UP

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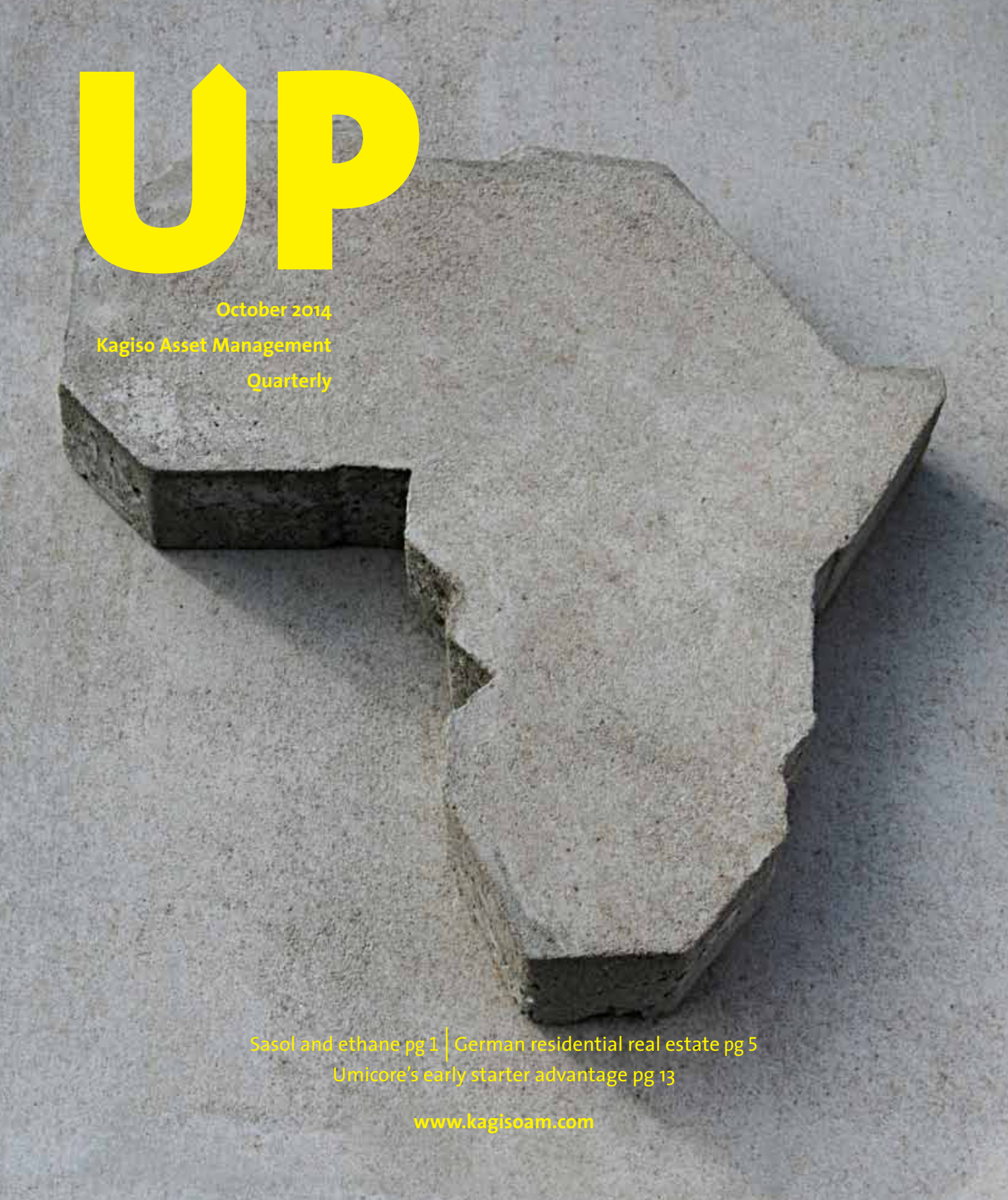
Kagiso Asset Management

