UP

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Kagiso Asset Management

Quarterly

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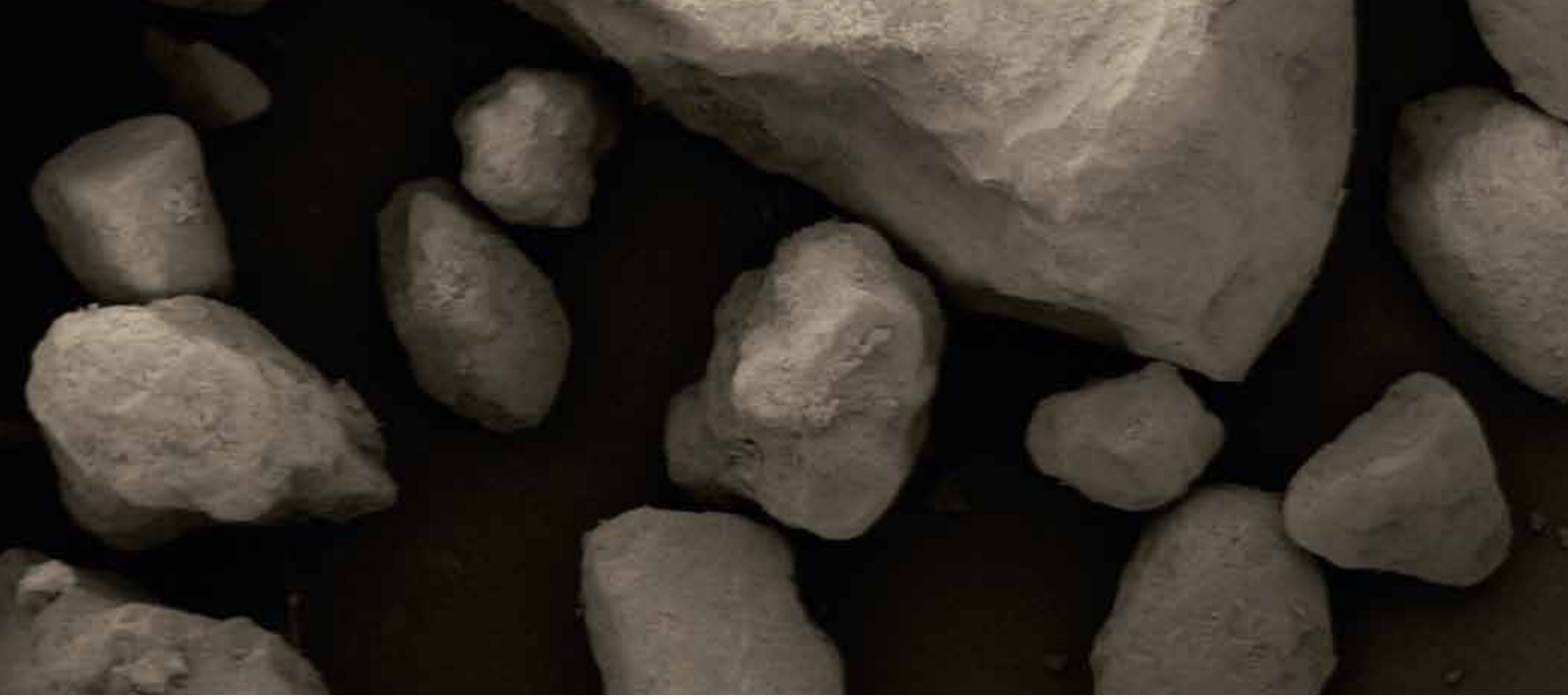
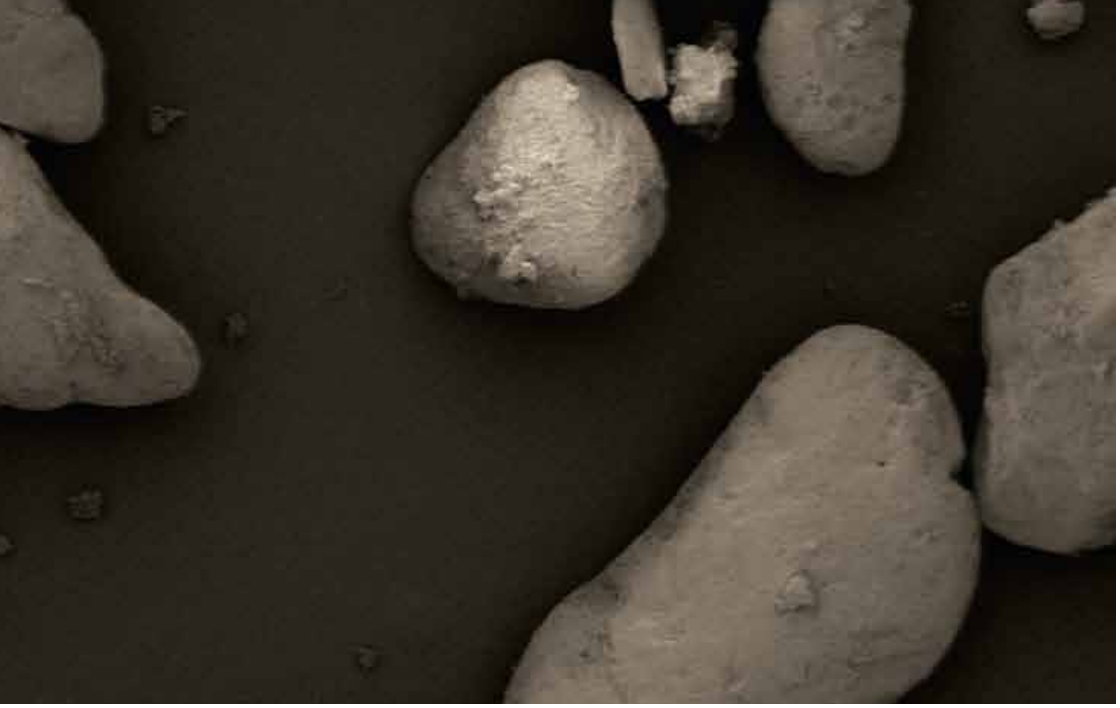


Cover: ***melianthus comosus*** **(kruidjie-roer-my-nie),** magnification 1 000 x. **Above: Grain of sand,** magnification 400 x.



The shale trail

Abdul Davids - Head of Research

New sources of natural gas are expected to transform global energy markets as the world moves towards cleaner, cheaper sources of heat and power. The US natural gas industry has already been rejuvenated by a boom in shale gas production, largely fuelled by breakthroughs in technology and soaring oil prices.

According to the US Energy Information Administration, the US has around 2 552 trillion cubic feet (Tcf) of potential natural gas resources. To put this into perspective, the US consumed 22.8 Tcf of natural gas in 2009. At this consumption rate, 2 552 Tcf is enough for 110 years of consumption.

The shale trail

While shale gas is often regarded as a new phenomenon in the US, two decades of research and tentative drilling were required before there were positive results. Over the last five years, the US recorded a 450 million ton decline in greenhouse gas emissions - the largest in the world - as the use of gas has increased at the expense of coal.

What is shale gas?

Shale gas is natural gas that is trapped within the pores of shale formations. Shales are fine-grained rocks made up of many thin layers and are found in sedimentary basins worldwide. Although geologists have always been aware of the existence of shale gas, extraction was risky and not economically viable.

