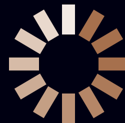
UP

July 2012

Kagiso Asset Management

Quarterly



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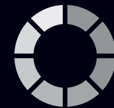

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Our business: 10 years later

Gavin Wood, Chief Investment Officer and Roland Greaver, Chief Executive Officer

"This year marks a key milestone in the history of our company - our 10-year anniversary.

Over the past decade, our business has grown substantially despite some key challenges, including more complex regulatory requirements, a tough operating environment and one of the worst crises in financial market history."

Our business: 10 years later

Where we are today

We founded Kagiso Asset Management in 2001 as a joint venture between Coronation Fund Managers and the Kagiso Group. In 2005, Coronation sold its stake in the company to key staff within Kagiso Asset Management and we effectively became an owner-managed business, independent of any large financial services group.

Today, we manage just under R39 billion on behalf of our clients, which represents a significant endorsement of our investment capabilities. We have delivered consistently strong investment performance. We are particularly proud of our Equity Alpha Fund, which has been the number one performing fund in the General Equity unit trust sector for more than 90% of the time since its inception in 2004.

Over the years, we have experienced robust growth in assets under management as we gained new clients from both the institutional and retail markets and existing clients increased the size of their investments in our various funds.

During this time, we expanded our product range to include asset allocation funds that comply with retirement fund prudential regulations. Our Balanced Fund and low equity Stable Fund share the same investment philosophy that has underpinned our equity funds for so many years. Our asset allocation process complements our proven equity process and simply deploys our investment thinking across multiple asset classes.

Furthermore, we established a strong presence in the Sharia investment space and were instrumental in fostering greater transparency in this market. Our Islamic Equity Fund has been a strong performer against its competitors since inception.

Key to our success has been our ability to attract, retain and incentivise the best investment talent and skills in the market. In an industry characterised by high staff turnover, we have retained core investment talent, many of whom have been with us since our inception. Over the years, our business growth has necessitated the need to substantially expand our team and our operational capacity. However, we have grown with careful attention to maintaining the organisational culture that has worked so well for us in the past.

Challenges along the way

Our growth and development was achieved in a decade that included the winding down of the global technology bubble, the US subprime mortgage debacle, the ensuing global financial crisis and the ongoing Eurozone debt crisis. Asset managers worldwide have been faced with increasingly volatile markets, greater regulation, high competition and a bigger focus on short-term performance.

During this period, we have continued to add value for our clients by remaining focused on our investment philosophy and the disciplined implementation of our investment process. Despite the heightened volatility and global uncertainty, we operate with conviction, think deeply and focus on valuing long-term cash flows in order to uncover investment opportunities for our clients.

What lies ahead

In terms of financial markets, the next decade promises to offer new and exciting challenges as the industry adapts to the changing investment landscape. The operating environment for asset managers will continue to be characterised by increasingly stringent regulations as authorities focus on managing investor risk. Locally and globally, managers are being challenged to consider environmental, social and corporate governance factors as part of their investment frameworks. After careful consideration, we have incorporated these factors in our investment process.

While we are particularly vigilant at this time, given the forces at play in global markets, we are confident that we are well placed to consistently deliver superior investment performance for our clients. We firmly believe that our outperformance potential stems from identifying great opportunities when our detailed fundamental research and analysis uncovers investments at prices well below the intrinsic value of their expected future cash flows.

In terms of our business strategy, we will maintain a narrow, focused product range that aims to meet our various clients' risk and return needs. We will remain mindful of the optimal size of assets under management to maintain our ability to outperform. Exceeding our clients' expectations will remain our driving force as we continue to strive for excellence. UP

The evolving cellular landscape

Ross Heyns - Equity Analyst

"Modern cellular networks were first commercialised in the early 1980's. The technology driving them and the demands placed on them have been evolving at an increasing pace ever since.

It took 100 years to build one billion fixed phone lines but only 20 years to add five billion mobile subscribers - and mobile broadband is set to grow even faster.

As mobile-voice market penetration approaches 100% across markets worldwide, networks are relying on the demand for data from sophisticated smartphones and other mobile data devices as the next growth area."

The evolving cellular landscape

Long Term Evolution (LTE) is the latest significant technological change to impact cellular networks. It has arisen out of the fast-growing data demands being placed on networks, fuelled by increasingly capable devices.

Insatiable customer appetite for speed

The initial data demands of SMS are worlds away from the requirements of today's smartphones, laptops, tablets and other devices. The functionality of these devices grew with the additional capacity and speeds that 3G (third generation) networks allowed them and have created a customer appetite that is stretching the current capabilities of 3G.

Cellular companies have two key forces driving them to invest in expanding the data capacity of their networks. Firstly, networks are faced with declining revenue from their voice services as markets mature, competitive and regulatory pressures drive prices down and voice traffic starts to migrate onto data networks. Data revenue and related services can offset this revenue decline. Secondly, in a fiercly competitive environment, networks need to attract and retain the loyalty of their speed-hungry mobile customers.

From 1G (first generation) to 4G (fourth generation)

Network technologies are often separated by a designated generation: 1G (first generation), 2G and 3G (see timeline below). In practise, the lines between generations are blurred. Simply put, 1G networks were analogue and only had voice functionality, while 2G moved to digital transmission and allowed for the provision of SMS and paid content such as downloadable ringtones.

This started a rapidly growing and increasingly demanding market for mobile data, placing a heavy burden on mobile networks and necessitating a continuing stream of technological improvements.

When 3G was introduced, it materially increased the speed at which data could be transmitted across mobile networks. 4G will increase speeds even further and use radio spectrum (see 'Radio spectrum') more efficiently, allowing mobile data to effectively compete with fixed line internet services.

Mobile data traffic surpassed voice traffic in the fourth quarter of 2009 for the first time (see graph on the next page) and has since grown at a rapid pace. According to Ericsson, the worldwide leading supplier of mobile telecommunications equipment, this trend is expected to continue. If this is the case, 3G will struggle to cope with this demand.

Currently, of the six billion mobile subscriptions at the end of 2011, about one billion contained broadband data services (3G and 4G). Last year, smartphones accounted for 30% of global

The history of cellular standards

Source: cellphones.org, Kagiso Asset Management research

handset sales, up from 20% the previous year and far higher in developed markets, research from Ericsson shows.

