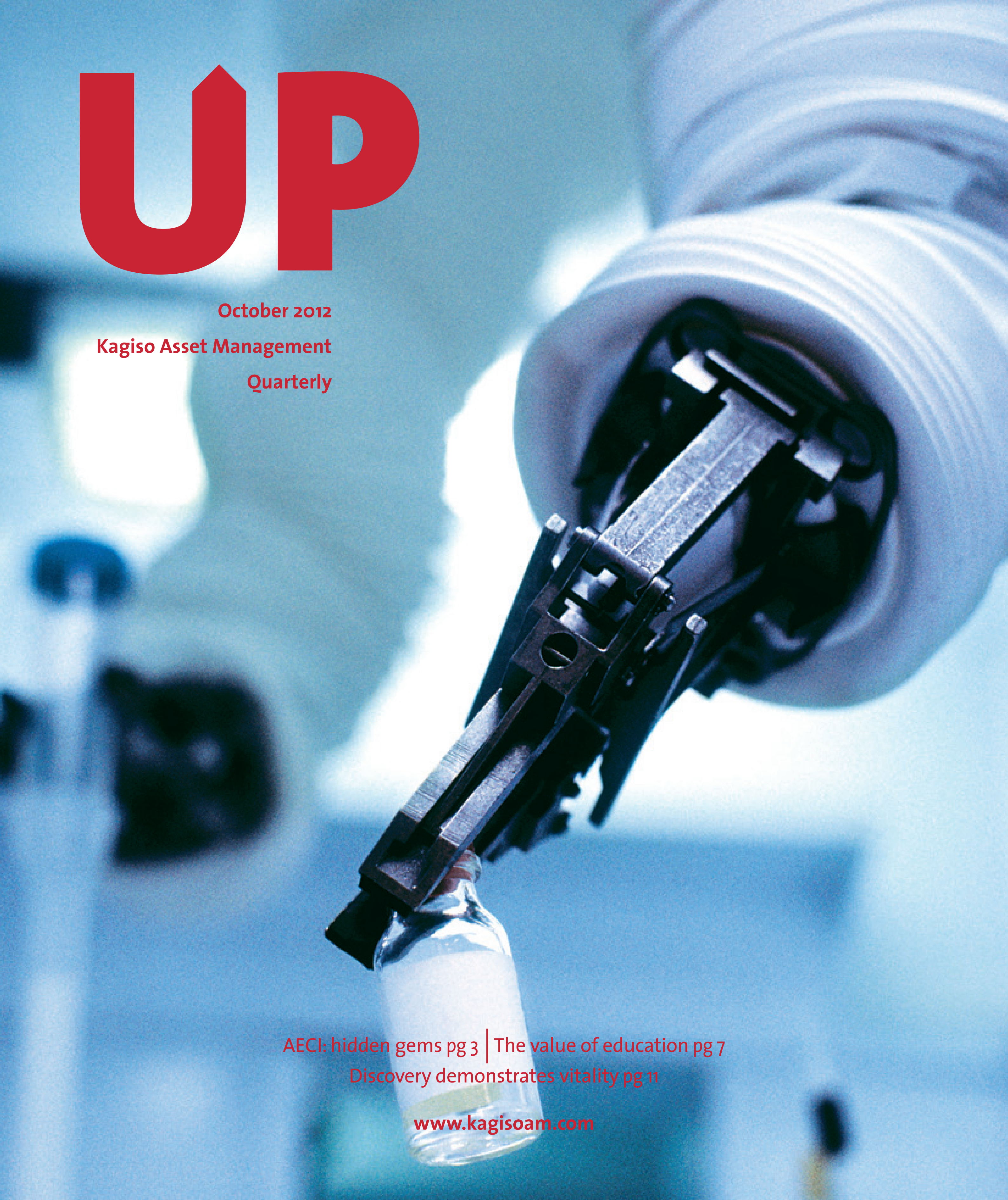

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Kagiso Asset Management

Quarterly

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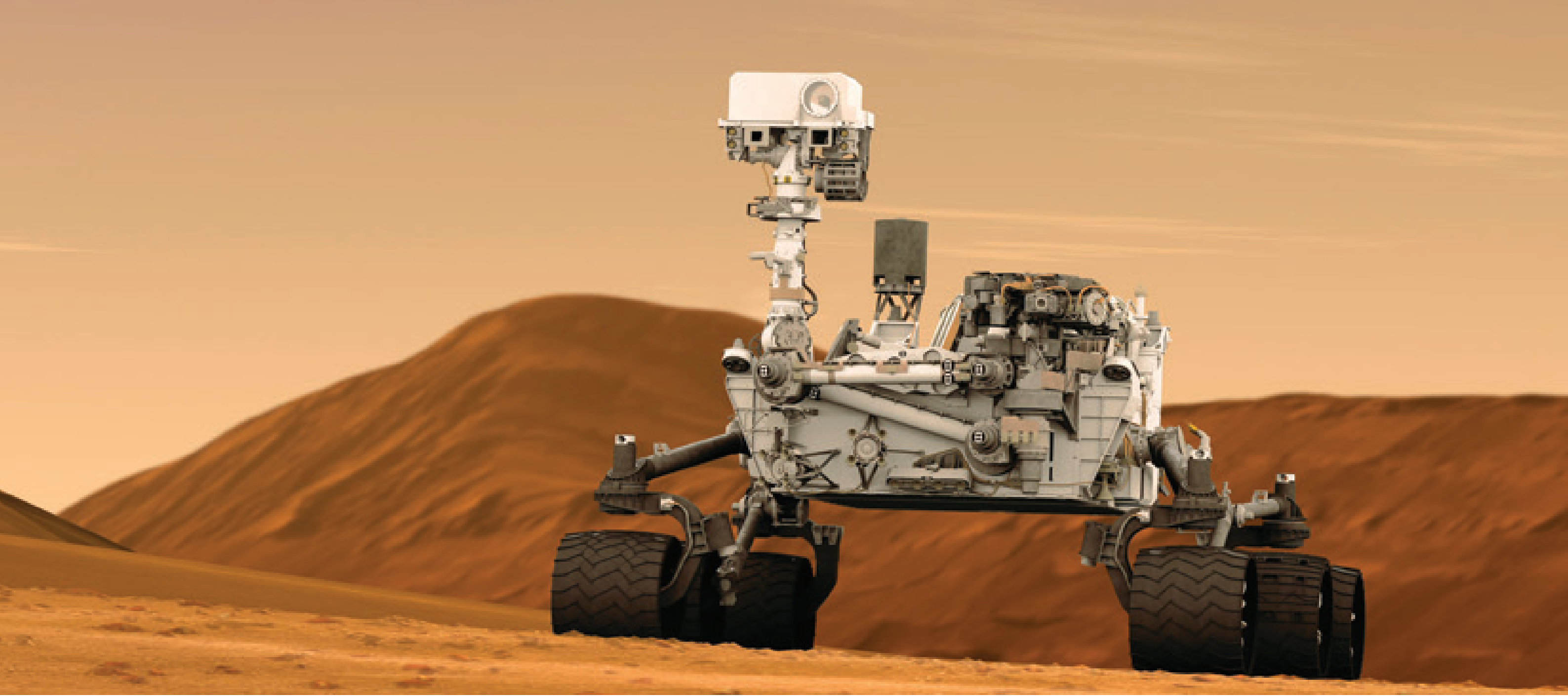
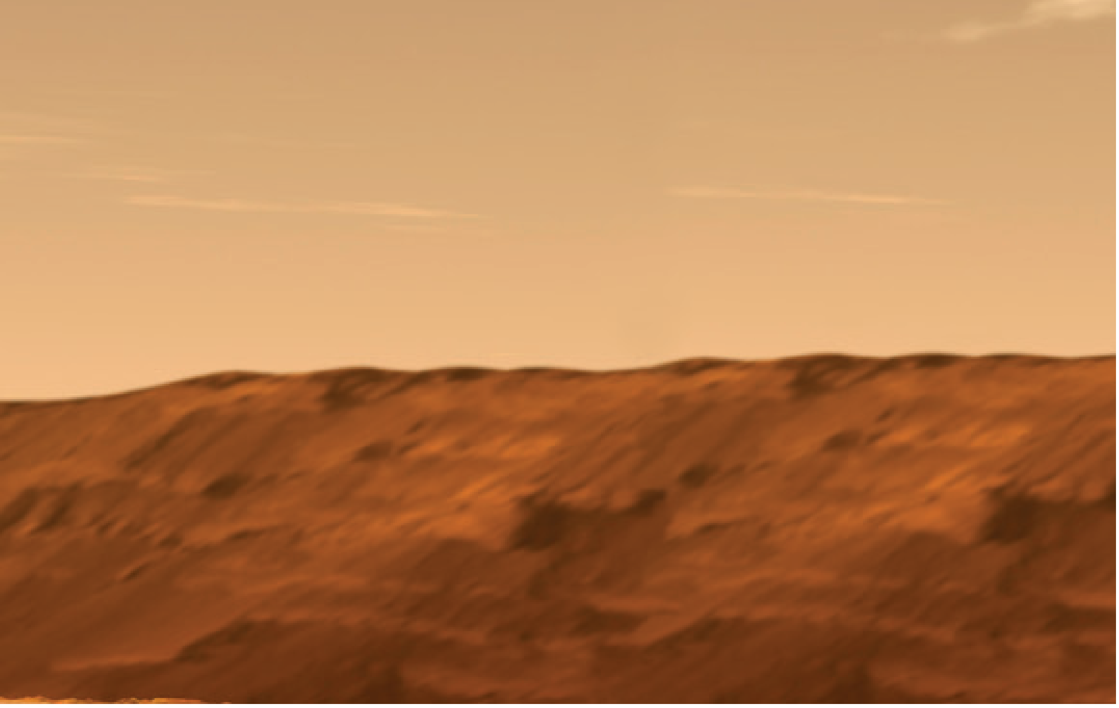