Quarterly



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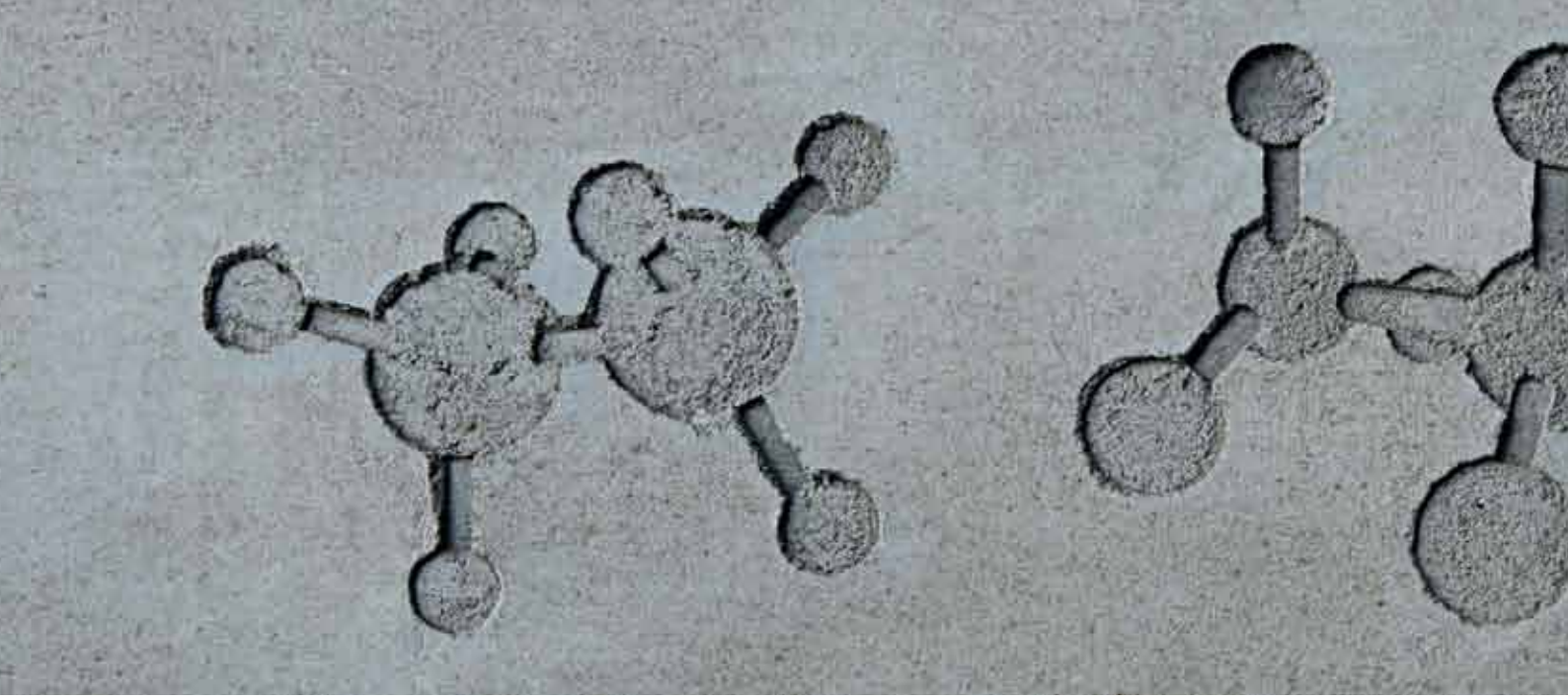
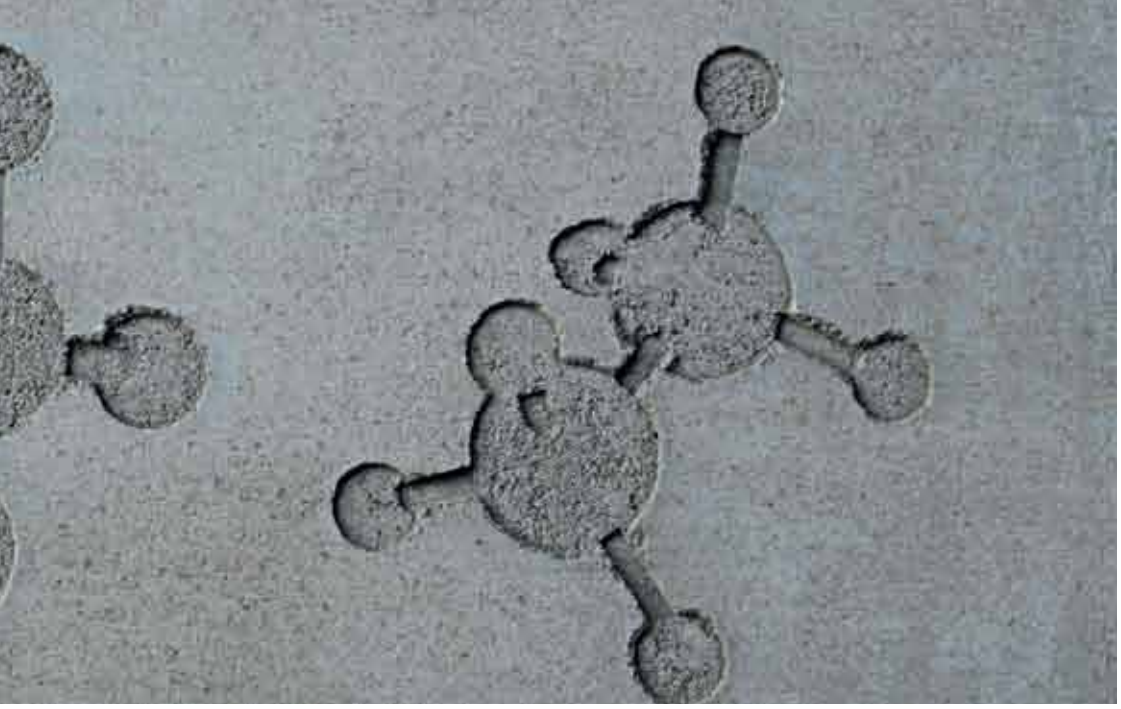