However, smartphones are still used by only 10% of existing mobile subscribers. This gives some indication of the growing data demand placed on networks and LTE has been developed to cater for this need.

Understanding LTE

In essence, LTE is a new mobile network technology that is being developed to meet the standards set for 4G networks. LTE has won against competing standards and is fast becoming the accepted measure to meet the data demands of current and future networks.

LTE allows for faster download speeds while using bandwidth more efficiently than 3G. The standards developed for LTE require it to be capable of providing peak downlink rates of at least 100 megabits per second, and for it to use radio spectrum two to four times more efficiently when compared to earlier technology.

The rollout of LTE networks worldwide has been constrained by delays in releasing the required radio spectrum. The efficient use of spectrum is important as this is a scarce, finite resource that is already being stretched to the limits in certain areas. The only way to provide more data capacity, using the same spectrum, is to use it more efficiently, which LTE does.

The technology of LTE

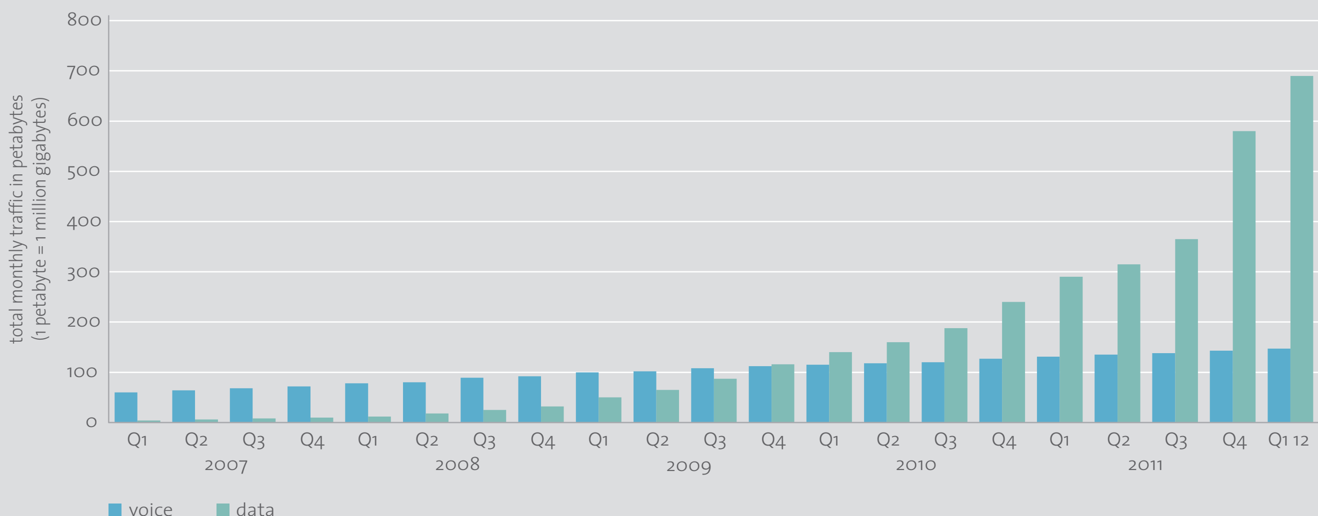
LTE is designed as an all-IP (internet protocol) network and does not support circuit switching. This means that it cannot carry voice calls in the traditional manner and is only able to support Voice over Internet Protocol (VOIP). Initially 2G and 3G networks will continue to carry the voice calls while LTE provides the data service. In practise, this means that LTE networks will not replace 2G and 3G networks, but will instead operate alongside them.

First LTE networks worldwide

The first commercial LTE network was launched in Sweden at the end of 2009 and 325 million people are now covered by LTE. At least 81 commercial LTE networks are expected to be in operation worldwide by the end of 2012.

USB dongles were the first devices able to use LTE networks. Since then, a number of smartphones, tablets and other devices have been developed to operate on these networks. The range of LTE capable products is likely to expand rapidly as LTE coverage spreads.

Global total traffic in mobile networks



Source: Ericsson (2012)

The evolving cellular landscape

LTE rollout in South Africa

While network providers in South Africa, such as MTN and Vodacom, have tested LTE networks, the commercial rollout of LTE networks will require the Independent Communications Authority of South Africa (ICASA) - the regulator for the South African communications sector - to release additional spectrum. ICASA is currently in the process of determining how best to allocate additional spectrum and is taking the opportunity to structure an auction to encourage increased competition in the market.

Radio spectrum

The deployment of LTE in South Africa is largely dependent on whether radio spectrum is made available to key mobile network operators. Fortunately, government's plans to roll out Digital Terrestrial Television by 2015 will allow additional spectrum to be made available. This rollout will bring analogue television broadcasts to an end and will require a decoder to receive the new digital television signal. South Africa has long been planning the migration from analogue to digital television and the process finally seems to be gaining traction.