Market influences from another planet

Gavin Wood - Chief Investment Officer

"This year has been a particularly challenging one for valuation-driven investors such as Kagiso Asset Management.

While we have delivered strongly positive returns for our clients, our short-term performance has uncharacteristically lagged benchmarks and, in some cases, we have lagged some of our competitors."

Market influences from another planet

In our view, this is mainly due to powerful momentum forces in our market, fuelled by supportive short-term macroeconomic circumstances. This cocktail is causing expensive shares (that we do not own on behalf of our clients) to accelerate upwards to new all-time heights, and certain very undervalued shares (that we do hold for our clients) to plumb new lows. For example, industrial shares are up over 70% since the start of 2008, before the Great Financial Crisis, and resources shares are down over 20%.

After such a demanding period in the market, we are particularly pleased to note that our assets under management have recently surpassed R41 billion for the first time. Our existing clients understand the substantial long-term benefits of our disciplined, research-driven and valuation-based investment approach. Our significant number of new clients, representing over R1.5 billion in the last quarter alone, additionally appreciate that they are buying into a set of substantially undervalued shares at a very opportune time. All of our clients are also completely avoiding overvalued shares, which have the strong potential to offer shareholders permanent capital loss.

Understanding the momentum forces at play

The momentum seems to start with the extremely troubled economies in the northern hemisphere, where there are massive levels of government debt, high unemployment rates and low levels of economic growth. With their low growth and low yields, foreign investors see a dearth of investment opportunities in their own markets. In addition, these capital markets are awash with liquidity from the unprecedented levels of monetary stimulus. Foreign investors are therefore directing large sums of capital to emerging markets - especially large relative to the underlying market sizes and levels of liquidity.

These flows to emerging markets have material impacts on the share prices of the targeted companies. A self-reinforcing feedback loop then begins in that further capital is attracted to these emerging markets due to the exceptionally good investment performances they are delivering. An additional self-reinforcing flow effect is added when passive emerging market exchange traded funds, now very material in the world, join the trend.

The best examples of this phenomenon at work can be found in the local consumer-oriented industrial shares. Truworths, for example, is a world-class company that is vastly overvalued and over 65%[1] of its shareholders are now foreign. Remarkably, 25% of its free float market capitalisation is held by just eight overseas funds[2] - that is 72 days' trading volume. Industrial shares (excluding dual-listed shares) that had less than 10% foreign ownership in 2006, are now over 40% owned by foreigners[1].

Supportive macroeconomic forces

The financial results of many of the consumer-oriented industrial shares have been remarkably good over the last few years. This has underpinned the foreign flows into these shares. In our view, there has been a highly favourable macroeconomic environment prevailing for consumers, which is unlikely to be as buoyant in the years ahead.

In particular there has been:

- a very high level of real wage increases, especially for highly unionised industries and the public sector;
- excessive employment growth in the government workforce and strong growth in social grants; and
- an unsecured credit boom, where certain middle to low-income consumers spend their next few years' income now, supported by the lowest interest rates in decades.

Creaks in the system

Areas of stress that we observe, which indicate an unsustainable situation, include a record current account deficit from excessive consumption-based imports and weak exports, and high dividend and interest transfers (given the high foreign ownership of South African equities and bonds). Others are a government that increasingly overspends on its wage bill (ie current expenditure) and underspends on investment (ie on long-term competitiveness), a struggling mining sector - arguably the engine of the local economy, and a structurally declining manufacturing sector. Lastly, we notice economic weakness in our largest trading partner, Europe, and slowing activity in the rest of the world, especially in China - a big customer for our commodity exports. UP

1 BofA Merrill Lynch, STRATE (1 June 2012)
2 EPFR, Bloomberg, Citigroup (July 2012)

AECI: hidden gems

Aslam Dalvi - Equity Analyst

African Explosives and Chemical Industries (AECI) is one of the oldest companies on the JSE with an operating history that extends well over a century, although it was listed only in 1966.

The current business structure was formed in the 1920's through the merger of Nobel Industries and the manufacturing division of De Beers Consolidated. Today, AECI is a holding company focused on three core business areas.

AECI: hidden gems

At 57% of profits, **Chemserve** is one of South Africa's leading chemical companies and supplies specialist chemicals to the local mining and industrial sectors. **AEL Mining Services (AEL)**, which accounts for 33% of profits, is the explosives division servicing South African, African and international mining companies. The third business area is property and is made up of **Heartland Properties** and **Heartland Leasing**.