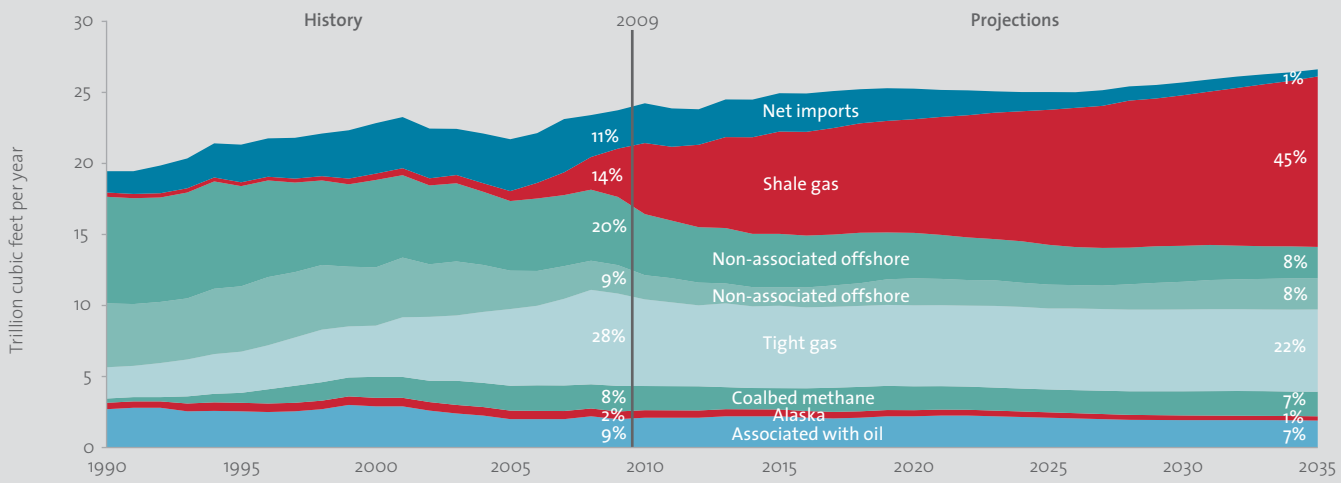
This changed when extraction techniques were fine-tuned at the Barnett Shale in Texas, the world's first major natural gas field to be developed. The success of the Barnett Shale has allowed companies to transfer the extraction technology to other areas, thereby unlocking some of the largest natural gas deposits in the world. Particularly in the US, there has been a significant contribution from shale gas to the country's overall gas production (see chart).

Global availability

Just 50 years ago, scientists estimated that the world had only 50 or 60 years' worth of natural gas. However, shale gas discoveries have boosted this period to 200 years and global gas reserve estimates have been rising steadily. According to a 2011 report by the Massachusetts Institute of Technology (MIT), world production of natural gas has increased significantly, rising by 40% between 1990 and 2009 - twice as fast as that of oil production.

Parts of Europe, China, Argentina, Brazil, Mexico, Canada and several African countries are known to have large amounts of shale gas that could alter their respective energy landscapes (see map on the next page). In its 2012 World Energy Outlook report, the International Energy Agency estimated that the global use of gas could increase by more than 50% from 2010 levels and could account for more than 25% of global energy demand by 2035. This scenario is highly likely if current regulatory and environmental obstacles around shale gas extraction can be overcome and shale gas development continues to gain momentum.

US dry natural gas production



Source: Energy Information Administration, Annual Energy Outlook (2011)

Extracting shale gas

Hydraulic fracturing, or fracking, is a technology used to extract shale gas. It involves drilling a vertical well to a depth of between 2 000m to 6 000m. Once the target depth is reached, the drilling bore turns 90 degrees to drill horizontally for a few thousand meters (see chart on the next page). This advanced horizontal drilling technology allows for multiple shale reservoirs to be reached from just one surface well.

After drilling, fracking fluid is pumped into the well under high pressure, creating small fissures in the rock, which release the shale gas trapped between the rock particles. The fissures are held open by sand particles so that the shale gas can flow up the well. Fracking fluid is generally a mixture of water (90%), sand (9.5%) and chemicals (0.5%). The chemicals reduce friction, eliminate bacteria and prevent corrosion.

The benefits of shale gas

Cleaner and cheaper energy

Shale gas is a versatile, flexible energy source. It can provide heat, generate power and fuel industrial boilers. Importantly, it is cheaper and cleaner to produce electricity from gas as the process releases up to 50% less carbon dioxide than coal. Replacing coal with gas is therefore substantially more environmentally friendly. In addition, the considerable volumes of shale gas production in the US have contributed to meaningfully lowering the country's gas prices (see graph on the next page).

Valuable by-products

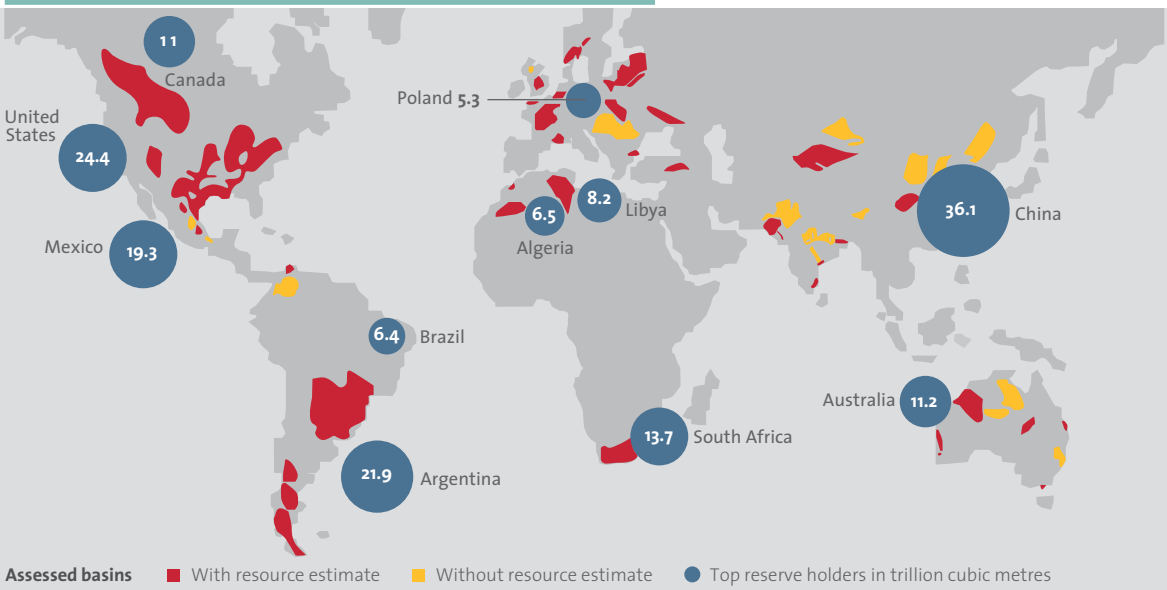
Shale gas can be classified as wet or dry, depending on the geology of the shale. Dry gas is essentially gas and methane. Wet gas contains additional compounds such as ethane, butane and propane as well as liquid hydrocarbons, or shale oil. These natural gas liquids can be split out and sold separately.

Ethane has become key to the US petrochemicals industry, where it is used as a raw material to make chemicals such as polyethylene, methanol and ammonia. As oil prices have risen, more companies have switched from using naphtha, which is derived from oil, to ethane in order to lower petrochemical costs. These chemicals in turn provide cheaper raw materials for manufacturers.

Gas to liquids technology

Natural gas can potentially have a major positive impact on our petrol tanks through what is known as gas to liquids (GTL) technology. Currently, vehicles are largely dependent on refined crude oil. However, GTL technology, which uses heat and chemistry to convert gas into liquid fuel, is another method of producing transportation fuel. Although there was little

Worldwide shale gas resources



Source: Energy Information Administration

The shale trail

development in GTL technology until a few years ago, abundant natural gas and high oil prices are placing the spotlight firmly on this area. Currently, companies like Sasol are investing in potential additional plants to exploit their technology to profitably convert natural gas into transportable fuel.

Environmental concerns

There are several environmental issues associated with the production of shale gas. The most serious concerns water as fracking requires large amounts of water and there are fears of groundwater contamination.

Water consumption and disposal

A shale well uses an average of up to 22 million litres of water over its lifetime. The 2011 MIT report highlighted that shale gas extraction uses less water than other industries and other sources of energy in the US. In fact, in South Africa, the average platinum mine uses around two billion litres of water per annum. Nevertheless, with the increased focus on water consumption, water-free extraction is being explored and some companies have begun fracking with propane or alternative liquids.

Shale gas extraction also produces large amounts of waste water, which contains dissolved chemicals and other contaminants.

While most of this water stays in the well, around 20% returns to the surface as flow-back. This must be stored, disposed of, or recycled safely. Drilling companies usually dispose of the water in deep underground wells. Options to recycle this waste water are currently being investigated.