Sasol and ethane

Abdul Davids - Head of Research

Sasol is embarking on a substantial expansion project in North America with a total potential investment value of around US$21 billion (over R210 billion).

This is the single largest geographical expansion project ever undertaken by the company and would be the largest foreign direct investment into North America by an African company. In this article we outline the developments and rationale behind this project.

Sasol and ethane

Sasol plans to invest around US$7.5 billion to expand its existing US facility, located at Lake Charles in Louisiana, to incorporate a new mega chemical complex comprising a 1.5 million tonne ethane cracker plant[1] and a facility to produce derivative chemical products for industrial use. The ethane cracker facility is expected to start production in 2017. Sasol is also evaluating building a 96 000 barrels per day gas to liquids facility in the US, currently costed at around US$14 billion (in excess of R140 billion), with a final investment decision only due by 2018.

Sasol is one of several chemical companies building ethane cracker facilities in North America due to the strong growth in ethane production expected in the US over the next few years. The diagram below highlights the planned plants that are expected to come on stream.

The ethylene market

Ethylene is the key product from the ethane cracking process and is primarily used in the production of polyethylene, the primary ingredient in plastic. Global ethylene demand grew from 110 million tonnes in 2006 to 133 million tonnes in 2013, mainly due to increased demand from Asia. Asian demand for ethylene is forecast to grow from around 40 million tonnes in 2013 to around 60 million tonnes by 2023, contributing to expected global demand exceeding 170 million tonnes by 2023.

Despite the economies of scale benefits in China and the rest of Asia, the Chinese and European ethane cracker facilities that supply these regions remain dependent on higher cost naphtha[2], a liquid chemical derived from the crude oil refining process, as a feedstock. Consequently, US ethylene producers earn substantially higher profits due to their lower-cost ethane feedstock.

All about ethane

The unprecedented growth in US shale gas production since the advent of commercial fracking has resulted in structurally lower gas prices in the US. Natural gas usually comprises 70% to 90% methane, with up to 20% being a mixture of ethane, propane and butane. Smaller amounts of other gases such as carbon dioxide, oxygen and nitrogen are also present.

