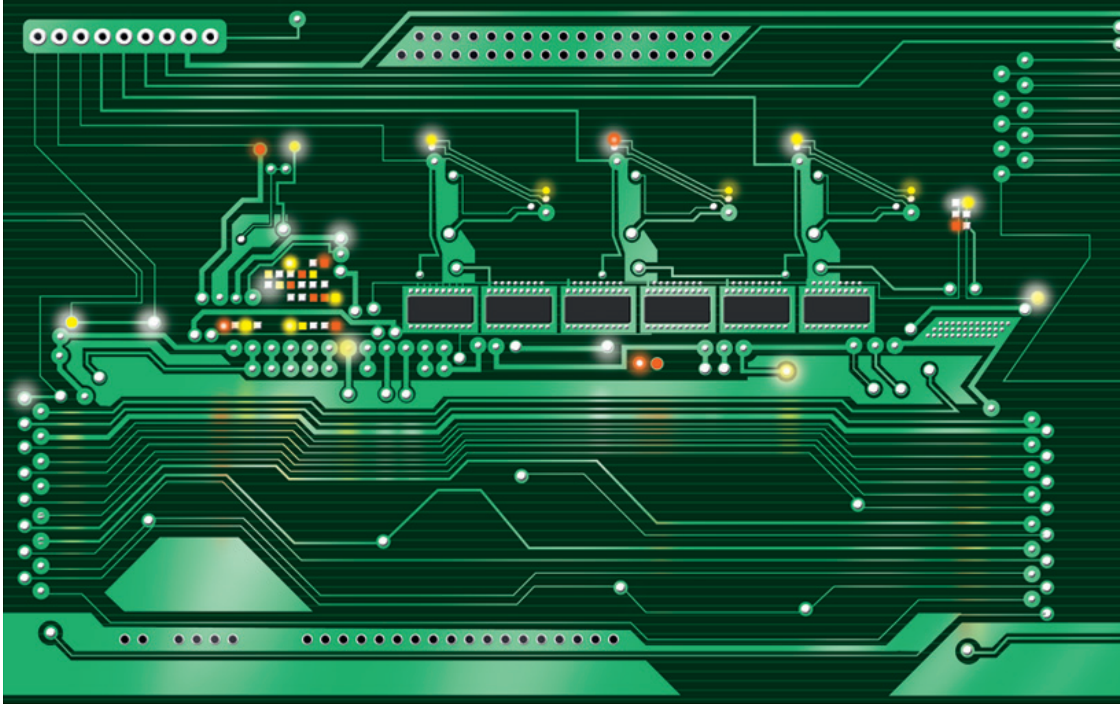
Crucially, both companies also have the existing capacity and resources to install the production facilities that will allow a transfer of technology from First National Battery, enabling the manufacture of start-stop batteries. Once commissioned and then certified by OEMs, we expect these plants to supply regional manufacturers, many of whom are existing customers.

From a profitability perspective, start-stop will have a more significant impact once adoption matures and aftermarket demand for replacement batteries becomes meaningful. This is because profit per battery is greater than for traditional lead-acid batteries, a consequence of being physically larger, more expensive and more complicated to replace.

Therefore, the enhanced profit from start-stop demand will be realised by Metair over an extended period because of the relatively nascent stage of the technology and a four to five year battery replacement cycle.

Investing for growth

Metair has proven its manufacturing credentials by profitably growing its OEM business in South Africa in competition with low-cost international manufacturers. We believe that these credentials, and its newly acquired manufacturing capacity close to attractive northern hemisphere vehicle markets, support Metair's aim of achieving a five percent to ten percent share of global start-stop battery demand by 2020 and provide our clients with an attractive investment opportunity. UP



Glencore Xstrata's unique mix

Rubin Renecke - Investment Analyst

"Glencore's recent takeover of Xstrata has created the world's fourth largest mining company, which has a diversified portfolio of assets and offices in over 50 countries.