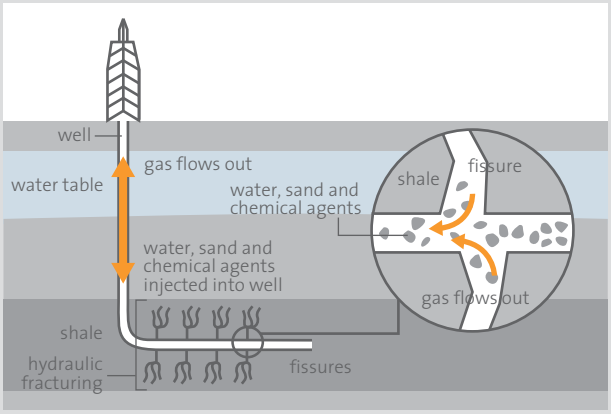
Groundwater contamination

Incorrect drilling or faulty well casings can result in fracking fluid or methane gas leaking and contaminating sources of drinking water. Fortunately, such incidents have been rare and US shale gas has a good environmental record. With over 20 000 wells drilled over the past decade, there have been just a few instances of groundwater contamination, all due to breaches of existing regulations. Fracking takes place hundreds of metres below the water table and fracking zones are separated from groundwater by fairly impermeable rocks.

Towards energy independence

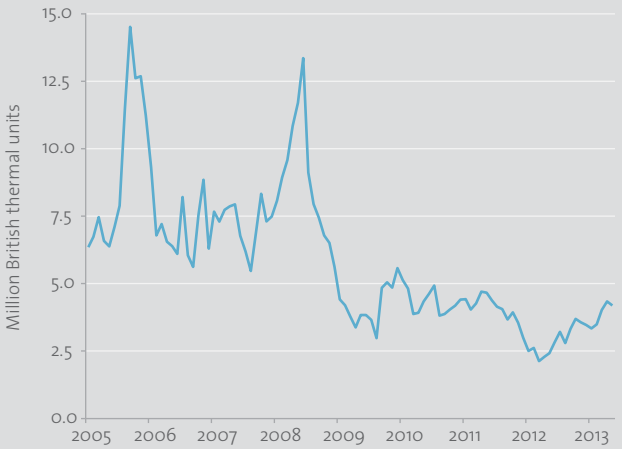
As the world demands more energy, natural gas will play a greater role in the global energy mix. The US has shown that countries that are able to successfully manage the environmental considerations and produce significant volumes of shale gas will be far less reliant on costly energy imports, thereby gaining greater energy security and independence. UP

Shale gas extraction process

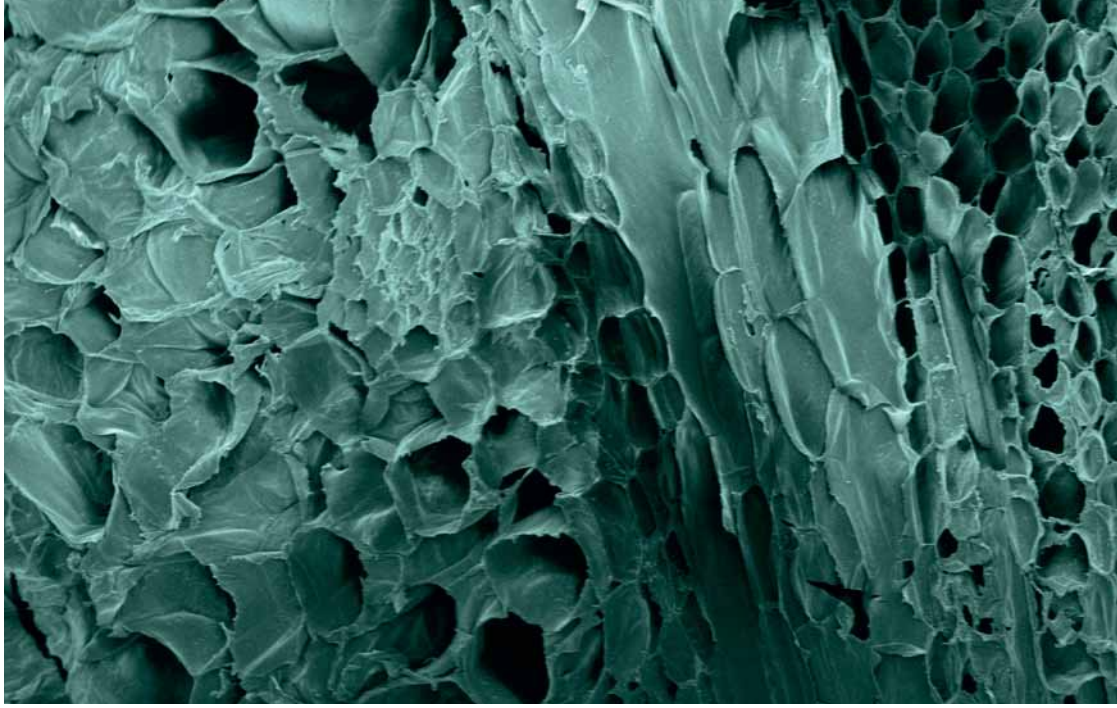


Source: BBC

US natural gas price trend



Source: I-Net



Aloe Striata cross section: magnification 1 840 x

The Karoo deserves a closer look

Abdul Davids - Head of Research

The Karoo, known for its wide open spaces, farming activities and general peace and tranquillity, is at the centre of a heated debate around its untapped shale gas reserves.

The US Energy Information Administration estimates that the Karoo Basin holds around 485 trillion cubic feet (Tcf) of technically recoverable shale gas, the fifth largest deposit in the world. Extracting just a fraction of this could unlock significant economic benefits for the area and the country.

The Karoo deserves a closer look

South Africa relies heavily on coal for electricity generation and is a net importer of crude oil. Locally-produced shale gas will therefore allow for diversification away from coal and will substantially enhance our energy security and independence. However, environmental concerns around fracking resulted in a moratorium being placed on exploration in 2011. Although this was subsequently lifted, fracking remains restricted as government weighs up the environmental risks and opportunities for economic development.

Land of great thirst

The Karoo stretches just over 1 200 kilometres between Cape Town and Johannesburg. While this semi-arid region has the lowest population density in South Africa, it hosts a diverse ecosystem. Poverty is rife in the area and the unemployment rate is around 50%. Of the total income generated in the Karoo, agriculture contributes 12%. The largest portion is earned from the transport and trucking industry.

Shale deposits

The southern portion of the Karoo Basin, consisting of the Whitehill, Prince Albert and Tierberg formations, is the main target for shale gas exploration. The shale rock layers in this area lie at depths between 4 000m and 6 000m - far deeper than the levels at which shale gas is extracted in the US. The region contains significant areas of volcanic intrusions that could affect the quality of the shale gas resources and increase the risks around exploration. At this stage, South Africa has issued only technical cooperation permits (TCPs) in the Karoo Basin, which authorise research into shale potential. Shell's TCP covers 185 000 km^2 and is the largest granted to an individual operator (see map).

Economic benefits

A 2012 study undertaken by Econometrix, a local independent economic consultancy, found that the extraction of shale gas could significantly transform the Karoo by creating jobs and fostering development. According to the study, the production of 50 Tcfs of shale gas (a small fraction of the 485 Tcf estimate) would result in the creation of 700 000 jobs and contribute R200 billion to South Africa's GDP. In addition, the gas could provide the country with 400 years' worth of energy.

Further key economic benefits would include:

- substantially lower domestic gas prices (these are currently significantly higher than prices in the US, see graph on the next page);
- energy independence through reduced imports of fossil fuels like crude oil; and
- reduced reliance on coal, which is one of the major environmental pollutants.