Ethane as a feedstock can be isolated from natural gas through partial condensation, followed by distillation on an industrial scale. In the US, shale gas has significantly reduced both feedstock and overall production costs for ethylene. Natural gas liquids (including ethane), the by-product of gas processing

[1] A steam cracking plant in the petrochemical industry. The ethane cracking process involves heating up the ethane in a furnace to very high temperatures (up to 900 degrees C) to release or crack the ethane into ethylene.

[2] Naphtha can be used in a similar way to ethane to produce ethylene but is much more expensive given current high crude oil prices.

Key new US ethane cracker projects

Company	Capacity (million tonnes)	Location	Start-up	Status
Chevron Phillips Chemical	1.5	Cedar Bayou, Texas	Mid-late 2017	Under construction
ExxonMobil	1.5	Baytown, Texas	Late 2016	Under construction
Dow Chemical	1.5	Freeport, Texas	2017	Under construction
Sasol	1.5	Lake Charles, Louisiana	2017	Final investment decision November 2014

Source: ICIS and Kagiso Asset Management research

plants and refining processes, are used as feedstock primarily in North America and the Middle East.

Almost all of the US ethane is produced from natural gas processing plants. The increased production of natural gas from shale, and the targeting of liquid rich shale formations, has contributed to significant increases in US ethane production in recent years.

Naphtha

Higher crude oil prices have contributed to an increase in the price of naphtha over the last few years. The Middle East is currently the most cost-efficient region for ethylene production but future supply of subsidised feedstock (naphtha) is uncertain. Since ethane prices are linked to natural gas and ethylene to naphtha (crude oil), Sasol's ethane cracker project indirectly takes advantage of the current wide differential between oil and gas prices (which is expected to persist).

The diagram on the left (below) highlights the relative cost of producing ethylene in the Middle East, North America and Asia. Middle East-based oil producers have a clear cost advantage over the rest of the world due to the region's abundant crude oil reserves. The growth in shale gas production in North America has reduced the production cost of ethylene from around US$900 per tonne in 2008 to around US$300 per tonne in 2013, giving North America a clear cost advantage over Asia. Therefore, US ethane is now very favourably positioned in the bottom quartile of the global ethylene production cost curve, which plots volume of production against the corresponding cost of production. This is highlighted in the diagram on the right (below).

US ethane supply is a game-changer

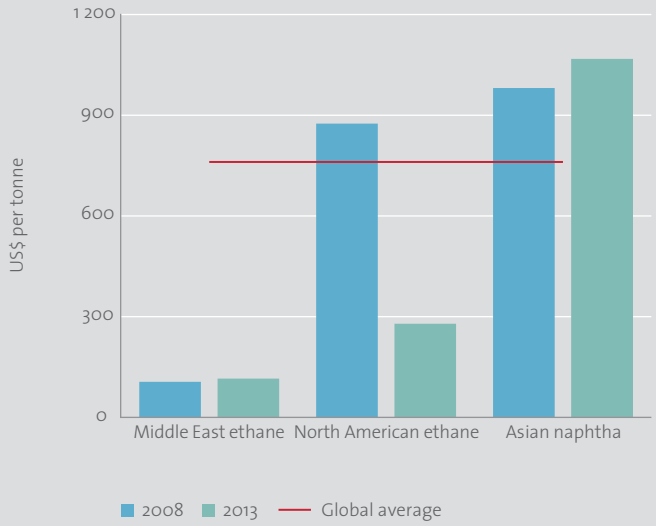
The rapid growth in US shale gas production has contributed to record ethane production in excess of US domestic demand (see diagram over the page). The US has therefore become one of the lowest-cost ethane producing countries, placing it firmly on many ethylene producers' radar screens to exploit this cost advantage.

Due to the growing surplus of ethane shale gas producers can either:

- increase ethane exports; or
- reject ethane in favour of other natural gas liquids, thereby leaving the ethane in the natural gas stream.