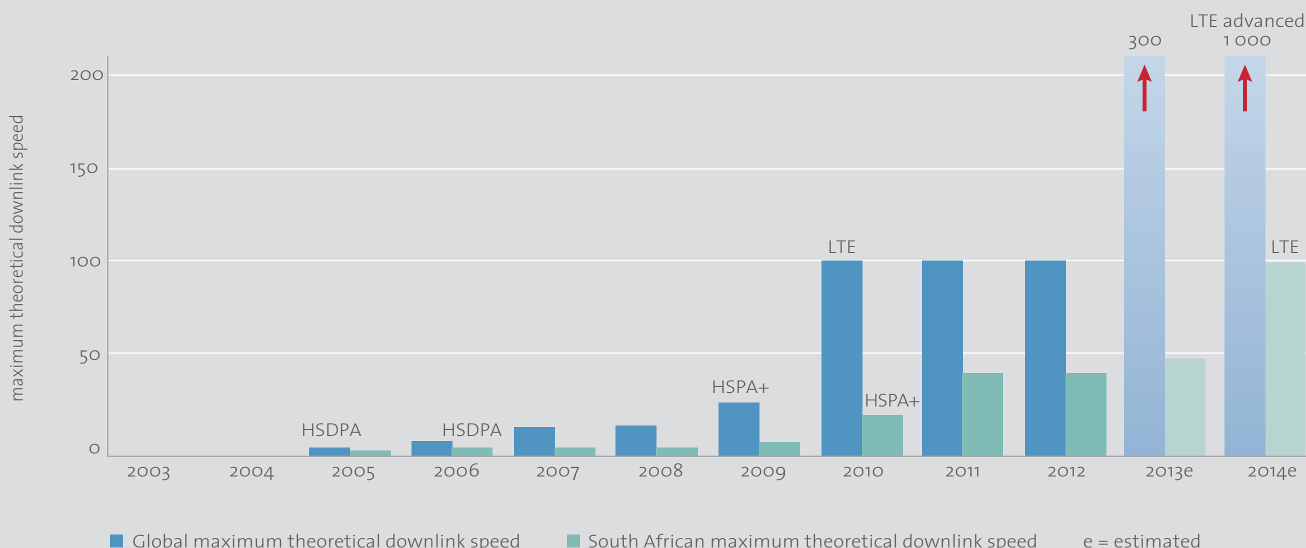
The migration will release radio spectrum through the greater efficiency of digital signals. It will allow for the licensing of new television channels and for some spectrum, which was previously used in television broadcasting, to be released to mobile communication networks.

Conclusion

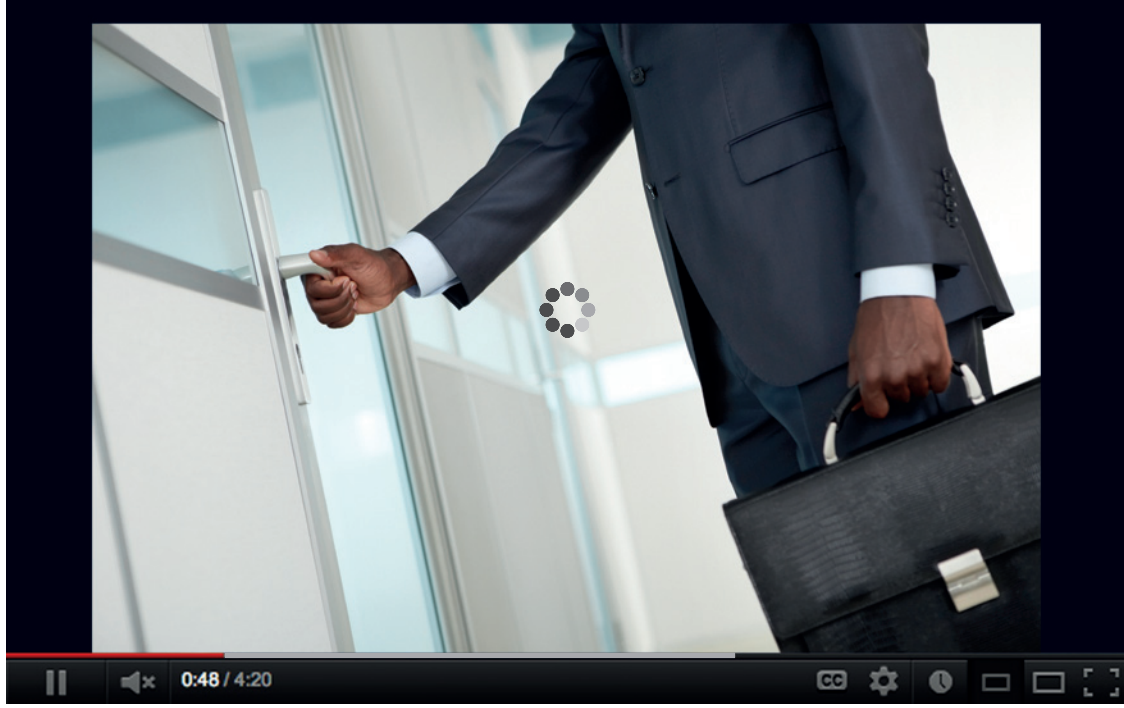
The evolution of mobile devices and the ever-increasing demand for data has seen cellular technologies evolve at a rapid rate over the last 20 years and more. The explosion of new devices and services has led to the development of LTE, which allows for far greater efficiency in transmitting data. The adoption of LTE will enable the burgeoning growth in mobile data to continue. Consumers will benefit from even faster mobile data access at a lower cost. In turn, network operators will require capital expenditure to grow their data revenues to offset the decline in their voice businesses. UP

Radio spectrum - bands of radio frequencies that are used to transmit information
Analogue signal - this is transmitted in its original form, using a continuously variable signal
Digital signal - this is transmitted using two discrete values (ones and zeros) and needs to be converted back to its original form
Digital Terrestrial Television - terrestrial television broadcast using a digital signal that needs to be converted before it can be viewed
HSDPA - High Speed Downlink Packet Access
HSPA+ - Evolved High Speed Packet Access

Long Term Evolution (LTE) rollout



Source: Bank of America Merill Lynch, Kagiso Asset Management research



Standard Bank's African platform

Jihad Jhaveri - Equity Analyst

"Standard Bank is a successful business that has grown into an African-focused multinational with a presence in 17 sub-Saharan countries. The group has almost two decades' experience in operating in sub-Saharan Africa and was the first South African bank to enter this region.

This, along with a long-term growth strategy backed by significant investments, means that Standard Bank is well positioned to enjoy profitable growth from Africa over the next decade. We believe that the group's long-term outlook is attractive."

Standard Bank's African platform

Strong economic growth will require banking

The latest International Monetary Fund (IMF) World Economic Outlook report (April 2012) highlights how surprisingly resilient sub-Saharan Africa has been to the 2008 global financial crisis and the current European crisis. The de-linking from Europe, the link-up with China and other emerging markets, and the activity growth in natural resources are cited as the main reasons for this resilience.

The resources sector is a large contributor to growth in Africa. Ghana's strong growth in 2011 (13.6%) was attributed to the start of oil production in that country. Similarly, the new oil fields coming on stream in Angola are expected to boost the country's growth rate to nearly 10% in 2012.