This mining group differentiates itself from its competitors mainly through its commodity trading division, its dominant position in a number of commodities that are not produced by the other large miners and the absence of iron ore mining in its portfolio."

The two companies' histories have been inextricably linked since 1990 when Marc Rich + Co AG acquired a 38.5% shareholding in a company called Südelektra AG. These companies would later become known as Glencore and Xstrata respectively.

Glencore Xstrata concluded a secondary listing on the JSE in November 2013. Its primary listing is in London and another secondary listing is in Hong Kong. This development gave South African investors a third global diversified miner to choose from in addition to Anglo American and BHP Billiton.

History

In 1974, Marc Rich, together with his partners Pincus Green and Alec Hackel, founded Marc Rich + Co AG in Zug, Switzerland. The company initially focused on the physical marketing of ferrous and non-ferrous metals, minerals and crude oil. Shortly thereafter, it expanded into oil products.

During the early 1980s, the company acquired various assets, adding grain and coal to its list of marketed products. In the late 1980s, through acquisitions in mining, smelting, refining and processing, the business transformed from a pure commodity marketing company into a diversified natural resources group.

In 1990, Marc Rich + Co AG became a majority shareholder in Südelektra Holding AG, which later became known as Xstrata. Südelektra AG, established in 1926 as a Swiss infrastructure company, diversified into mining during the 1990s and built a portfolio of businesses operating in the natural resources sector.

Marc Rich sold his interest in Marc Rich + Co AG in 1994, resulting in the company being renamed Glencore International plc. In the late 1990s and early 2000, Glencore accumulated a number of coal assets, which together made up a substantial coal mining company. In 2001, the company attempted to list its coal assets on the Australian Stock Exchange under the name Enex, but the initial public offering was derailed by the September 11 New York terror attack. Xstrata's CEO at the time, Mick Davis and the current Glencore CEO, Ivan Glasenberg, pursued an alternative to the listing. This resulted in Glencore selling Enex into Xstrata in exchange for a 40% shareholding.

After operating as a partnership for almost forty years, Glencore International plc listed on the London and Hong Kong stock exchanges in May 2011.

Glencore Xstrata was formed following the merger of Glencore International plc and Xstrata plc in May 2013. Interestingly, the CEOs of both Glencore and the ex-Xstrata businesses are South Africans.

Company overview

The Glencore Xstrata group has a number of unique characteristics compared to its locally-listed mining competitors. It has a very different profit make-up that is dominated by three key divisions: marketing (commodity trading), copper and coal. The pie charts on the next page show how different Glencore Xstrata's profit composition is compared to Anglo American and BHP Billiton.

Marketing

The marketing division sources a diversified range of physical commodities from third party suppliers and from the group's mining assets. It then sells these commodities, often with value-added services such as freight, insurance, financing and/or storage, to a broad range of consumers and industrial commodity end-users.

Glencore Xstrata generates profits from its marketing activities by exploiting fragmented and volatile markets, which gives rise to arbitrage[1] opportunities. Traders at the company use differences in location, quality and time to make profits.

For example, location (or geographic) arbitrage exploits pricing differentials in different regions of the world. In the oil market, West Texas Intermediate (WTI) crude oil produced in the Gulf of Mexico generally commands a price premium over Brent crude oil because of its superior properties. However, Brent crude oil trades at a higher price than WTI. Traders can therefore divert oil destined for the US and sell it into Europe at a higher price.

The majority of the marketing division's transactions are principal transactions where Glencore Xstrata buys a

[1] Arbitrage refers to profiting from the differences in the price of equivalent securities, commodities or currencies when they are simultaneously traded on more than one market.

Glencore Xstrata's unique mix

commodity from a source and owns that commodity for the brief period between when it takes delivery from the source and supplies it to the customers. This method of transaction requires working capital (short-term debt) to fund the purchase and storage of the commodity during this brief time. Managing this working capital exposure is one of the key risks to the business.