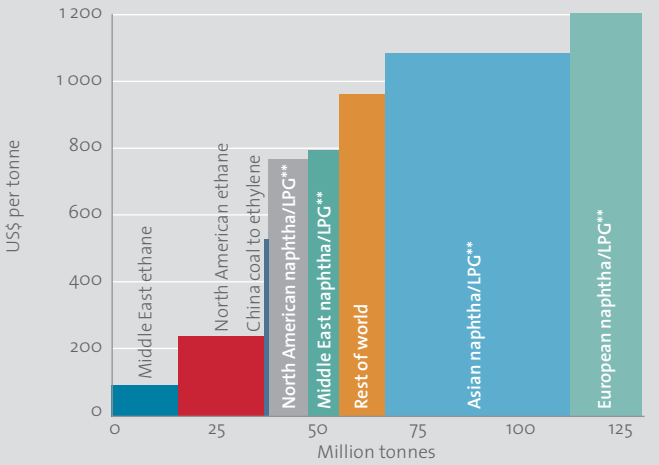
Exporting ethane to Europe and Asia, which are countries that rely on more expensive naphtha for ethylene production, is a more economically viable option relative to ethane rejection.

Ethylene production cash costs



Source: Nexant, Chevron and Avior Capital Markets

Global ethylene production costs* (2013)



*Based on Brent crude oil = US$108 per barrel and Henry Hub = US$3.7 million British Thermal Units
**LPG = Liquid petroleum gas

Source: Wood Mackenzie, Williams Companies and Avior Capital Markets

Sasol and ethane

However, ethane is very difficult to transport as the gas needs to be stored under high pressures or kept cold, and it is therefore generally not globally traded. Shipping costs are high, which erodes the benefit of the cheaper feedstock pricing.

Ethane prices are expected to remain weak as oversupply continues even as the newly planned US ethane cracker facilities start ramping up from 2016 onwards.

Sasol's US project

Sasol's ethane cracker plant, one of the first to be built in the US, should be very profitable as it will tap into regional competitive advantages and give Sasol an early mover advantage. The large size of the plant should realise substantial economies of scale. The facility will be located near Sasol's existing chemicals plant in Lake Charles, thereby reducing some of the risks associated with a greenfields expansion.

Threats

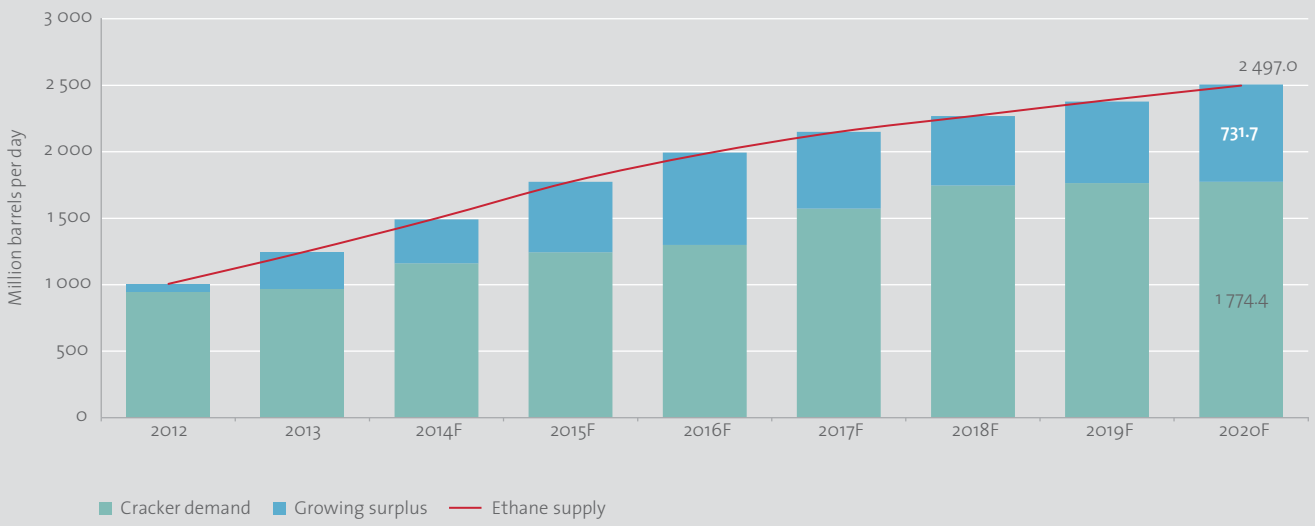
The biggest risk to the project is an increase in ethane feedstock prices, coupled with a substantial reduction in the crude oil price, resulting in the Naphtha/ethane premium declining. Sasol is actively trying to reduce this risk by locking in around 80% of its feedstock requirements through long-term contracts with shale gas producers.