However, this is just a portion of the economic picture. Growth is expected to be strong across the agricultural, transport, construction and consumer sectors, leading to banking services demand from businesses. In the midst of a growing and rapidly urbanising population (Africa has 54 cities, each with more than a million people), demand for consumer banking products will also be exceptionally strong.

African banking growing off very low base

The graph on the next page shows each country's total banking assets relative to the size of its economy. As is evident, South Africa has at least twice the level of loan penetration as the rest of sub-Saharan African countries.

It is estimated that on the retail banking front, around 326 million people[1] in sub-Saharan Africa do not have access to the services offered by financial institutions in their countries. This represents a substantial target market for inclusive banking products. The outlook is similar for business banking.

A 2010 global study into micro, small and medium enterprises[2] identified sub-Saharan Africa as having a high 'credit gap', with around 80% of enterprises having no access to credit. These factors will lead to Standard Bank's loan growth in the rest of Africa continuing to outstrip South Africa.

Unpacking current low levels of African profitability

The 'Return On Equity (ROE) in Africa' chart further on outlines the ROE delivered by each country. The sizes of the bubbles indicate the amount of capital invested, while the colours indicate the length of time that the capital has been invested.

For example, Uganda is a far better proposition in terms of ROE (above 40%) for Standard Bank compared to Tanzania, which is sitting below 30%. In contrast, Nigeria is not yielding much ROE but the growth outlook over the next decade is positive (see information box at the end of the article).

1 McKinsey and the Financial Access Initiative (2009)
2 McKinsey and the IFC (World Bank) (2010)

Main contributors to growth in Africa

	Population (million)	2010 nominal GDP (US$ billion)	2011 % (current)	2012 % (projected)	2013 % (projected)
Sub-Saharan Africa	549	1 049	5.1	5.4	5.3
Selected Standard Bank regions					
Angola	20	82	3.4	9.7	6.8
Ghana	24	32	13.6	8.8	7.4
Mozambique	22	9	7.1	6.7	7.2
Nigeria	160	197	7.2	7.1	6.6
Tanzania	42	23	6.7	6.4	6.7
Kenya	41	32	5.0	5.2	5.7
Uganda	35	17	6.7	4.2	5.4
South Africa	51	363	3.1	2.7	3.4

Source: IMF World Economic Outlook report (April 2012), SBG Securities

ROE in Africa

As a cluster, the African countries delivered a relatively poor ROE of 7%. However, this needs to be viewed in the light of several important factors.

Firstly, within these numbers is a considerable head office cost to support the various businesses. These include IT development costs, the development of credit factories (for credit scoring, loan granting, loan monitoring systems and extensive field testing and calibration), HR, accounting and risk management support. While this head office is based in Johannesburg, the costs are allocated to the African operations.

These costs have represented a significant annual investment over the last few years and are set to continue. As the African operations grow revenue strongly, these fixed costs will not increase as rapidly - resulting in significant operational leverage to profits. Some of these costs are developmental in nature and will not recur after the foundations are built.

The second factor to consider is that the returns are distorted by a few large investments in key markets such as Nigeria. In these instances, the operations are still being developed to a profitable scale. In a banking business, there is a natural 'J-curve', where activity levels have to first cover branch and head office overheads before contributing to the bottom line.

In this way, the current levels of profitability are distorted. As the 'Return On Equity (ROE) in Africa' chart on the next page shows, returns are exceptionally high for those operations that have had time to mature.

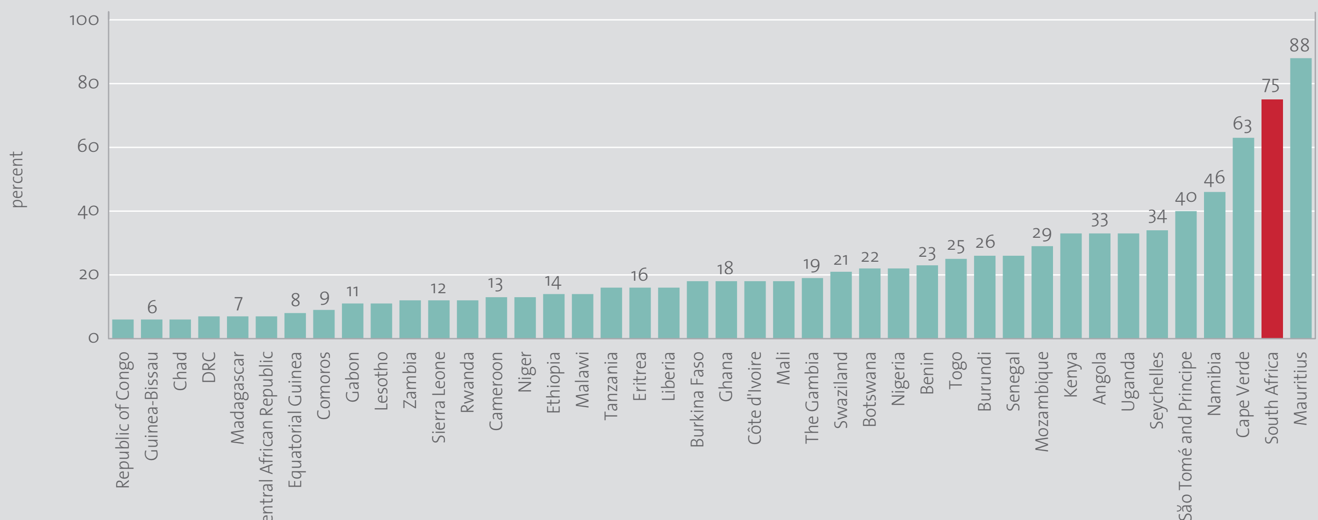
Thirdly, another important way of viewing the African profits is to look at the contribution from servicing large corporates and from investment banking, and then the contribution from smaller business and retail banking. Standard's Bank's exceptionally strong South African large corporate and investment banking capabilities have resulted in the group making faster progress in this area in Africa.

However, a lot more progress still needs to be made in smaller business and retail banking, which contributed losses in Africa. This area of the business has incurred the bulk of ongoing expenditure in the form of branch rollouts and IT. Importantly, as the smaller business and retail banking area grows in Africa, Standard Bank will gain more access to retail and business deposits. This cheaper form of funding will then help to further increase profitability at the African investment banking business.