Our investment thesis for AECI has three elements. Firstly, recent capital expenditure in both AEL and Chemserve will underpin medium-term volume growth and allow the company to capitalise on growth opportunities in Africa and Brazil. Secondly, in our view, Chemserve's margin expansion potential is significant due to its specialist production capacity. Finally, AECI's property portfolio is attractive and has significant value, but is not currently contributing much to company earnings.

Strategic investments

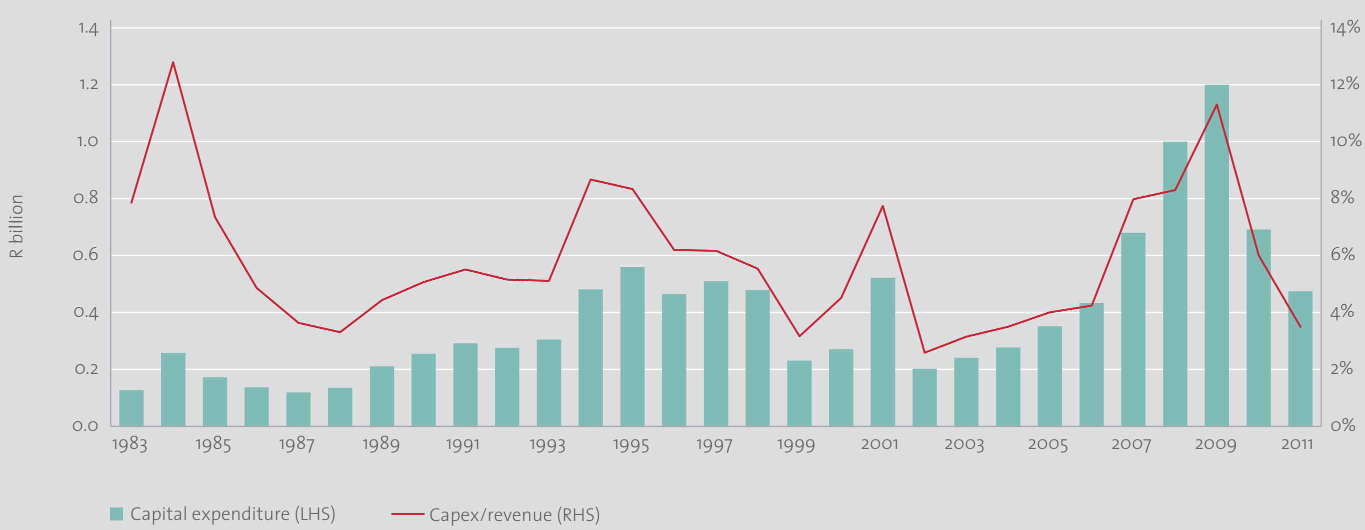
In 2007, AECI started a strategic capital investment programme, which resulted in a meaningful investment in both Chemserve and AEL. We estimate that the company has invested over R1.8 billion across the two businesses over the last five years. This is significant in the context of AECI's historical investment profile and its market capitalisation, which is currently around R10.2 billion.

The Chemserve investment was aimed at increasing capacity at Senmin, a key supplier of mining chemicals to local mining companies. The investment resulted in AECI building new Polyacrylamide (PAM) and Xanthates plants and replacing its existing carbon disulphide plant.

With the successful commissioning of the plants over the last 18 months, the full capital and fixed costs are now reflected in AECI's results. We estimate that the Xanthates and PAM plants are currently running at around 65% and 70% capacity respectively - both underutilised. Once volumes grow into Africa and other regions, we expect strong operational leverage to come through. This means that, as costs grow below revenue, Chemserve will deliver robust profit growth over the next few years.

Within explosives, AECI has built a world-first, fully automated robotic assembly line for shock tube explosives at AEL's Initiating Systems Automated Plant (ISAP). The production capacity of this assembly line is expected to be around 120 million detonators per year - multiples higher than its closest competitor. Due to this production scale, AECI will emerge as the world's lowest cost producer of shock tube explosives. This strategic advantage provides a solid platform for volume growth and margin expansion and also allows the company to access and compete within new markets.

AECI's capital expenditure profile



Source: AECI and Kagiso Asset Management research

The fully automated nature of the plant will further result in significant savings as the manual assembly plant is shut down. Although operational challenges have resulted in the original deadline not being met at the ISAP plant, we remain confident that the bulk of these savings will be delivered over the next two years.

Chemical attractions

The Chemserve business focuses on five key growth areas: mining, food-related chemicals, home and personal care, agriculture and water treatment. While Chemserve is involved in some chemical trading, we estimate that this type of low-margin business makes up less than 30% of its revenue. The balance of the portfolio consists of higher margin value-added chemicals. Here, the jewel is the mining speciality cluster, which is made up of Senmin, Improchem, Chemical Initiatives and Crest Chemicals. This cluster generates around 40% of Chemserve's profits.

The mining speciality businesses typically have a high servicing component. This sets them apart from traditional chemical traders and results in high barriers to entry, attractive margins and strong cash generation. The strength of the Chemserve model can be seen when analysing long-term data for the chemicals cluster.

Over the last 18 years, revenue at Chemserve has grown by an annualised rate of 14%, while profits have increased at a slightly higher rate of 15% per annum. The business has a strong track record, having grown profits every year since 1983 except for the year 2009.

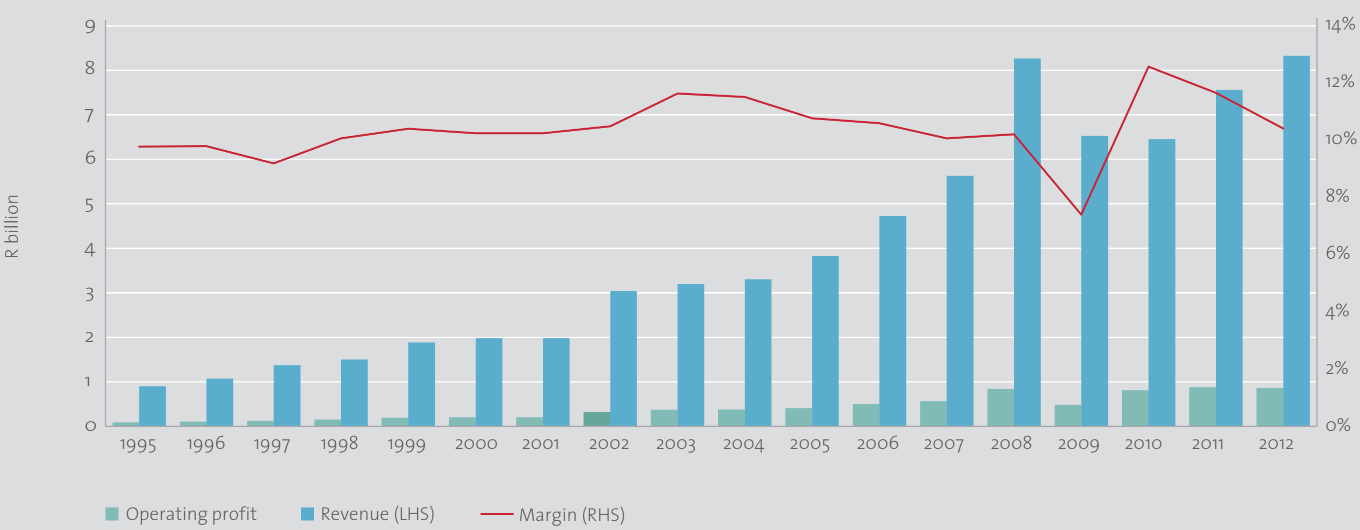
Another attraction is the pending expansion of the Chemserve model into Brazil. This country has large and expanding mining and industrial sectors, which represent very attractive potential markets for the company. The move also gives Chemserve access to the broader Latin American market and should deliver substantial value to shareholders over time.