In addition, the scale and number of ethane crackers in the process of being built is placing pressure on specialist engineering and other skills required for these projects and there is a risk that the ultimate cost of the project would be substantially higher than anticipated. However, Sasol's relative early mover advantage and project management skills should alleviate this risk.

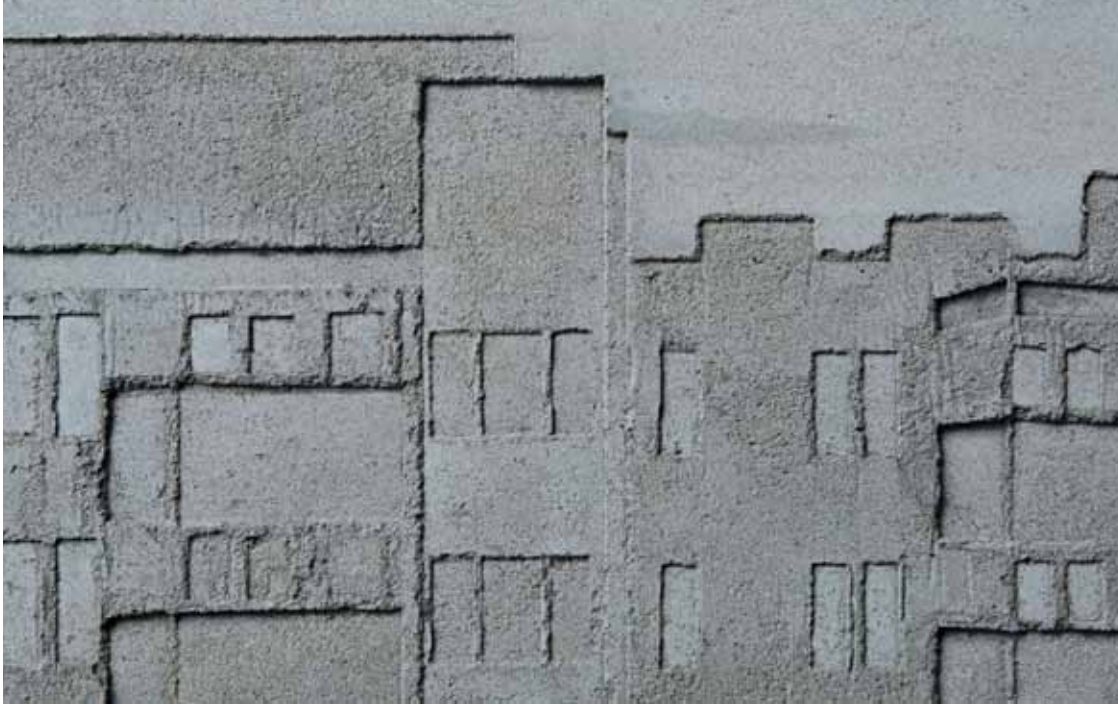
Strategic vision

The shale gas revolution in North America is rapidly changing the global energy and chemical landscape. Sasol is actively seeking to tap into and benefit from these developments and thereby create significant value for its shareholders. We remain confident that Sasol's US investments will deliver further value for our clients. UP

US ethane supply/demand balance



Source: Enterprise Products Partners, LP and Avior Capital Markets



The case for German residential real estate

Justin Floor – Investment Analyst

Given the importance of where we live to our quality of life, it should be natural that residential real estate be a prevalent and important asset class to consider when making capital allocation decisions.