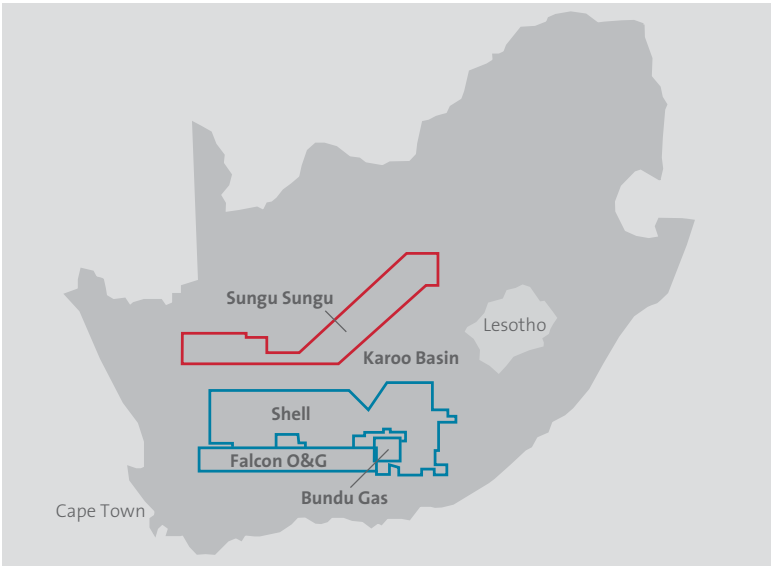
Environmental concerns

Karoo residents and environmental activists have launched a high-profile campaign opposing the extraction of shale gas. They fear that fracking could devastate the area by damaging water aquifers, destroying the ecosystem and threatening agriculture.

Water requirements

It is estimated that 20 million litres of water would be needed to frack one well. According to Shell, there can be as many as 32 wells on one well pad, translating into 640 million litres of water. Although this is lower than the amount of water used in many other industries (the average South African platinum mine uses around two billion litres of water per year), in a semi-arid region like the Karoo, the use of water is a sensitive issue. To this end, water-free fracking is being explored in the US and any breakthroughs could be implemented locally.

Potential Karoo shale gas sources



Groundwater contamination

There are also concerns that surface and groundwater could be contaminated by chemical spills and cracked well casings. Oil and gas companies argue that fracking will not contaminate the water as the groundwater aquifers are expected to be far removed from the shale gas target formations and will be safe from fracking fluids. In addition, each well contains four steel casings, one placed within the other, and the gaps between them are sealed with cement. While there is a risk of contamination, this can be mitigated through good borehole construction and maintenance.

Modelling the US success story

The US boasts a significant shale gas industry, which has served as a template for the most efficient fracking techniques. The rest of the world has lagged behind the US due to price, the regulatory framework, individual property and mineral rights, infrastructure, water and expertise. Universal property rights in the US have encouraged profitable entrepreneurship, whereas in South Africa, mineral rights mostly belong to the government.

In order for South Africa to effectively replicate the US success story, some key factors must be addressed:

Data: Access to good-quality geological data is essential to identify potentially favourable areas to drill.

Expertise: Companies involved in fracking operations must have first-rate engineers and significant drilling experience.

Costs: The quantity, quality and accessibility of the gas are key factors that affect operations. There are still many uncertainties around these issues, which will need to be addressed to accurately assess the cost of production.

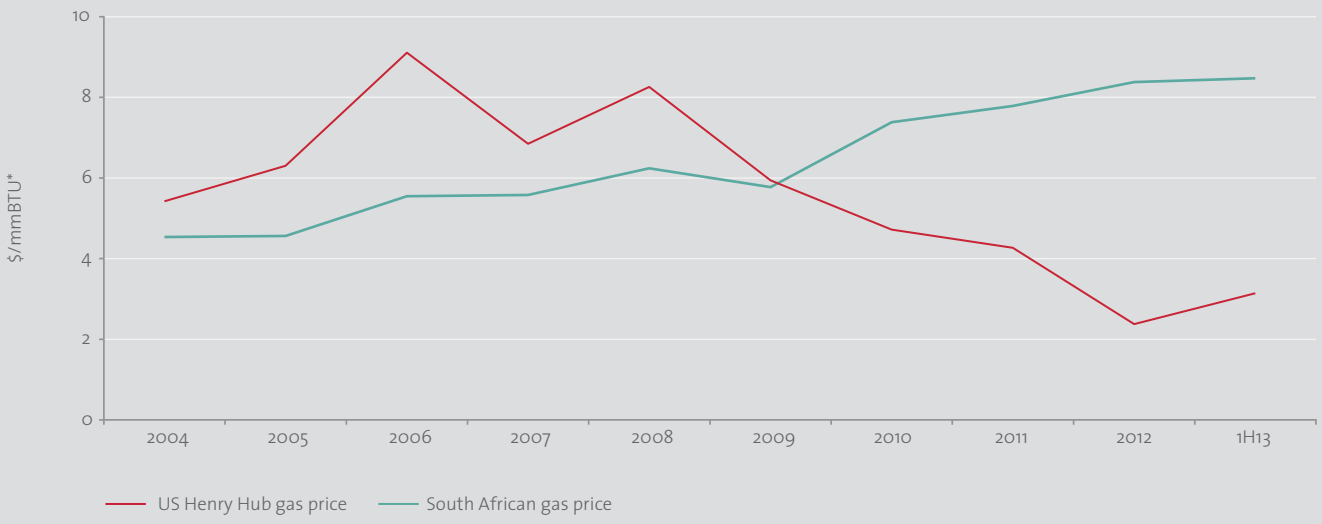
Community relations: Firstly, residents will need to accept fracking and, secondly, they will need assurance that the environmental risks have been taken into account and are being addressed through appropriate regulatory frameworks.

Economies of scale: There should be an economical way to link shale gas projects to existing pipeline infrastructure and end-users.

Managing the economy and environment

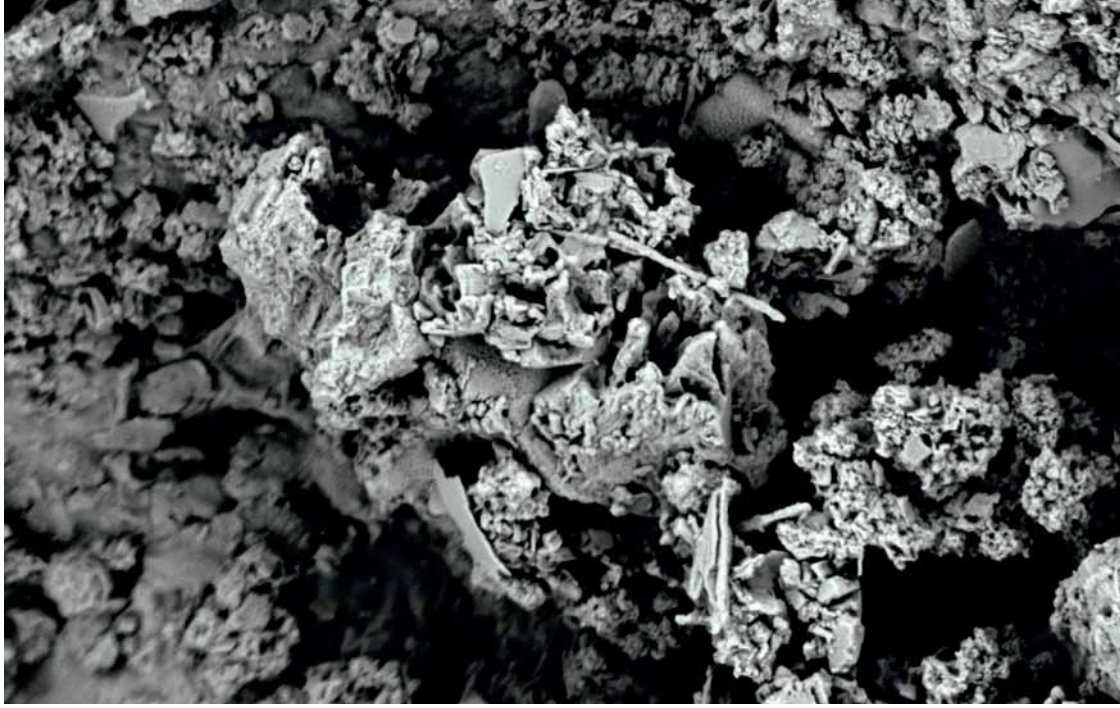
The commercialisation of shale gas extraction will positively transform the domestic economy in the key areas of energy usage and job creation. While this process carries some environmental risks, we believe that these can be overcome through regulation and cooperation between environmentalists, oil and gas companies and government. Ultimately, this should be to the benefit of the entire country. UP

South African and US gas prices $/mmBTU*



*mmBTU = Million British thermal units

Source: Deutsche Bank



Cement: magnification 20 000 x

Cement in South Africa

Ross Heyns - Investment Analyst

Over the last 60 years, South African cement demand has gone through a number of cycles, most recently characterised by a very strong and prolonged growth phase between 2000 and 2007.