Property is a hidden gem

In 1990, an accident at Modderfontein in Johannesburg resulted in AECI consolidating and better managing safety within AEL. This led to the closure of most of the Modderfontein (Johannesburg) and Somerset West (Cape Town) factories and the release of around 5 000 hectares of land at the two sites. Heartland Properties was created to manage the sale of the property portfolio and to ensure that shareholders received maximum value.

After several sales between 2004 and 2007, the property portfolio is now made up of around 3 000 hectares situated in Modderfontein and around 700 hectares in Somerset West.

Chemserve's historic performance



Source: AECI and Kagiso Asset Management research

AECI: hidden gems

The Modderfontein site is well located within a 10km radius of Sandton, OR Tambo and Johannesburg CBD, and the Gautrain runs through the southern part of the property. AECI has exclusive rights to build a station at Modderfontein and develop the area around the station. This could add significant value to the property. Studies by Lightstone, a property consultancy that investigated the trend in property prices between 2005 and 2007, show that prices within 2km to 3km of a Gautrain station have generally grown 25% to 50% per year above the regional average.

The Somerset West land is located between the False Bay coast and the N2 highway. The area has good medium-term growth potential, particularly as a light industrial and office hub.

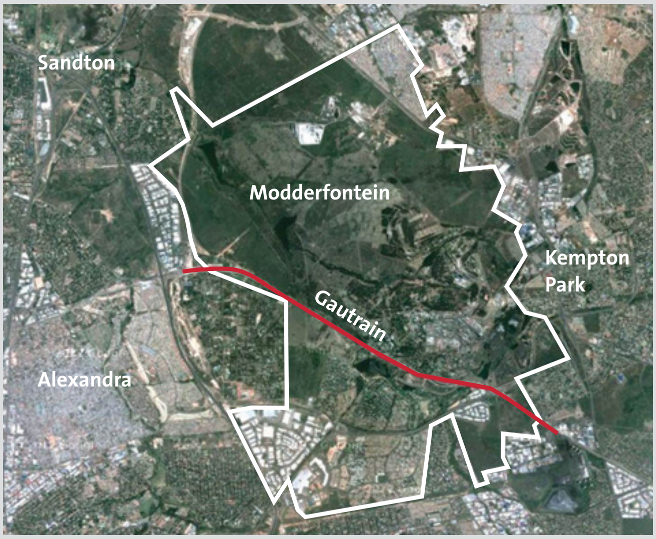
An independent assessment this year valued AECI's entire property portfolio at around R2 billion (net of tax) or R17 per share.

While there are significant challenges in valuing underdeveloped land (such as uncertainty around pricing and timing of sales), we believe that AECI's properties could be worth significantly more given their unique location and features.

In summary

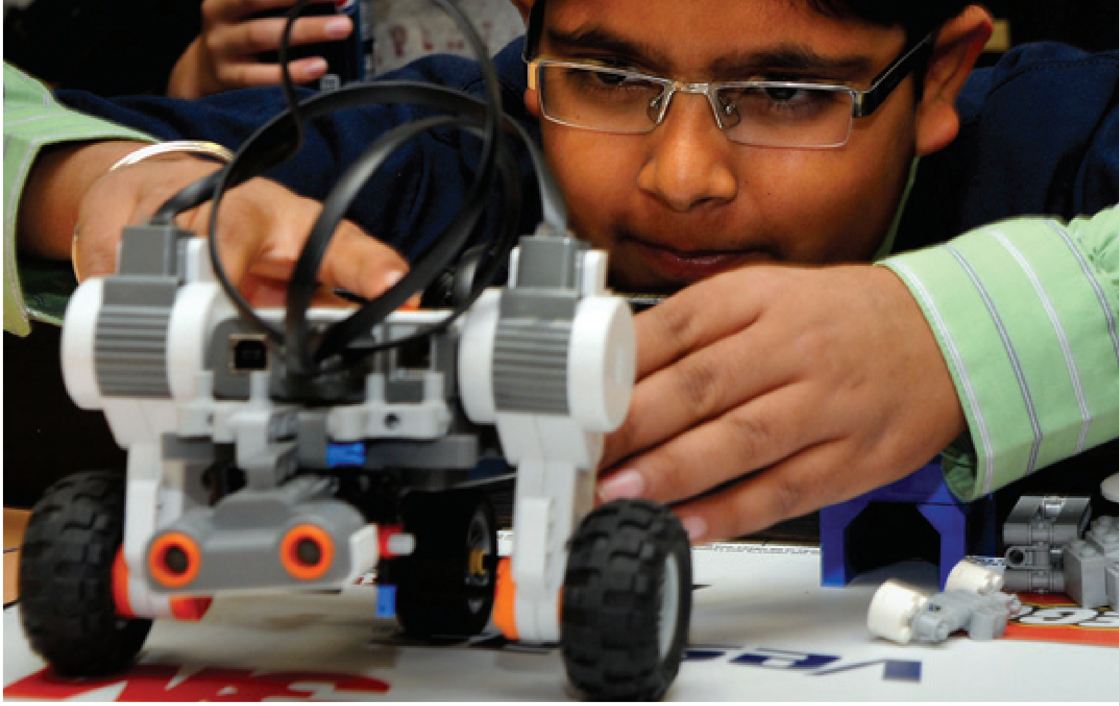
The fundamentals for AECI are very positive. While there are some short-term challenges in the South African mining and manufacturing sectors, the recent capital investment has placed the business in a strong position to capitalise on growth opportunities over the next few years. Using relatively conservative valuation multiples, we estimate that, at current prices, investors are paying a fair price for a world-class explosives and chemicals business and effectively getting a very attractive property portfolio for free. UP

Modderfontein (Johannesburg)



Somerset West (Cape Town)

Source: Google Maps and Kagiso Asset Management research



The value of education

Simon Anderssen - Equity Analyst

Most parents have a natural instinct to provide the best possible education for their children to ensure that their future ambitions are not limited by a poor learning foundation.

Government's failure to provide quality education for all South Africans has been well documented. It is therefore understandable that many parents have lost confidence in the state's ability to offer excellent education through public schools.

The value of education

This is evident in the 7% annual increase in the number of learners enrolled at independent schools between 2005 and 2011. Over the same period, there has been little change in the number of learners at public schools.

Types of schools in South Africa

South Africa has around 26 000 schools, which are divided into **public** and **independent** schools. Both types of schools offer government curricula, but some independent schools write final exams set by an independent body. Independent schools receive little financial support from government and rely on fees or endowments to cover their operating costs.

The vast majority of South African schools are state-funded public schools and there are currently 1 500 independent schools that account for 3% of all learners. This level is low compared to an international average of 15%. However, the international benchmark includes many developed nations, where average incomes are much higher than South Africa and affordability is less of a limitation. In Gauteng, the wealthiest province, 11.5% of learners attend independent schools.