Prior to the merger, the marketing division was the key source of profitability, contributing about 45% to group profits. While this contribution will be diluted to about 20% of group profits in the merged unit, it is nevertheless meaningful.

Copper

Glencore Xstrata is the third largest copper producer in the world. Despite being similar in production size to BHP Billiton, Glencore Xstrata's copper division contributes a more meaningful percentage of profits given the dominance of iron ore in the BHP Billiton profit pool. Looking ahead, we believe that the demand and supply outlook is more positive for copper than for iron ore. However, both metals still trade above our estimates of long-term prices and we expect prices to come down further in the medium term.

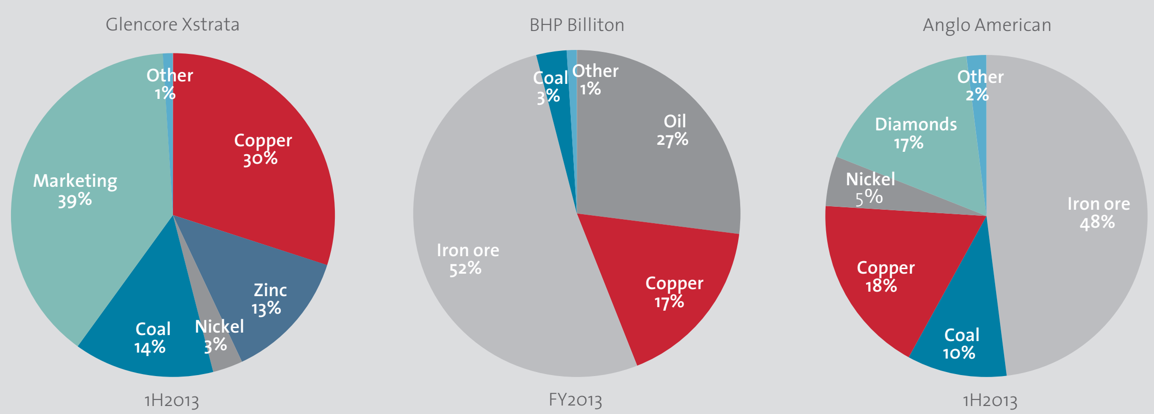
Coal

Glencore Xstrata is the world's largest export thermal coal producer and, based on production tonnages, surpasses its closest rival by more than 70%. The coal assets, comprising 33 mines, are concentrated in three countries: Australia, South Africa and Colombia. Coal prices have been particularly hard hit by structural changes in the thermal coal markets following the shale gas boom in the US. Thermal coal prices are currently trading slightly below levels we believe are fair long-term prices.