During this period, local cement producers were highly profitable and returned a significant amount of cash to shareholders. However, since the 2007 market peak, volumes have declined sharply and producers' margins have come under pressure.

The elevated profit margins at the peak of the market attracted investment to expand the industry's production capacity. Due to the increased competition in the industry, it seems unlikely that cement companies will soon return to the levels of profitability that were achieved during the previous up-cycle.

Against this backdrop of a mature and over-supplied local market, our clients are not invested in the sector. However, cement companies have historically provided good returns to investors and we are closely following PPC's expansion into attractive markets elsewhere in Africa.

Supply

The local industry is controlled by four main players: PPC, Afrisam, Lafarge and NPC-Cimpor. Cement industries tend to be delineated into geographic areas as cement is expensive to transport. Transport accounts for roughly a third of the cost and, in most circumstances, it is not economical to transport cement more than 250km from the milling plant. This is particularly pronounced in South Africa as almost all cement is transported by road, which constrains the economic distribution radius more than rail does. Cement can, however, be transported relatively efficiently by sea. Imports, mainly into KwaZulu Natal, now account for about 6% of the local market.

PPC has the largest footprint and supplies the inland market, the Western Cape and the Eastern Cape. AfriSam and Lafarge only supply the inland market and NPC-Cimpor focuses on KwaZulu Natal and Mozambique (see map). These four producers operated as part of a legal cartel until it was disbanded around 1995 and competition between them has remained relatively low since. Competition now seems to be intensifying in the face of weaker market demand and these producers have not been able to pass through all of the input cost increases that they have experienced over the last few years. This has resulted in margin pressure.

Local cement plants sell cement in South Africa and in neighbouring countries. Production capacity (excluding mothballed plants) is roughly 16.5 million tons per year, although the interpretation of capacity can vary. By comparison, the regional market used about 15.5 million tons of cement at its peak in 2007.

New entrant

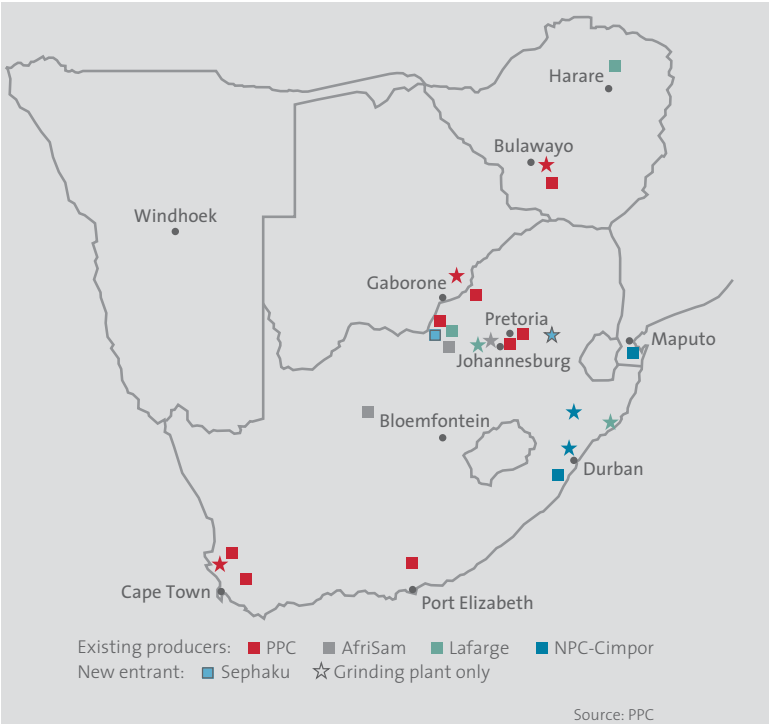
Sephaku Cement is the first new competitor in the inland market since 1934 and is due to start production by early 2014. With the construction of its cement plant near Lichtenburg and a grinding facility in Delmas, it is expected to add 2.6 million tons of capacity with new and more efficient equipment. This will add a significant share of low-cost capacity to the inland market and is likely to result in increased competition. Apart from gaining market share, the additional capacity is bound to lead to lower retail cement price growth. Sephaku is already exerting pressure on existing companies to optimise their capacity to compete with its new equipment.

Demand

Cement is the key ingredient in concrete, an essential component in the construction of most buildings and structures. Cement demand is driven by economic and population growth, and infrastructure investment is a key determinant of demand growth.

Residential building is the most cement intensive type of construction and, for the cost of building, uses a

Cement plants and grinding facilities



Source: PPC

Cement in South Africa

disproportionately large amount of cement. The government's social housing projects should therefore support cement demand as about seven tons of cement is required to build a small 80m² RDP house. Although important, non-residential building and civil construction is typically less cement intensive as a greater share of other building material is used.

2000 to 2007 and beyond

As shown in the graph, demand grew substantially between 2000 and 2007, accompanied by robust pricing and record levels of profitability for cement producers. This was supported by buoyant private sector building activity and investment in infrastructure across South Africa.

The market has contracted materially in recent years and annual demand is now 19% below the peak reached in 2007. There has been a steep decline in demand from construction activity, which has been partially offset by strong demand from retail consumers. This consumer demand has been boosted by, among other factors, the growth in social grants and unsecured lending.

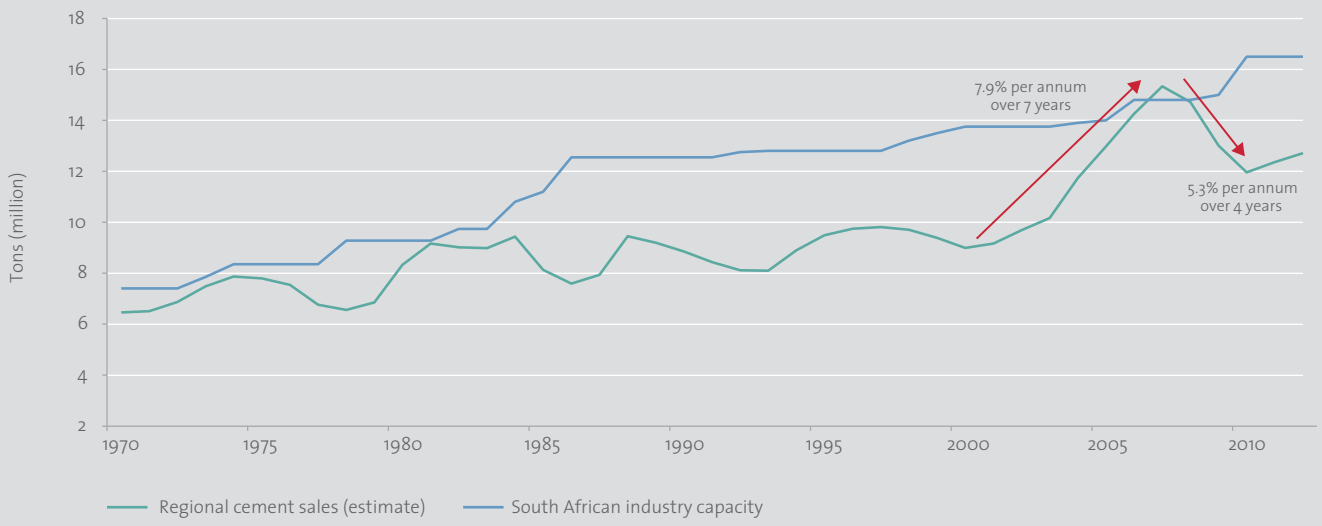
Although government infrastructure development plans and a recovery in private building activity will drive growth in the cement market, it is likely to be a few years before the previous peak demand is reached. It is important to bear in mind that industry capacity will be significantly higher than in 2007 when demand peaks again, which will result in an improved market balance.