Most independent schools are not-for-profit and surplus funds are either saved for future needs, or reinvested in facilities, bursaries and extra staff. A minority of these schools operate to generate a profit. We refer to this group as **private** schools.

Independent versus public schools

There is no definitive evidence that shows that independent schools perform any better in general than public schools. This is because there are a number of very good public schools, many of which consistently achieve results that are as good as, or better, than more expensive private schools.

The real education crisis in South Africa is that there are a large number of public schools where performance is terrible. These underperforming schools place a meaningful drag on the country's overall educational performance.

Private schools are unlikely to have a significant impact on the country as a whole because the majority of learners at the underperforming schools cannot afford private school fees. For this reason, private education alone is not the solution to the country's education crisis.

Private schools from an investor's perspective

Profits from an established, well-run private school are typically non-cyclical and can be expected to increase in real terms. This is because enrolments are usually stable as parents (and learners) are reluctant to switch schools. This allows the school to increase fees at a rate that more than compensates for higher operating costs, such as teacher salary increases. Private schools are also highly cash generative as fees are either paid at the beginning of the month, term or year.

However, these benefits are neither immediate nor free. A new private school can cost between R50 million and R180 million to build, depending on the capacity and specifications. Most new private schools in South Africa are built to accommodate 1 200 to 2 000 learners, from grades R to grade 12, to achieve economies of scale.

In addition to an upfront investment in classrooms and facilities, the average new school takes three years to break even (ie when revenue from fees is sufficient to cover operating costs). Investors therefore need to provide additional funding to cover the shortfall during this period. Enrolments usually reach capacity after eight years, at which point the school is mature and profits are stable.

Choosing between value and growth

AdvTech and Curro are both private school operators listed on the JSE. Although they have different operating models and target markets, they share the attractive long-term investment characteristics of private schools.

Value: AdvTech

AdvTech has built 20 schools over the past two decades, accommodating over 12 000 learners. These well-known schools include seven Crawford Colleges, two Trinity Houses, five Abbotts Colleges and six Junior Colleges. The company plans to add seven new schools over the next few years.

Fees at these schools are high, ranging between R32 000 and R83 000 per year, as they offer a first-class learning experience and operating costs are therefore higher. For example, costs that need to be covered include expensive classroom facilities, above-average salaries to attract the best teachers and a wide range of subject choices for the higher grades. As a result, these schools typically attract learners from high-income households.

Most of AdvTech's schools have been operating for more than eight years. As an indication of their early success and future growth potential, capacity (new classrooms) has been added at nearly all campuses over the last five years. Only three new schools have been opened over the last three years. For investors, this means that most of AdvTech's schools are profitable and cash generative - a trend that is expected to improve as the new capacity matures.

We estimate that AdvTech's total portfolio of schools accounts for 80% of its market value. In addition to schools, the company operates 26 tertiary education campuses (eg Varsity College), which share many of the attractive investment qualities of schools, and a recruitment division. Our view is that the market currently underestimates AdvTech's future earnings' growth potential and undervalues the company's assets.

Growth: Curro

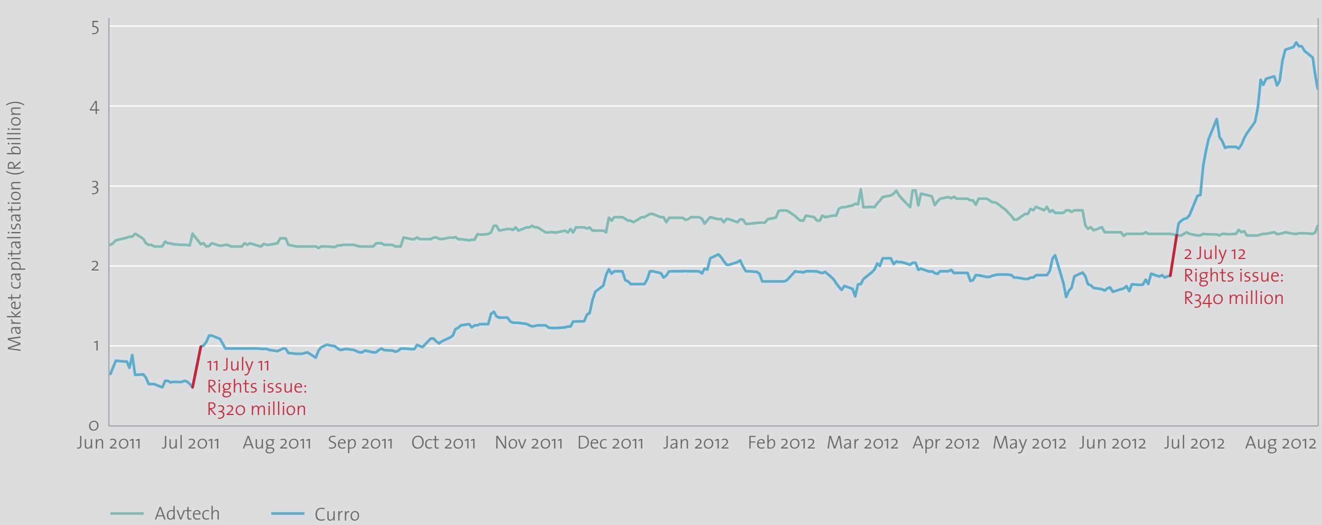
Curro is a relatively young business that currently has 19 schools with roughly 12 000 learners. It listed on the JSE in May 2011 with 12 schools, 5 500 learners and aggressive expansion plans. Since then, it has concluded two rights issues, multiple acquisitions and an agreement with funding partners to build additional low-fee private schools.

Curro schools aim to offer a more personalised learning experience than, and compete with, the best performing public schools. Although they are premised on the former 'Model C' schools (government public schools that were administered and largely funded by parents), facilities are generally more limited. However, the main difference is that Curro's class sizes are limited to 25 learners versus about 30 in public schools. Teacher salaries are in line with those at public schools and average fees are about R35 000 per year.

Curro plans to open another seven schools over the next three years. Also, the company has signed a partnership with the Public Investment Corporation and Old Mutual Investment Group (SA) to open 11 low-fee schools over the next seven years. Management has proposed a target of 80 schools by 2020. These aggressive growth plans have attracted significant media and investor attention, contributing to Curro's market capitalisation increasing by 400% since listing, to R4.1 billion. We believe that this market value overlooks two key risks.

Firstly, it is unrealistic to assume that Curro can achieve its ambitious expansion plans with its current capital base.

Market capitalisations of AdvTech and Curro



Source: INet and Kagiso Asset Management research

The value of education

Considering that only three schools have been operating for more than three years, group cash flow is expected to remain under pressure until the recently opened schools break even. Further capital will need to be raised to fund the construction of more new schools and this will dilute future returns for current shareholders.

Secondly, research conducted by AMPS[1] suggests that less than 5% of households in South Africa have sufficient monthly income to support one child at a Curro school. We argue that many of the learners who can afford to attend a private school already do so. In addition, those who already attend a good public school pay significantly lower school fees than the would at a Curro school (see chart).

Therefore, we do not think that Curro's plan to aggressively roll out new private schools will rapidly displace learners from good public (or existing private) schools. This would be necessary to make the new and planned Curro schools successful and to somewhat justify the company's current valuation.