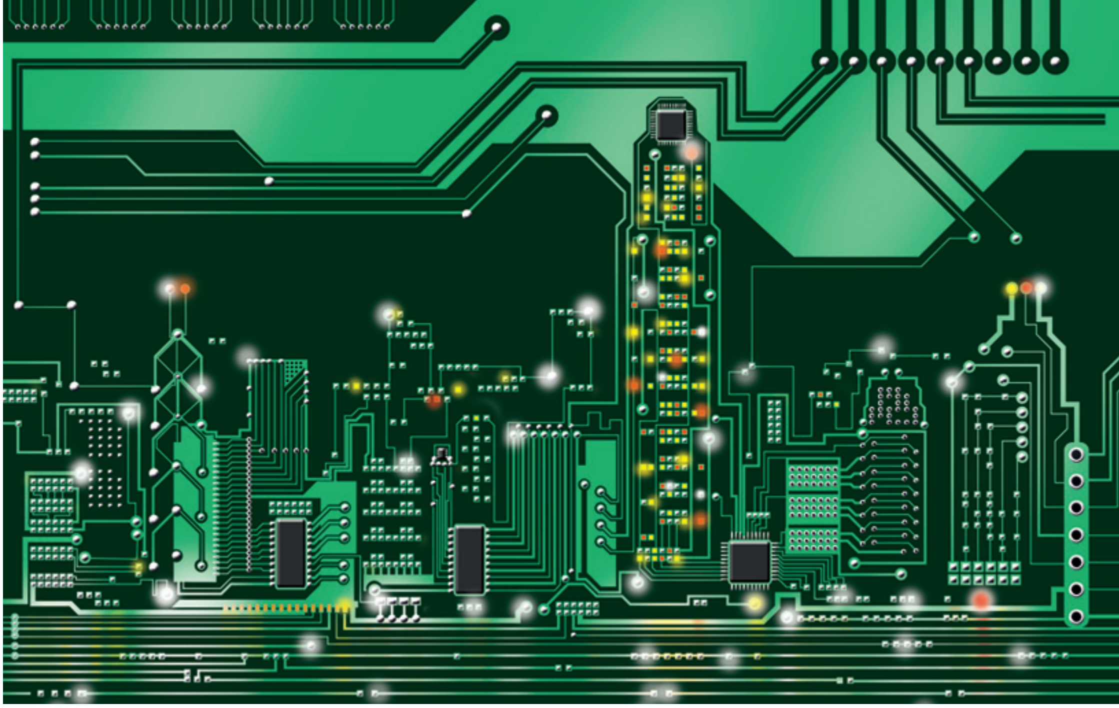
Refreshing choice

While Glencore Xstrata offers local investors a refreshingly new and differentiated investment option, we believe the share is reasonably priced at current levels. We see greater value in shares like Anglo American and African Rainbow Minerals and continue to maintain our clients' investments in these stocks. UP

Profit compositions



Source: Annual reports, company presentations



High-end Hong Kong

Aslam Dalvi - Investment Analyst

"Late last year, I had the opportunity to visit Hong Kong in order to better understand the platinum jewellery and luxury goods markets. I was also fortunate to have some time to explore the city.

Hong Kong is well known for its famous skyline and the first thing you notice driving in are the huge skyscrapers. The city has about 1 300 multi-storey buildings, more than double the number in New York."

High-end Hong Kong

By day, a glance across the harbour is a wonderful sight, with skyscrapers defining the shoreline as far as the eye can see. By night, the buildings are lit up magnificently, illuminating the city skyline.

Using the city's well-developed transport system, I found travelling very easy. Taxis or trains can be used to traverse the island and I highly recommend the ferry - if only for the breathtaking view of the Hong Kong shoreline.

History

There's a stark contrast between Hong Kong and the rest of China from both an economic and social perspective. This can largely be explained by the rich history of Hong Kong, which, located in the South East of China, was a former British colony. Together with certain surrounding territories, it was claimed by Britain after they defeated the Chinese during the first opium war (1839 - 1842). In 1997, more than a century later, Hong Kong and the New Territories were handed back to China, officially ending British colonial rule. As part of the declaration, Hong Kong was allowed certain concessions and, despite being under Chinese rule, it has maintained its autonomy with its own economic and legal systems.

Hong Kong today

Hong Kong has a population of around seven million and is split into three main areas: Hong Kong Island, the New Territories and the Kowloon Peninsula. Hong Kong's GDP per capita (about US$36 700)[1] is estimated to be higher than many developed economies. Tourism is an important part of the economy and the city attracts an astonishing 40 million visitors each year.

Easy access to Macau (a former Portuguese colony, now part of China), luxury shopping, a vibrant atmosphere and bustling night life draw visitors to Hong Kong. These factors have contributed to rocketing demand for property from wealthy Chinese buyers, resulting in a substantial rise in property prices over the last five years. Today, the Hong Kong property market is one of most expensive in the world, with larger apartments selling for around US$25 000 per square meter.

Luxury shopping

Hong Kong is well known as a luxury goods shopping destination. The streets - typically filled with thousands of busy shoppers - are best explored in the evening when many stores are impressively branded with vibrant displays, often covering entire buildings.