African operations offer long-term growth

Our forecasts show that Standard Bank's group ROE should recover from its current level of 14% to a normalised 18% in the

Bank loans relative to GDP (2010)



Source: World Bank, IMF, SBG Securities, Stanbic

Standard Bank's African platform

near term. A moderate recovery in the international operations (outside Africa) and the re-allocation of capital away from there to South Africa and Africa (where returns are much higher) will be the largest driver. By then, we see the African operations as having both the underlying growth and the capacity to profitably absorb that capital.

The support that the African businesses enjoy from Standard Bank in South Africa will continue to enable them to compete effectively against their local competitors. In addition, we think that having excellent banking and reporting systems in Africa will significantly help reduce operational risk.

In summary, Standard Bank's African platform means that the group will very soon have a profitable, scalable, centrally-supported African banking business with the infrastructure to capitalise on the strong growth we expect to see in future decades. UP

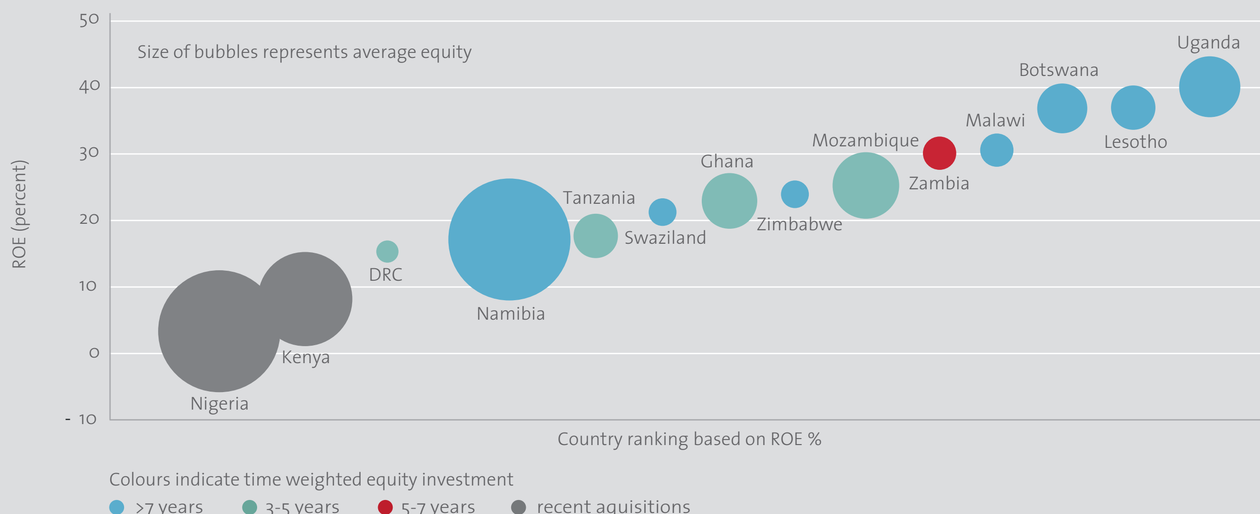
Stanbic Uganda

Our analysis shows that Stanbic Uganda is the market leader in branches, ATMs and client assets. The scale benefits translate into excellent efficiency with a very low cost to income ratio. Importantly, the bank has a profitable smaller business and retail banking operation complementing its investment banking business. These factors combine to produce a 43% ROE, the highest in the group.

Stanbic IBTC (Nigeria)

The size and growth rate of Nigeria's economy and its favourable demographics (a large, young and urbanising population) make it a key component of Standard Bank's African strategy. Although substantial capital has been allocated to this country through the investment in Stanbic IBTC, returns are still subpar. However, if Nigeria proves to be half as successful as Uganda in the long term, the opportunity will be significant. Standard Bank's strategy in this attractive yet competitive market includes: **deposit gathering** (Stanbic IBTC needs to gather more low cost deposits and is addressing this through a successful branch rollout), **a more robust credit scoring framework** (the lack of reliable credit histories makes the granting of credit to individuals and entrepreneurs challenging; Standard Bank has therefore tried to incorporate innovative techniques into its process to ensure that loans are made to individuals that understand the requirements of a successful business) and a **differentiated retail offering** (Stanbic IBTC is succeeding by showing a stronger willingness to lend into the small to medium-sized business space).

Return On Equity (ROE) in Africa (June 2011)



Source: Standard Bank

Pick n Pay: from underdog to top dog?

Abdul Davids - Head of Research and Refilwe Lioma, Research Assistant

"Pick n Pay, once regarded as the market leader in the food retail sector, has lost significant ground to its competitors over the last few years. The company's failure to swiftly adapt to the changing food retail landscape resulted in its underperformance.

However, we believe that Pick n Pay is currently on the cusp of a turnaround, which could significantly improve its long-term outlook."

Pick n Pay: from underdog to top dog?

Pick n Pay's 'golden years' and ensuing slide

Pick n Pay's history stretches back to 1968, when it was first established by Raymond Ackerman. The business' initial success and the innovative retail strategies it pioneered in South Africa ensured strong growth in profitability and market share for around 30 years. During this time, many competitors came and went.

However, Pick n Pay became a victim of its own success as its family-controlled structure seemed to restrict its advancement in the evolving food retail sector. In essence, Pick n Pay became complacent over the last decade. As a result, the business has lost significant market share, mainly to Shoprite, Woolworths and Spar.

Market share loss over the years

Until around 2005, Pick n Pay enjoyed a prolonged period of superior growth in market value and significantly outperformed Shoprite. However, Shoprite's subsequent stronger profitability growth resulted in its market value exceeding that of Pick n Pay for the first time in 2007 (graph below) and it is now around four times as large as Pick n Pay.

An investment of R100 in Pick n Pay from calendar year 2000 would have grown to R733 (including dividends) by the end of April 2012. In contrast, an investment in Shoprite would have grown to a staggering R2 843 (also including dividends). Due to Pick n Pay's operational underperformance, its share price has substantially underperformed in recent years relative to Shoprite and other companies in the food retail sector.