[1] South African All Media and Product Survey

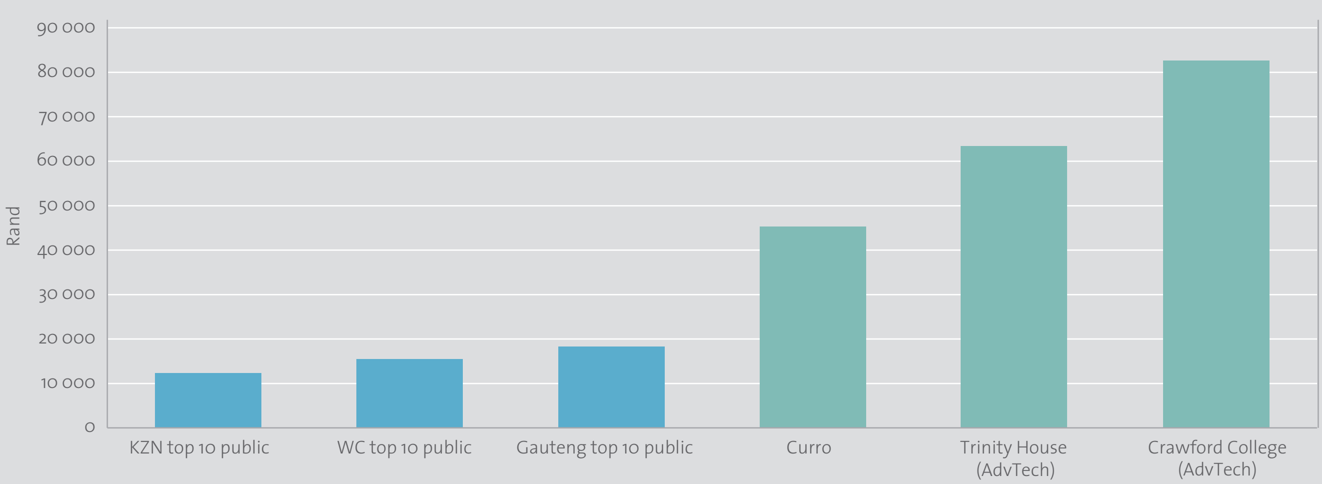
AdvTech offers value

As investment managers, we are not qualified to evaluate the relative educational performance of each private school and we accept that school fees are not the only criterion parents consider when selecting a school. Factors such as class sizes, reputation and location are also important.

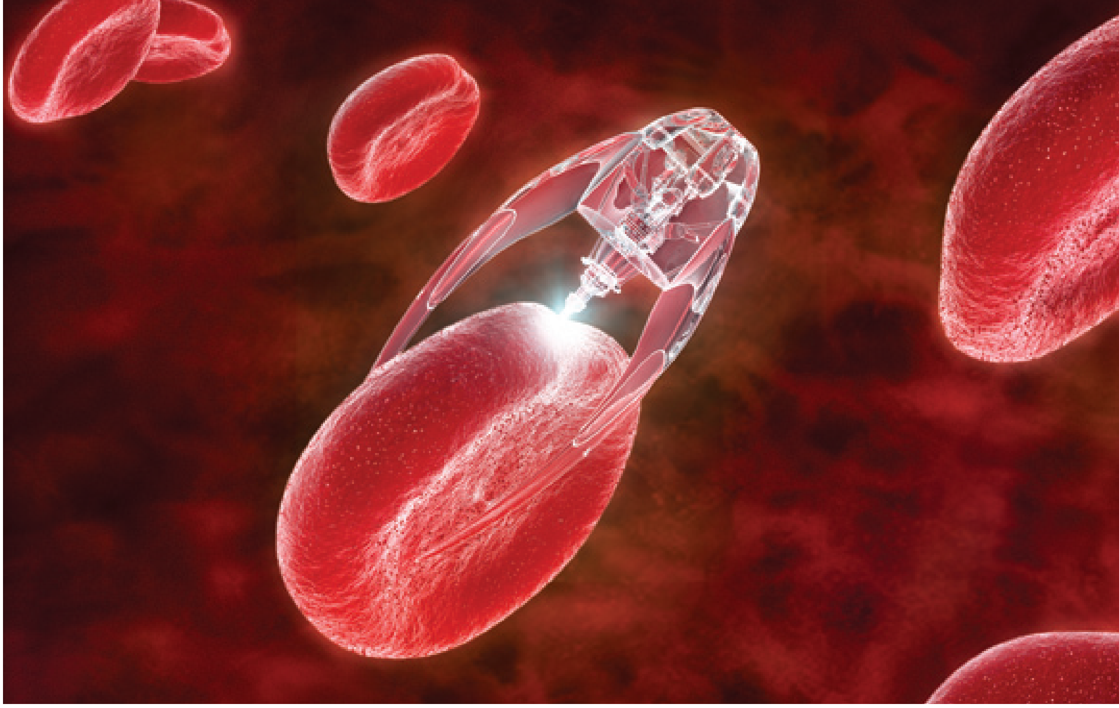
However, from an investment perspective, we believe investors need to divorce themselves from any potential biases and appreciate that investment returns are not just a function of demand, but also affordability, execution, funding and time.

In our view, AdvTech's established portfolio of high-end private schools and its moderate growth strategy offer better value for investors than Curro's as yet unproven, ambitious expansion plans. We think the market undervalues the positive outlook for AdvTech's schools and this gives us the confidence to invest our clients' funds in the company. UP

Average annual school fees: public vs private (Grade 10)



Source: Provincial education departments, schools and Kagiso Asset Management research

Discovery demonstrates vitality

Justin Floor - Equity Analyst

"Discovery Holdings is a listed financial services company that has successfully disrupted the South African insurance industry. It has done this through a dominant healthcare administration business and an innovative customer engagement programme, Vitality.

Although it is similar to competitors in the insurance industry in that it operates mainly in South Africa through life insurance, medical aid administration and asset management businesses, some features make it very different."

Discovery demonstrates vitality

Discovery, which was started in 1992 and listed in 1999, is much younger than most of the bigger players in the industry (Old Mutual was started in 1845 and Sanlam in 1912). This has been an advantage for the group as it has not been slowed down by old administration systems and products. It has used its more nimble position and innovative operating style to successfully break into established industries and gain rapid market share.

A very successful loyalty and wellness programme, called Vitality, has also been a strong differentiator. The final distinguishing characteristic has been Discovery's focus on growing its international presence, with operations in the UK, US and China.

Established businesses deliver a solid earnings base

Discovery's oldest businesses are the most established and contribute significantly to operating earnings. However, they are in mature and stable markets with high market share and, going forward, are expected to grow only moderately.

Discovery Health: churning out cash

The mature Discovery Health business is the second largest earnings contributor to the group and has seen remarkable growth in market share since inception in 1992. It generates significant cash and is expected to continue doing so.

Discovery Health is currently the dominant open medical scheme administrator in the country, with a market share of around 38%. It covers 1.2 million primary members - a total of 2.6 million lives, including dependents.

Earnings growth is driven by gains in membership, fee pricing and controlling costs. We expect membership to grow slowly, driven by employment growth and market share gains, as the medical scheme industry continues to consolidate. Fee pricing is at risk due to increasing regulatory and social pressure and Discovery Health's higher-than-average profit margins. Cost control has been strong as the company has spread fixed costs over a growing membership base, and has moved some service centres to low-cost areas such as Durban and Port Elizabeth.