Price

Historically, the industry has successfully passed through price increases, even during times of weak demand. Pricing was previously controlled, first by government regulation and later by a legal cement cartel. Although coordinated pricing is now illegal, the industry remains concentrated with divided markets due to the location of existing plants. Prices are therefore relatively elevated by global standards.

The graph on the next page shows the pricing discipline still exercised almost two decades after the disbandment of the cartel. Recent initiatives by the Competition Commission and the imminent entry of Sephaku suggest that the industry will enjoy less pricing power going forward.

Regional cement sales



Regional market includes South Africa, Botswana, Swaziland, Lesotho and Namibia

Source: I-Net, C&CI, PPC, Kagiso Asset Management research

Africa

Due to the mature South African market, PPC is looking for growth opportunities elsewhere in Africa. Sub-Saharan Africa has an enormous need for infrastructure development and scores very well on a number of metrics as an attractive place to invest in cement manufacturing capacity. Strong demand growth is driven by the current low per capita consumption, high GDP growth rates and rapidly urbanising populations. In addition, cement prices are often very high, driven by supply deficits and the logistical challenge of importing cement. These positive factors are obviously accompanied by a number of risks involved in investing in Africa.

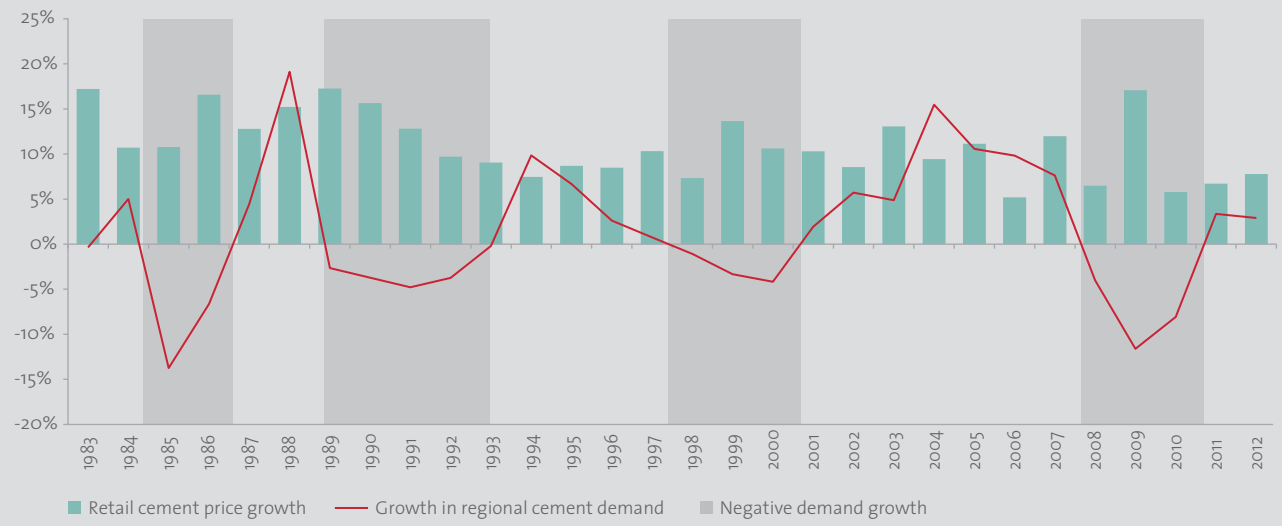
Besides existing operations in Botswana and Zimbabwe, PPC has recently invested in two significant new projects in Africa: Cimerwa in Rwanda and Habesha Cement in Ethiopia. In Rwanda, the company has commissioned the construction of a new cement plant. PPC is also in the final stages of evaluating investments in new plants in the DRC and northern Zimbabwe. All the new plants will be built by a Chinese engineering contractor, Sinoma, which has quickly established a reputation for building high quality cement plants in Africa at low cost.

Sinoma also takes on most of the risks in the construction phase, which dramatically simplifies PPC's investment in these less developed countries. The plants will take about two years to build and will start to contribute meaningfully to PPC from 2016 onwards.

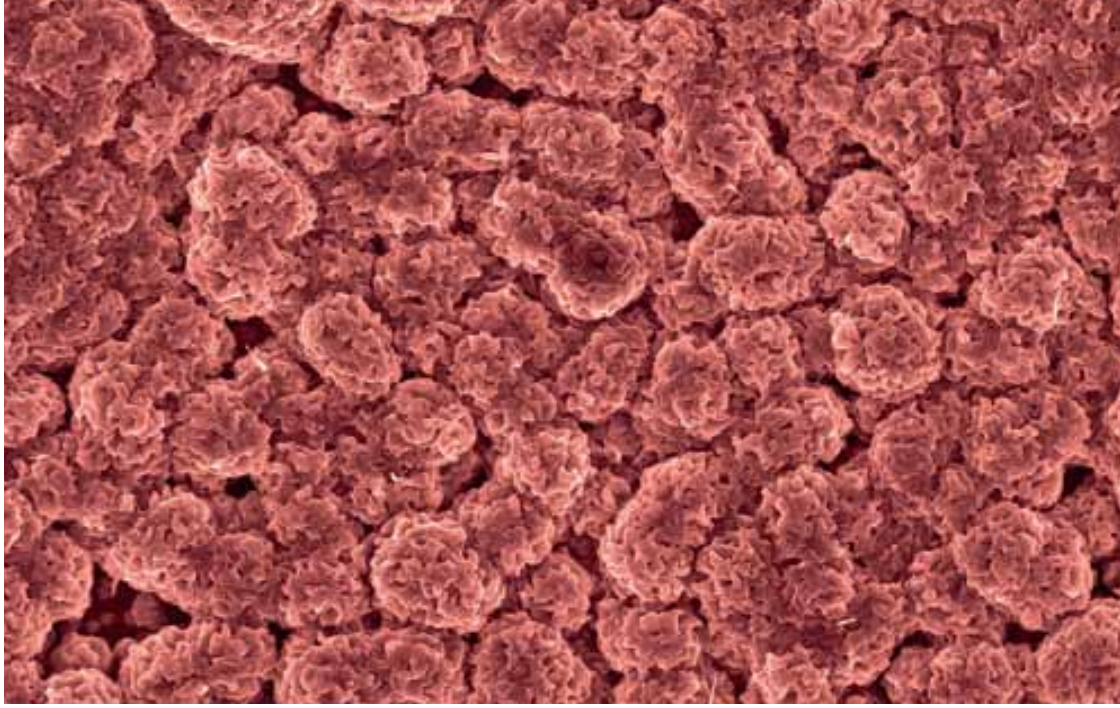
In summary

Looking ahead, growth in cement demand will be balanced by the increased capacity from existing players and the entry of Sephaku. It is therefore unlikely that cement companies' profitability will return to previous peak levels in the next growth cycle. We will, however, be watching PPC's African expansion efforts with interest. UP

Producer pricing power



Source: I-Net, SBG Securities, Stats SA, Kagiso Asset Management research



Chrome platinum alloy: magnification 10 000 x

Anglo American: in recovery mode

Rubin Renecke - Investment Analyst

Diversified mining company Anglo American (Anglo) is one of South Africa's oldest companies, founded as the Anglo American Corporation in 1917 by Ernest Oppenheimer.

The company has staked its future prospects on the key commodities of iron ore, copper, platinum, diamonds and coal. Anglo's portfolio is different relative to the other large diversified miners and its significant interests in platinum and diamonds are key differentiating factors in its value proposition.

Anglo recently increased its stake in the world's leading diamond company, De Beers, to 85%. Geographically, the business is well diversified, with major operations in Chile, Brazil, Australia and South Africa. After many years of avoiding general mining stocks due to high commodity prices that fuelled excessive valuations, we have recently started to increase our clients' holdings in Anglo. The company's share price has come under pressure due to falling commodity prices, poor operational performance and suboptimal management decisions. In our view, Anglo owns a portfolio of quality assets that deserve a higher valuation when the company returns to normal profitability.

From conglomerate to focused miner

Anglo started out with £1 million of capital, raised mainly from UK and US sources. In the early 1900s, its interests were in gold and diamond mining. Over the next century, it diversified into a conglomerate focused on gold, diamonds, platinum, copper, iron ore, steel, paper, aluminium and sugar.