Superior operational performance from Shoprite

Shoprite has had a head-start in that it invested in centralised distribution centres and established a presence in Africa much earlier than competitors. This has given the group a competitive edge over other food retailers, especially Pick n Pay.

In addition, Shoprite services a wider range of consumers by targeting low, middle and high-income markets. Pick n Pay, on the other hand, mainly targets the middle and higher-income markets. Shoprite's exposure to the lower-income group (South Africa's fastest growing market) has been the largest contributor to its growth in recent years.

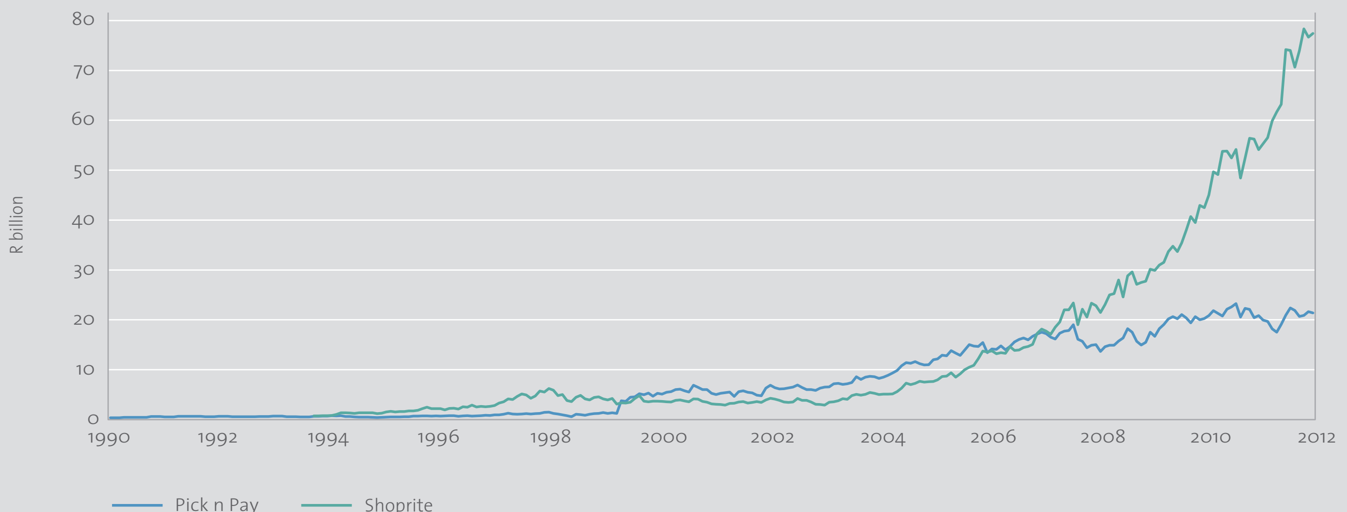
Shoprite versus Pick n Pay

In order to highlight some of the important differences in Shoprite and Pick n Pay's operational performances, we analyse four key indicators.

1. Operating profit margins

The rapid decline in Pick n Pay's operating profit margins and revenue growth are largely due to:

Market value



Source: INet, Kagiso Asset Management research

- Management's fixation with achieving a turnaround for the underperforming Australian business, Franklins. This resulted in considerable management time and attention being diverted away from the key South African operations.
- An unwillingness to use the corporate balance sheet to invest and grow the business organically. Instead, Pick n Pay has chosen to pay substantial dividends and grow its franchise store format.
- Poor operational management, resulting in the duplication of administration functions across divisions and its legal entities.
- The recent high costs associated with the implementation of the Smart Shopper loyalty programme.

In contrast, the growth in Shoprite's operating margins has largely been driven by higher gross profits due to the lack of a franchise structure. In addition, the company's successful centralised distribution network and supply chain has improved its operational efficiencies and reduced operating costs.

2. Employee costs

As a result of its vastly more generous labour practices, Pick n Pay has been over-staffed over the last few years. The company's employee costs as a percentage of merchandise sales and its average pay levels have also been much higher than competitors (see graph on the next page).

However, this structural problem is currently being addressed, with management terminating the 1995 'Flexibility and Mobility Agreement', which specified the working terms for Pick n Pay's employees. This led to the recent retrenchment of around 3 000 employees and the company is reviewing its use of contract labour to ensure a more balanced mix.

As a result, the average number of employees per store is expected to decline from around 117 to 95 by 2015. Furthermore, management has undertaken to reduce employee costs as a percentage of turnover to 7%, bringing this metric more in line with competitors.

3. Trading densities

Trading density is one of the most important measures of a retailer's performance. This is calculated by dividing a retailer's revenue generated over a financial year by its total store space. A higher ratio implies that the store space is being used more efficiently.

Since Shoprite management does not disclose this data, it is challenging to obtain comparative trade density figures.

Operating profit margins

Source: INet, Kagiso Asset Management research

Pick n Pay: from underdog to top dog?

For Pick n Pay, a successful rollout of the group's distribution centres will vastly improve inventory management efficiency. The distribution centres will also free up store space that is currently being used to hold stock in-store. Overall, this will result in improved trading density figures for Pick n Pay as retail space increases and therefore store profitability improves, without any increase in rental cost.

4. Capital expenditure

Over the years, Shoprite has spent much more capital than Pick n Pay, partly to set up its centralised distribution centres. This strategy has allowed it to aggressively grow its market share. Pick n Pay recently increased its capital expenditure plans significantly and management intends to spend around R2 billion to develop its regional distribution centres.