Discovery Life: slower growth expected

In 2000, Discovery Life was launched as the first player to sell only pure risk (protection) products in the local affluent life insurance market. In doing so, this business transformed the risk product industry, which previously packaged insurance protection within expensive and complicated 'universal life' products.

Although it is the largest earnings contributor to the group, low cash generation is a concern. Cash is reinvested in writing new business through upfront commissions, which are recouped over time. To fill the gap, Discovery Life enters into

Discovery's corporate structure

Source: Kagiso Asset Management research and company information structured agreements, where it sells a portion of capitalised future profits in exchange for cash. As the life book matures over time, cash conversion should improve.

Persistency (the degree to which customers continue paying premiums) is a particularly acute risk for Discovery, given its upfront commission-driven cost base. This cost base needs to be recouped over time through customers actually paying their contracted premiums. On balance, Discovery Life is well positioned to defend existing market share but is unlikely to grow this market share much further in the medium term, given aggressive competitors.

Discovery Vitality: the competitive advantage

Vitality adds significant business benefits in addition to a small profit contribution. About 56% of Discovery Health's 1.2 billion members have signed up for Vitality and these levels are growing.

Vitality offers several key business attractions:

- Customer retention is improved due to the additional (real or perceived) cost of withdrawal from Discovery. Policyholders on higher levels of Vitality demonstrate a lower tendency to lapse, resulting in relatively higher profitability over the life of the contract (see chart).
- Healthy individuals rewarded by Vitality benefits migrate to Discovery, resulting in an above-average pool of fit clients. This leads to a more profitable life insurance operation as policyholders (on average) are healthier and live longer than expected.
- Vitality is designed to reward integration between products (eg medical aid, life insurance policies and savings products) so that Discovery obtains a larger share of consumers' financial wallets.

We expect Vitality to remain an important part of Discovery's strength, given its existing strong brand and significant size.

Emerging businesses provide the growth engine

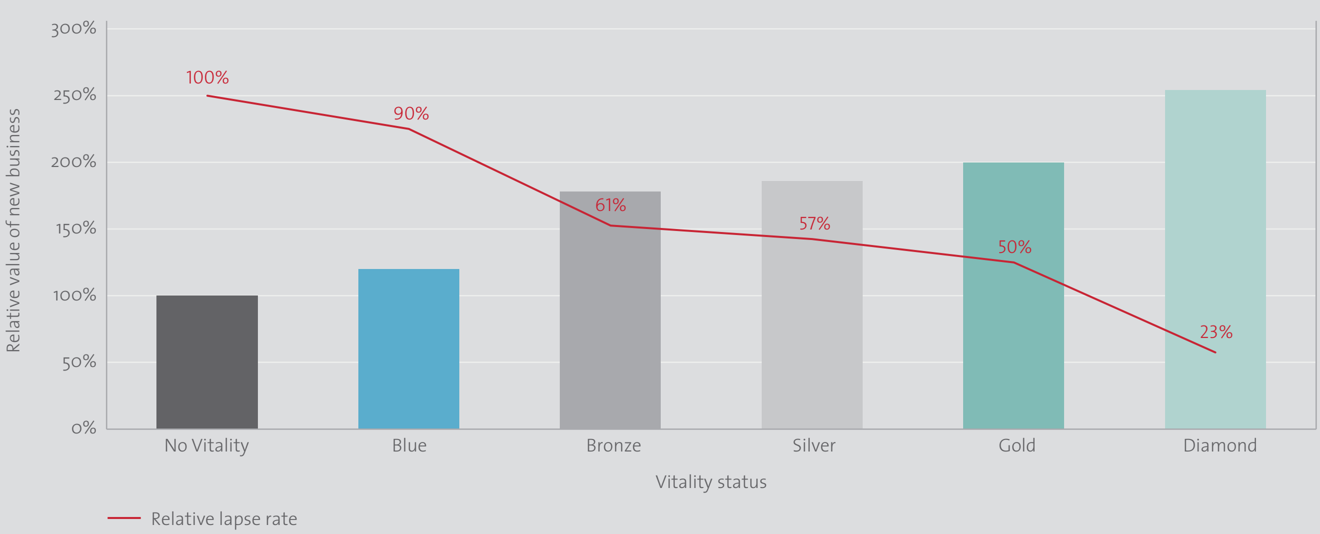
In comparison to the established sources of earnings, Discovery's emerging businesses make a relatively small contribution to profits. However, we expect them to deliver strong earnings growth over the short to medium term.

PruHealth and PruProtect (UK)

Discovery has health and life insurance operations in the UK. It owns 75% of Prudential's PruHealth and PruProtect businesses, which are profitable and have achieved significant scale in their respective markets.

PruHealth faces short-term economic challenges given the struggling UK economy. However, a shrinking National Health

Vitality's impact on new business profitability



Source: Kagiso Asset Management research and company information

Discovery demonstrates vitality

Service budget in the face of UK government austerity, coupled with naturally rising demand for increasingly expensive medical care, is positive for the UK Private Medical Insurance (PMI) industry.

The highly profitable and fast-growing PruProtect operation is also expected to build on its profit contribution.

Discovery Invest
Discovery Invest, the South African asset management business, is emerging as a strong player in a competitive market. It is positioning itself as a product provider for external asset managers, boosted by attractive (and profitable) product enhancements such as investment guarantees.

Good growth in funds under management is expected to continue as customers are lured towards the company's products through the innovative use of Vitality integration benefits (eg fee discounts). A popular brand and Discovery Life's strong distribution capability are positive for the growth of this business.

Growth businesses offer longer-term potential

A collection of new ventures are expected to provide further firepower to future earnings.

Ping An Health
The most explosive potential for Discovery is its partnership with the second largest insurance group in China through a stake in a joint venture in Ping An Health. Two main features underline the potential. Firstly, Ping An is the world's second largest insurer with a staggering 70 million customers distributed through 500 000 sales agents. Secondly, China's aggregate healthcare spend was R2.9 trillion in 2011, split between public social healthcare programmes and private expenditure. The latter came to R875 billion (31%), of which 7% (R61 billion) represents the current PMI market.

This market is not without risks. For example, medical professionals receive low salaries and are incentivised through commissions on drug prescriptions, which create a risk of uncontrollable cost escalation. Despite the challenges, the potential provided by the sheer size of the attractive market and Ping An's brand and distribution capability, makes for a compelling opportunity.

Discovery Insure
Insure, launched in 2011, is the newest addition to the Discovery stable. Discovery has adapted its existing Vitality programme to motor and household insurance products through VitalityDrive. The business model uses telematics technology (eg advanced tracking devices) to incentivise better driving habits and offers cash rewards based on fuel spend.

Significant investment is required to achieve momentum for the business, which should place a drag on earnings for the next few years until the operation breaks even. When it reaches sufficient scale, strong earnings growth is expected - driven by slick marketing, product integration and an impressive distribution network.

The Vitality Group and HumanaVitality (US)
Playing into spiralling healthcare costs in the US, this operation aims to monetise the successful Vitality wellness concept through partnerships with large insurers (eg the managed US healthcare giant Humana). It also partners self-insuring corporates desperate to control escalating healthcare costs.