Many well-known South African listed companies have had an ownership with Anglo during their history, including AngloGold Ashanti, Kumba Iron Ore, Exxaro, AECI, Mondi, Tongaat, Hulamin and Evraz Highveld Steel.

Over the last decade, Anglo has divested many of its non-core operations to become a more focused miner. Today, it produces a portfolio of commodities that is balanced between two key components of economic growth: investment-driven demand (such as iron ore and copper) and consumption-driven demand (such as platinum and diamonds). The Anglo asset base compares favourably with other large diversified miners in terms of resource quality and resource life.

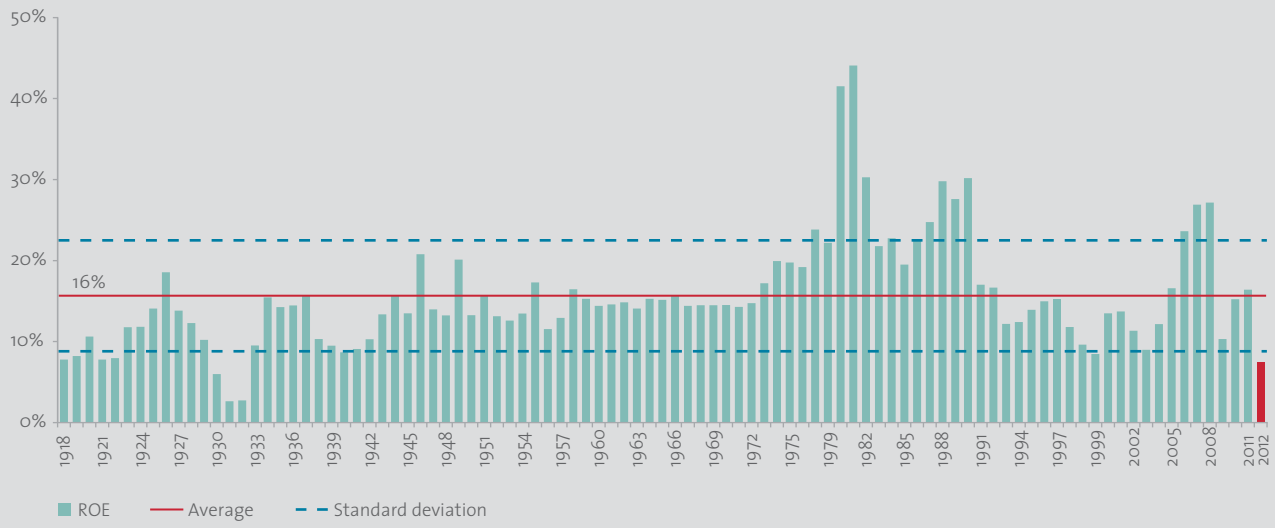
Recent challenges

Anglo has faced a number of challenges over the last two years. Weaker commodity demand, following a decrease in Chinese (and global) growth, has been exacerbated by uncontrollable events such as bad weather and labour unrest. There have also been a number of poor management decisions and operational performances, all of which resulted in Anglo's 2012 financial performance (in terms of return on equity) being its weakest since 1932 (see graph below). In particular, the platinum and copper divisions were material contributors to the poor performance.

Platinum

Anglo Platinum (Amplats) is the world's largest platinum producer. Slowing demand for platinum, mainly due to lower vehicle production in Europe, has placed downward pressure

History of return on equity



Source: Company reports and Citi Research estimates

Anglo American: in recovery mode

on the platinum price. Coupled with this, South African mining companies have had to contend with high cost inflation from electricity price increases and wage hikes, as well as labour unrest. To address its dwindling profits, Amplats recently unveiled plans to restructure its high cost operations. These restructuring efforts are critical to restore the company's profitability and for the platinum industry in general.

Copper

Anglo has a stake in two large copper mines in Chile, Collahuasi and Los Bronces, both of which have recently reported poor operational performance. Over the last two years, production has declined at Collahuasi (the world's fourth largest copper mine) due to weather-related problems and mechanical breakdowns. However, Anglo has also cited weak mine management as a contributor to the poor performance. While new management has now been appointed at the mine, a more proactive approach would have addressed the poor performance earlier. At Los Bronces, poor planning has resulted in production targets being delayed by a few years.

Management and capital allocation

Mark Cutifani, former CEO of AngloGold Ashanti, was recently appointed as Anglo's new CEO. We view this as positive for the company as Cutifani has extensive mining experience across many different commodities and, as a newcomer to the group, has little attachment to previous company initiatives. He does, however, have the challenging task of dealing with the legacy of a number of poor capital allocation decisions made by the previous CEO.

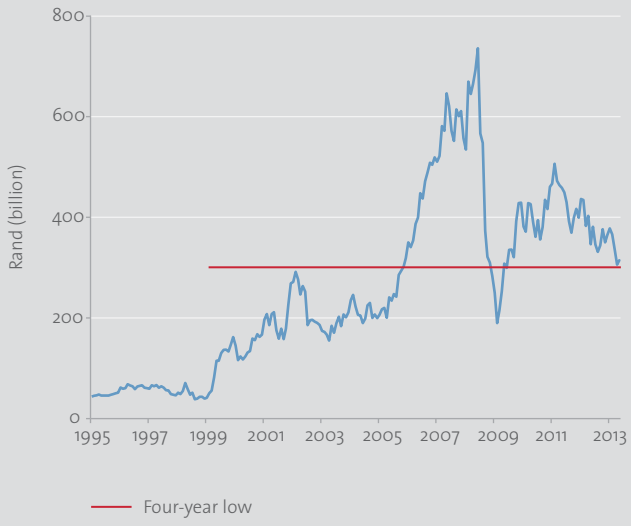
While the well-known Minas Rio iron ore project in Brazil has made headlines due to cost overruns and delays, a number of lower profile acquisitions made in the last five years also need to be reviewed for execution probability. Along with improving capital discipline, Cutifani has the critical task of ensuring that the right management teams are in place at Anglo's operations. This is crucial in order to optimise production levels and to generate profits in line with the quality of the company's assets.

Value waiting to be unlocked

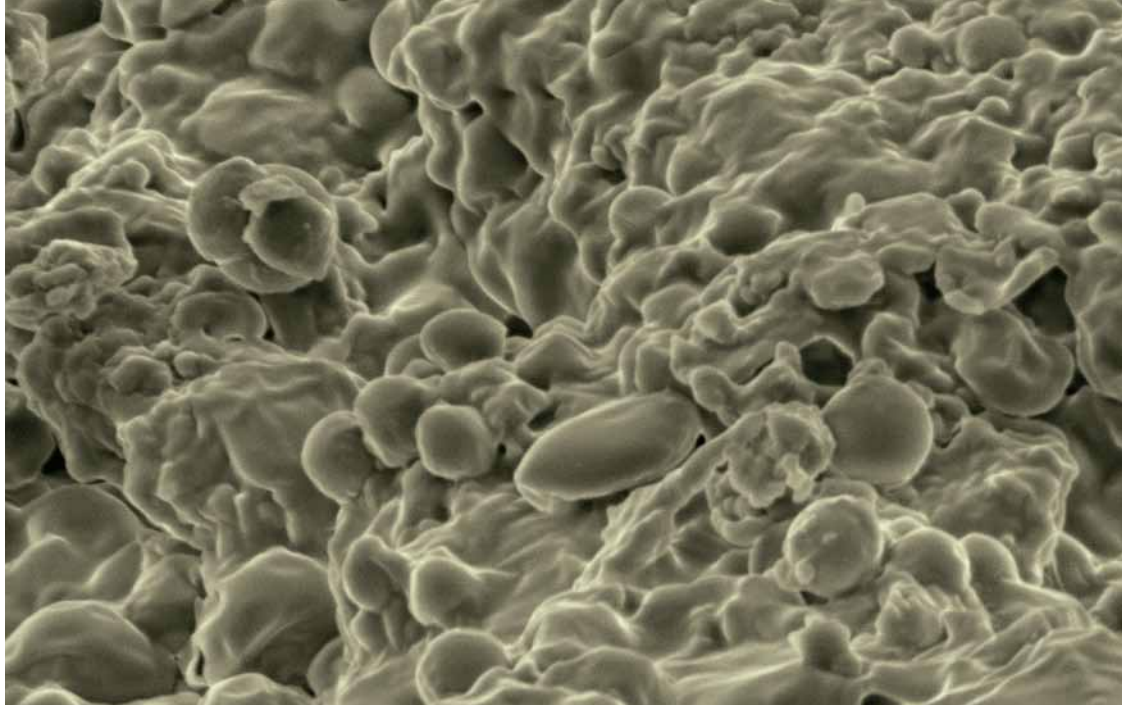
Anglo owns world-class mining assets. Its majority stakes in De Beers and Amplats set it apart from its resources peers and create a portfolio of word class, globally-dominant diamond and platinum assets that cannot be replicated. Amplats' extensive platinum group metals resources, which extend across the Kalahari Bushveld Complex area, provide it with a dominant market share and a multi-decade reserve life. Anglo's majority interest in Kumba Iron Ore positions it among the lowest cost iron ore producers in the world, while its stakes in Collahuasi and Los Bronces offer exceptional exposure to the world's biggest copper producing area in Chile.