Low duties and taxes on luxury items - with prices generally 30% cheaper than anywhere else in the East - are key draw cards for well-heeled shoppers. Alternatively, visitors can shop at the cheaper informal markets around Kowloon and experience a more colourful and traditional side of Hong Kong, where new developments coexist with more dilapidated and traditional buildings.

Walking the streets, I was astonished to see several stores from the same luxury brand only a few meters apart - for example, there were four Cartier stores within short walking distance of my hotel. While odd at first glance, this reflects the reality of limited retail space and rapidly growing demand.

I was also surprised to see a relatively broad mix of high-end luxury goods in mainstream stores. It was common to find a three or six carat diamond for sale in a typical jewellery store, underlining the broad-based demand for high-end luxury across the region. This was reinforced when I looked at the average age of shoppers, which varied from the elderly to young teenagers, whose parents were buying them their first luxury items.

The trip confirmed my view that there is substantial underlying demand for jewellery in Hong Kong and greater China. Medium-term demand will likely be driven by continued strong economic growth in China, a rapidly rising middle class and substantial room for growth in personal consumption.[2]

Returning home, I reflected on the cultural affinity of these markets to luxury and jewellery, which is arguably unique to Eastern cultures. UP

[1] The World Bank
[2] The IMF World Economic Outlook Update (July 2013) expects growth in China to average 7¾ percent in 2013 and 2014.

Kagiso Asset Management Funds

Performance to 31 December 2013	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Unit trust funds[3]						
Equity Alpha Fund	24.5%	14.9%	20.4%	22.3%	26-Apr-04	1.48%
South African Equity General funds mean	19.4%	14.3%	17.3%	17.5%		
Outperformance	5.1%	0.6%	3.1%	4.8%		
Balanced Fund	19.8%	-	-	14.0%	3-May-11	1.64%
South African Multi Asset High Equity funds mean	18.1%			13.9%		
Outperformance	1.7%			0.1%		
Protector Fund	12.0%	6.8%	9.0%	11.3%	11-Dec-02	3.34%
CPI + 5%[4]	10.5%	10.8%	10.4%	10.7%		
Outperformance	1.5%	-4.0%	-1.4%	0.6%		
Stable Fund	12.8%	-	-	9.9%	3-May-11	1.66%
Return on large deposits*	5.0%			5.2%		
Outperformance	7.8%			4.7%		
Institutional funds[5]						
Managed Equity Fund	25.1%	16.3%	21.2%	16.0%	1-Sep-06	
FTSE/JSE SWIX All Share Index	20.7%	17.6%	20.6%	15.0%		
Outperformance	4.4%	-1.3%	0.6%	1.0%		
Core Equity Fund	25.9%	18.0%	21.6	20.8%	1-Nov-04	
FTSE/JSE SWIX All Share Index	20.7%	17.6%	20.6	19.8%		
Outperformance	5.2%	0.4%	1.0	1.0%		
Domestic Balanced Fund[6]	17.4%	12.6%	15.7%	10.2%	1-May-07	
Peer median[7]	16.8%	15.3%	17.4%	11.0%		
Outperformance	0.6%	-2.7%	-1.7%	-0.8%		
Global Balanced Fund[8]	-	-	-	-	1-Jul-13	
Peer median[9]						
Outperformance						
Sharia unit trust funds[3]						
Islamic Equity Fund	20.8%	11.4%	-	17.1%	13-Jul-09	1.28 %
South African Equity General funds mean	19.4%	14.3%		18.5%		
Outperformance	1.4%	-2.9%		-1.4%		
Islamic Balanced Fund	18.1%	-	-	9.4%	3-May-11	1.64%
South African Multi Asset High Equity funds mean	18.1%			13.9%		
Outperformance	0.0%			-4.5%		

[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 December 2013; [3] Source: Morningstar; net of all costs incurred within the fund; [4] CPI for December 2013 is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 30 November 2013; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [8] Returns available from March 2014; [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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