Discovery the investment

Discovery is a high quality company and shareholders benefit from defensive earnings and high profit margins in the established cluster of health and life businesses. The emerging operations are growing their earnings contributions and a cluster of new businesses offer attractive long-term potential for growth. The Vitality programme attracts and retains new customers and Discovery therefore enjoys both defensive and growth characteristics.

However, our investment philosophy causes us to financially quantify the excellent prospects of the company and to carefully judge whether the price of the share is below its intrinsic value. This value is based on the cash flows we expect to be generated over time, incorporating our assessment of the risks and exciting opportunities facing Discovery.

Our intrinsic value for Discovery has recently been surpassed by a rapid rise in the market price of the share. We have consequently reduced our holding in our clients' portfolios, our clients having benefited substantially from the group's superior performance over time. UP

Changing China

Rubin Renecke - Equity Analyst

"Some months ago I travelled to China on business and visited Beijing, Chongqing and Shanghai during my one-week stay. While my days were filled with back-to-back meetings, there was time in between travelling and work to get a sense of the country as a whole.

When I left home, I didn't have any specific expectations of China, but Beijing and Shanghai certainly impressed me as being among the finest first world cities."

Changing China

As the country's capital and the second largest city by urban population, Beijing is China's political, cultural and educational centre. Shanghai, China's biggest city by population, is the financial centre and the busiest container port in the world. Chongqing is one of the biggest municipalities in the world, with about 30 million people, and is the major manufacturing centre and a transportation hub for Southwest China.

First impressions

China is now the second-largest economy in the world in terms of GDP, following the US, and has experienced robust economic growth for over three decades. Driving from Beijing's main airport to the hotel, I was immediately aware of being in a vast country with many people. Yet despite this, it didn't seem overcrowded and I never felt claustrophobic.

It is also a country rich in history and culture, and one experiences a distinct feeling of being in a highly competitive society, where people will do anything to get ahead. This was literally demonstrated to me at the check-in queue at Shanghai International Airport. Our group was next in line when suddenly three ladies appeared out of nowhere and jumped ahead of us. A heated argument ensued between our Chinese host and the queue jumpers, who eventually backed down. Afterwards, our host calmly informed us that this was common practice in China and that, in most cases, staff don't interfere and let the parties settle the dispute themselves.

Historical China

I arrived in Beijing on a Saturday and had some free time on the Sunday to visit three of the city's famous attractions: Tiananmen Square, the Forbidden City and the Great Wall of China.

While walking around Tiananmen Square, I was struck by the thousands of people coming to pay their respects at the tomb of the former founder of the People's Republic of China (PRC) in 1949, Mao Zedong. This was a strong reminder of the country's Marxist economic ideology. Since the PRC was founded, a portrait of Chairman Mao (as he was known) has hung at the square. Each year, an individual artist is commissioned to update the portrait, ensuring that the former Communist leader is not forgotten.

During the dynastic rule in China, the Forbidden City was the Imperial Palace. Built on the central north-south axis in 1406 to 1420, the complex consists of 980 buildings and covers 720 000m^2. The former Imperial Palace continues to be important in the civic scheme of Beijing as the central north-south axis remains the central axis of Beijing. The scale and aura of this home of the 'past emperors' is remarkable.

Of the three attractions, the Great Wall of China was the cultural highlight of my visit. This spectacular feat of engineering spans thousands of kilometres over mountainous terrain. Built along an east-to-west line across the historical northern borders of the country, the main purpose of the wall was to protect the Chinese Empire against invasions by various nomadic groups and military attacks.

Developed China

Vast high rise developments (most of them new) are the norm in the main cities. Seemingly identical residential apartments for housing the population dominate the skyline in Beijing and Shanghai. Then there are the massive road, rail and airline networks. Four-lane wide roads are common in central Beijing and China boasts modern and efficient airports. While the country has a reputation for replicating Western intellectual property, I got the sense from some of my meetings that certain businesses want to be at the forefront of technology and are eager to shed the 'copycat' label.

Future China

China's well developed cities and rapid urbanisation confirms its insatiable demand for commodities over the last decade, in particular copper and iron ore. While urbanisation will ensure continued demand, in my view it will probably be at a slower pace. The Chinese consumer is likely to be the next wave of growth for the economy. This is particularly noticeable in major cities such as Beijing and Shanghai, where brand awareness and consumption among the younger Chinese is huge. UP

Kagiso Asset Management Funds

Performance to 30 September 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	16.1%	14.7%	8.3%	21.9%	26-Apr-04	1.46%
Domestic Equity General Funds Mean	21.0%	13.4%	5.9%	16.7%		
Outperformance	-4.9%	1.3%	2.4%	5.2%		
Islamic Equity Fund	11.4%	12.4%	-	15.6%	13-Jul-09	1.31%
Domestic Equity General Funds Mean	21.0%	13.4%		16.9%		
Outperformance	-9.6%	-1.0%		-1.3%		
Asset allocation funds						
Balanced Fund	14.6%	-	-	9.6%	3-May-11	1.60%
Domestic AA Prudential Variable Equity Funds Mean	15.2%			9.7%		
Outperformance	-0.6%			-0.1%		
Islamic Balanced Fund	10.2%	-	-	3.4%	3-May-11	1.67%
Domestic AA Prudential Variable Equity Funds Mean	15.2%			9.7%		
Outperformance	-5.0%			-6.3%		
Protector Fund	7.4%	6.3%	5.1%	11.2%	11-Dec-02	1.52 %
CPI + 5%[4]	10.2%	9.7%	11.5%	10.7%		
Outperformance	-2.8%	-3.4%	-6.4%	0.5%		
Stable Fund	7.5%	-	-	8.0%	3-May-11	1.55%
Return on large deposits*	5.4%			5.4%		
Outperformance	2.1%			2.5%		
Institutional Funds[5]						
Equity funds						
Managed Equity Fund	20.0%	15.7%	9.4%	14.0%	1-Sep-06	
FTSE/JSE SWIX All Share Index	27.0%	17.2%	8.4%	12.9%		
Outperformance	-7.0%	-1.5%	1.0%	1.1%		
Core Equity Fund	23.5%	16.2%	9.1%	19.6%	1-Nov-04	
FTSE/JSE SWIX All Share Index	27.0%	17.2%	8.4%	18.9%		
Outperformance	-3.5%	-1..0%	0.6%	0.6%		
Asset allocation funds						
Domestic Balanced Fund[6]	11,4%	12.3%	10.2%	9.0%	1-May-07	
Peer Median[7]	16.5%	14.9%	10.0%	9.4%		
Outperformance	-5.1%	-2.6%	0.2%	-0.4%		

[1]Annualised; [2]TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling 12-month period to 30 September 2012; [3]Source: Morningstar; net of all costs incurred within the fund; [4]CPI for September 2012 is an estimate; [5]Source: Kagiso Asset Management; gross of management fees; [6]Domestic Balanced Fund and benchmark returns to 31 August 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).

KAGISO
Asset Management

Kagiso Asset Management (Pty) Limited

Fifth Floor MontClare Place
Cnr Campground and Main Roads
Claremont 7708

PO Box 1016 Cape Town 8000

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

E-mail info@kagisoam.com

Website www.kagisoam.com

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