Pick n Pay's turnaround strategy

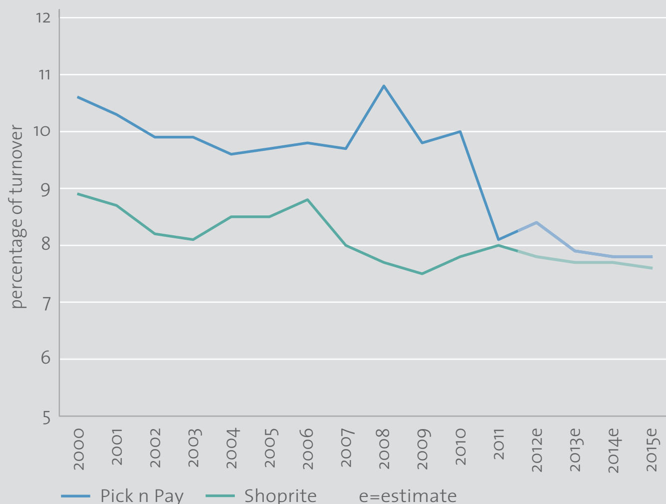
Despite significant challenges, Pick n Pay has developed and begun implementing a turnaround strategy to address the issues that have hampered the company's growth.

Franklins, the struggling Australian business, has been sold to Metcash Australia and the South African procurement function is being streamlined and centralised to avoid cost duplication.

The various employee cost saving initiatives and the benefits of successful centralised distribution centres have the potential to significantly boost Pick n Pay's margins over the long term. The Smart Shopper loyalty programme is also expected to add to margins by increasing sales volumes. This loyalty programme has been key in preventing larger losses in Pick n Pay's market share and has given the company useful insights into its customers' spending habits.

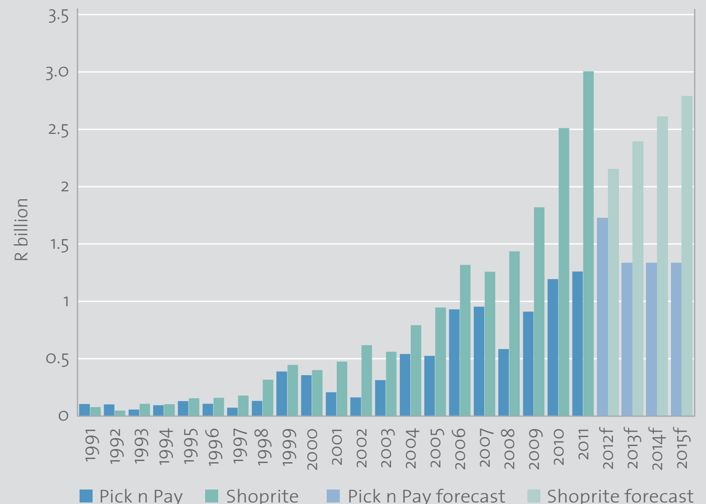
After many years of complacency, Pick n Pay is clearly focusing on reclaiming some of its lost market share. In addition, the imminent appointment of a new CEO and the recent choice of a new Chairman could result in a meaningful change to the company's operational capabilities. Overall, the outlook for Pick n Pay has improved and we believe that the company's new initiatives will result in a major earnings recovery. UP

Employee costs

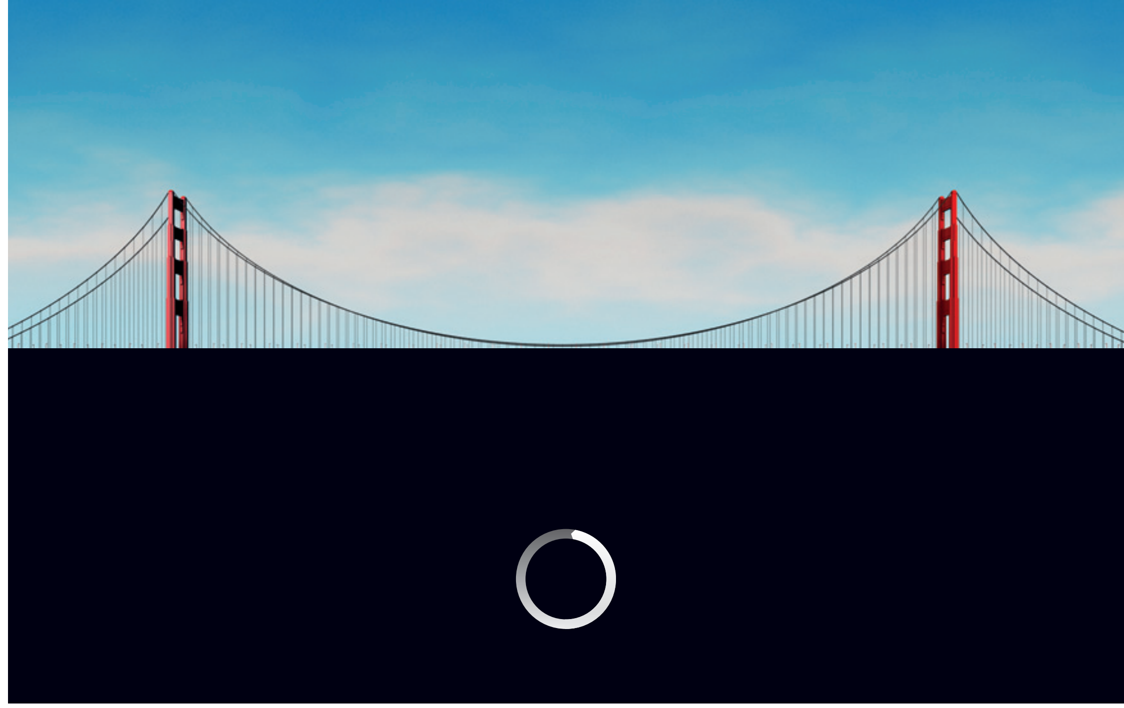


Source: Kagiso Asset Management

Capital expenditure



Source: Kagiso Asset Management, BNP Paribas Cadiz Securities



An empire state of mind

Busisiwe Nteyi - Trainee Equity Analyst

"Last year I spent six months in the US on a work exchange programme with Deloitte South Africa. While I visited many states during my stay, I had the most in-depth experience in New York and San Francisco, the financial and technological hubs of the US, respectively.

Overall, I found Americans to be extremely hard working, money-driven, achievement-orientated and entrepreneurial."

An empire state of mind

Young people starting their careers are encouraged to not only follow the corporate route, but to explore different entrepreneurial and creative opportunities in a society where there is a strong belief that you will get out as much as you put in. This sentiment is echoed in the hip hop song 'Empire State of Mind' by US rapper Jay-Z, with its references to '...New York, the concrete jungle where dreams are made, there's nothing you can't do...'.