Over the last two years, the performance at Anglo's key operations has been particularly poor and has resulted in the share price underperforming significantly. As shown in the graph below, the company's market capitalisation is currently at a four-year low. However, we believe that the poor operational performance to date can largely be ascribed to events that could have been controlled and, with effective leadership, should not recur. Based on our valuation for Anglo, at normalised commodity prices, the share is currently trading at a significant discount to its fair value. UP

Market capitalisation



Source: I-Net



Grain of rice: magnification 10 000 x

Tenacious Thailand

Max Vehmeyer - Client Relationship Manager

At the end of 2004, Thailand was devastated by the Sumatra-Andamon earthquake, one of the deadliest natural disasters in history. The earthquake triggered tsunami waves of up to 30 metres and nearly 230 000 people lost their lives.

While coastal regions were directly affected, the indirect effects also spread inland. Many tourists cancelled trips to Southeast Asia and the inland provinces of Thailand were especially affected as these are the starting points for many other tourist destinations in the country.

Tenacious Thailand

I recently visited Thailand and was astonished as, nearly ten years later, there were no visible signs that this large-scale humanitarian disaster ever took place. I believe that the country managed to successfully rebuild itself mainly due to the Thai people's tenacious and brave spirit, their entrepreneurial drive and strong faith.

Entrepreneurial

The first thing I noticed, other than the heat and humidity, was how business-minded people are. The country has an extensive informal sector, driven by locals who are eager to sell to tourists. Most of them are self-employed, selling either food or clothing from the side of the streets. Travel and tourism officially contributed 7.3% to Thailand's GDP in 2012. However, after taking the informal sector and other indirect benefits into consideration, travel and tourism is estimated to have added about 16.7% to the economy over the period.[1]

Export-oriented

Driving on our scooters along the countryside, friends and I passed numerous rice fields. We later learnt that Thailand exports roughly 6.5 million tons of rice annually. It was the world's largest exporter of rice for three decades until the end of 2012, when it slipped to third position, after being overtaken by India and Vietnam. Other major exports include textiles, seafood, rubber, cars and electrical appliances.

On a tour to a rubber tapping plantation, we discovered that rubber tapping is an environmentally-friendly method of collecting latex from a rubber tree. An incision is made into the bark of a rubber tree and latex then drips out. This is then collected and transferred into coagulation tanks for the preparation of dry rubber, which is used to produce various high end rubber products.

Spiritual

Thailand is nearly 95% Buddhist, which is noticeable in the Thai people's calm, helpful and respectful manner. The focus is on minimising conflicts and disagreements. I often heard the term 'mai pen rai', which translates into 'it doesn't matter', and is used to stop disagreements from escalating. Thai people believe in ancestral spirits and many own spirit houses, which are small, wooden 'model' houses, where they offer food and drink, and burn incense in honour of their ancestors.

Monarchy

Thailand has never been under colonial rule. It was an absolute monarchy until 1932, when it became a constitutional monarchy. The current king, Bhumibol Adulyadej, has governed since 1946, making him the world's oldest and longest ruling head of state. While people appear to respect him deeply, international human rights groups have criticised Thailand's courts following cases where citizens have been imprisoned for allegedly challenging the king. This was the case recently when a labour activist and former magazine editor was sentenced to 10 years in prison for publishing two articles that allegedly insulted the head of state.[2]

Our last day in Bangkok coincidently marked the king's 85th birthday. The elaborate celebrations involved a religious ceremony in the morning followed by a music and culture festival later in the day. In the evening, the entire nation joined in a candle lighting ceremony and gathered to watch huge fireworks displays.

Soul food

Food is a very important part of Thai culture and a lot of care and respect goes into the preparation of meals. Curries, stir fries and seafood dishes are all accompanied by massive bowls of rice and only fresh ingredients are used. The quality of meals is excellent, with little difference between food that is bought from a street vendor or prepared in a restaurant. For those with a more adventurous palate, 'delicacies' such as wok-fried worms, crickets and scorpions are available. I was only brave enough to try the worms and small crickets, and would probably recommend the crickets.

A concern I had as I reached the end of my trip, was the presence of US fast food chains in most big cities and whether the Thai culture was coming under threat. This cultural intrusion is, however, likely to be contained, given how extremely proud the Thai people are of their heritage and way of life. UP

[1] The Oxford Business Group - Economic Update, Thailand (April 2013)
[2] The New York Times, 23 January 2013

Kagiso Asset Management Funds

Performance to 31 March 2013	1 year	3 years[1]	5 years[1]	Since launch[1]	Launch	TER[2]
Collective Investment Scheme Funds[3]						
Equity funds						
Equity Alpha Fund	15.0%	14.6%	11.8%	21.3%	26-Apr-04	1.50%
South African Equity General funds mean	16.3%	15.3%	8.7%	16.5%		
Outperformance	-1.3%	-0.7%	3.1%	4.8%		
Islamic Equity Fund	14.3%	12.9%	-	15.0%	13-Jul-09	1.28%
South African Equity General funds mean	16.3%	15.3%		16.3%		
Outperformance	-2.0%	-2.4%		-1.3%		
Multi asset class funds						
Balanced Fund	13.8%	-	-	10.8%	3-May-11	1.64%
South African Multi Asset High Equity funds mean	16.2%			11.3%		
Outperformance	-2.4%			-0.5%		
Islamic Balanced Fund	12.0%	-	-	5.2%	3-May-11	1.65%
South African Multi Asset High Equity funds mean	16.2%			11.3%		
Outperformance	-4.2%			-6.1%		
Protector Fund	8.8%	7.4%	4.8%	10.9%	11-Dec-02	1.77 %
CPI + 5%[4]	11.2%	10.6%	10.6%	10.8%		
Outperformance	-2.4%	-3.2%	-5.8%	0.1%		
Stable Fund	9.3%	-	-	8.3%	3-May-11	1.64%
Return on large deposits*	5.0%			5.3%		
Outperformance	4.3%			3.0%		
Institutional Funds[5]						
Equity funds						
Managed Equity Fund	16.5%	17.2%	12.0%	14.1%	1-Sep-06	
FTSE/JSE SWIX All Share Index	20.8%	19.4%	11.2%	13.4%		
Outperformance	-4.3%	-2.2%	0.8%	0.7%		
Core Equity Fund	19.6%	18.5%	11.7%	19.3%	1-Nov-04	
FTSE/JSE SWIX All Share Index	20.8%	19.4%	11.2%	18.8%		
Outperformance	-1.2%	-0.9%	0.5%	0.5%		
Multi asset class funds						
Domestic Balanced Fund[6]	16.3%	13.4%	10.7%	10.0%	1-May-07	
Peer Median[7]	22.8%	17.1%	12.4%	10.9%		
Outperformance	-6.5%	-3.7%	-1.7%	-0.9%		

[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 2013; [3] Source: Morningstar; net of all costs incurred within the fund; [4] CPI for June 2013 is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 31 May 2013; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; * Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

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