The customer comes first

I was struck by the emphasis on service and the respect that is shown to customers in the US, regardless of one's appearance. There's a good chance of waiting for a table at a downtown Manhattan restaurant next to a billionaire dressed in a T-shirt and jeans (think of the casual appearances of Mark Zuckerberg and the late Steve Jobs).

Many establishments adhere to the maxim 'the customer is king'. On various occasions I witnessed how businesses went out of their way to ensure excellent service and, as a result, were rewarded with strong customer loyalty. Linked to that, life in the US is made as convenient as possible with fast and professional service. Not only are there fast food drive-throughs, but also drive-through banks and pharmacies.

Some belt-tightening

Having lived and worked in the US only briefly, I did not notice any visible signs of people spending less after the subprime mortgage and global financial crises. However, some of my friends in their twenties, who had lived in the US for more than 10 years, said that they had started to adjust their spending habits. Many of them decided not to upgrade their cars and even started car-pooling to save money.

East Coast versus West Coast

Interestingly, about 50 percent of the US population lives within 80 kilometres of the coast and New York (East Coast) - the sixth largest city in the world - is the most populated coastal region in the US.

I found New York to be deeply entrenched in corporate culture and quite formal and conservative. On the other hand, San Francisco (West Coast) had a greater sense of possibility, innovation and entrepreneurship, whether you wanted to be the next high-tech or bio-tech billionaire, or even the next Hollywood star.

New York - the financial capital of the world

When I arrived, I was struck by the sheer scale of the city, which is made up of five areas (the Bronx, Brooklyn, Queens, Staten Island and Manhattan). I was also impressed by the diverse cultures - the city is a true melting pot and as many as 800 languages are spoken there.

I found that taking the public transport subway system, the largest in the world, was the easiest way to get around. However, I tried to walk as often as possible as this was the best way to experience the city's spirit.

It took some time for me to get used to the frenetic pace. Everyone seemed to be constantly on the go, rushing to and from work, where they spent a great deal of their time. I would take the 07:20 train to Grand Central station and leave the office at 21:00. To adapt to these long working hours, grocery stores close at midnight and gyms are open 24 hours a day.

Unfortunately, despite my best efforts, I left New York after three months without seeing large parts of it. Perhaps this was largely due to my 11-hour (at a minimum) work days.

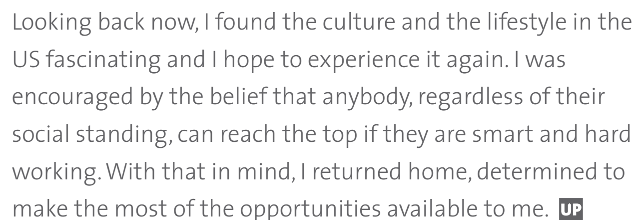
San Francisco - the city by the bay

While San Francisco also boasts diverse cultures and a strong work ethic, work and everyday life is more casual. This city has always been regarded as the technological capital of the US, and more recently established itself as the bio-tech centre.

Despite the dot-com crash in 2000, the technological and entrepreneurial spirit remains high. I had the opportunity to work at an internet start-up company and at a venture capital bio-tech company. Overall, I was inspired by the many day-to-day entrepreneurial success stories I witnessed.

Can-do attitude

Looking back now, I found the culture and the lifestyle in the US fascinating and I hope to experience it again. I was encouraged by the belief that anybody, regardless of their social standing, can reach the top if they are smart and hard working. With that in mind, I returned home, determined to make the most of the opportunities available to me. UP



Kagiso Asset Management Funds

Performance to 30 June 2012	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Collective Investment Scheme Funds[3]						
Equity funds						
Equity Alpha Fund	8.4%	19.0%	8.4%	22.1%	26-Apr-04	1.46%
Domestic Equity General Funds Mean	9.3%	16.3%	5.3%	16.5%		
Outperformance	-0.9%	2.7%	3.1%	5.6%		
Islamic Equity Fund	2.3%	15.3%	-	15.3%	13-Jul-09	1.32%
Domestic Equity General Funds Mean	9.3%	16.3%		16.3%		
Outperformance	-7.0%	-1.0%		-1.0%		
Asset allocation funds						
Balanced Fund	11.2%	-	-	8.2%	3-May-11	1.60%
Domestic AA Prudential Variable Equity Funds Mean	9.3%			7.3%		
Outperformance	2.0%			0.9%		
Islamic Balanced Fund	1.6%	-	-	-0.3%	3-May-11	1.71%
Domestic AA Prudential Variable Equity Funds Mean	9.3%			7.3%		
Outperformance	-7.7%			-7.6%		
Protector Fund	2.4%	7.6%	5.4%	11.1%	11-Dec-02	1.48 %
CPI + 5%[4]	10.7%	10.0%	11.7%	10.8%		
Outperformance	-8.3%	-2.4%	-6.3%	0.4%		
Stable Fund	10.9%	-	-	7.4%	3-May-11	1.55%
Return on large deposits*	5.5%			5.6%		
Outperformance	5.4%			1.8%		
Institutional Funds[5]						
Equity funds						
Managed Equity Fund	9.6%	19.5%	9.3%	13.7%	1-Sep-06	
FTSE/JSE SWIX All Share index	13.3%	19.6%	7.8%	12.1%		
Outperformance	-3.7%	0.0%	1.4%	1.6%		
Core Equity Fund	11.1%	18.9%	8.6%	19.3%	1-Nov-04	
FTSE/JSE SWIX All Share index	13.3%	19.6%	7.8%	18.5%		
Outperformance	-2.3%	-0.7%	0.8%	0.7%		
Asset allocation funds						
Domestic Balanced Fund[6]	6.3%	15.1%	9.0%	8.8%	1-May-07	
Peer Median[7]	9.6%	16.8%	8.9%	8.7%		
Outperformance	-3.3%	-1.6%	0.1%	0.0%		

[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 30 June 2012; [3]Source: Morningstar; net of all costs incurred within the fund; [4]CPI for June 2012 is an estimate; [5]Source: Kagiso Asset Management; gross of management fees; [6]Domestic Balanced Fund and benchmark returns to 31 May 2012; [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).

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