We believe there is a compelling case to be made for investing in German residential property, which looks set to benefit from extremely strong fundamentals.

The case for German residential real estate

Furthermore, although we seek investments with strong bottom-up credentials, exceedingly accommodative monetary policy in Europe (and the resultant record-low interest rates) has created an additional case for investing in low-risk, high-yielding real estate investments.

Developed, rental-oriented residential sector

The German housing market comprises 41 million flats, of which 26 million are rented. Most were constructed in the 1950s and 1960s by large companies and public authorities during the post war rebuild. Listed landlords own around one million units (4% of the total), with the balance largely owned by individuals, co-operatives, private companies and communal organisations.

As a nation, Germans are more inclined to rent than own their homes, with just a 45% home ownership level compared to the UK and US at around 65% (see chart below). This can vary quite substantially even within Germany, evident by the fact that only 15% of Berliners own their own apartments.

Given the high rental propensity (and the opportunity for obtaining valuable political currency from favouring renters), it is not surprising that the housing market is highly regulated:

- Rent increases can only be implemented every 15 months.
- Rents can be raised by no more than 20% over a three-year period (local governments can reduce this to 15%).
- Revised rents must not exceed the Mietspiegel, a German benchmark residential rent index.

The German government is presently revising the regulations. The current draft, due to be debated in parliament in mid-2015, includes the possibility of limiting increases on new rentals to no more than 10% and no longer permitting maintenance expenses to be passed on through rent hikes. We believe this is an unlikely worst case scenario, as authorities are aware of the need to incentivise housing development to meet expected demand across Germany.

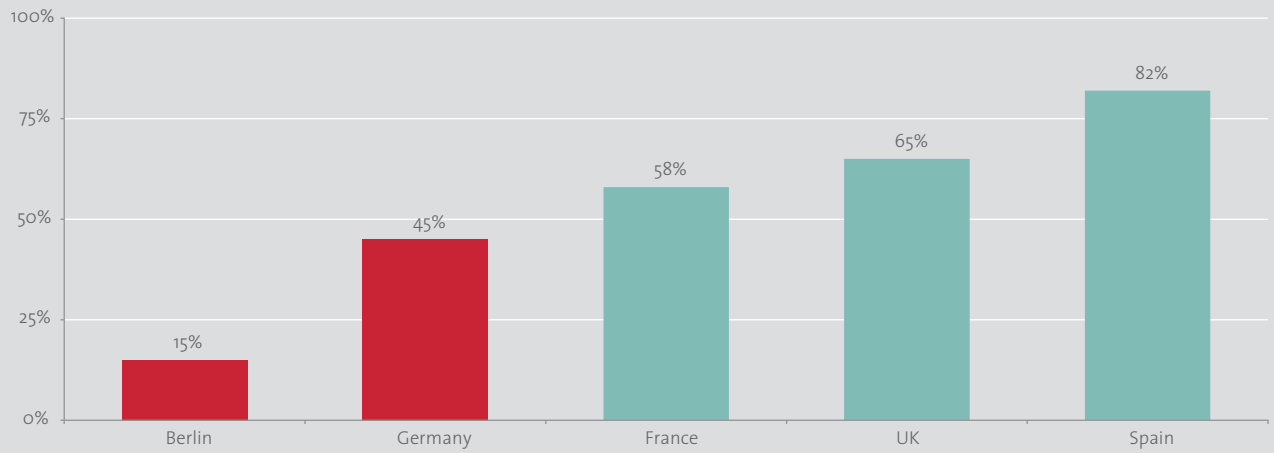
In our view, the following three key pillars underpin the investment case for German residential property:

1. Significant forces of demand

A combination of powerful forces is set to substantially increase demand for residential units in the future.

Firstly, in line with most developed nations, the combination of an ageing population and falling replacement ratios means that Germany's population faces potential decline. Fortunately, it appears that net immigration and associated urbanisation

Home ownership levels



Source: LBS, Euroconstruct and Morgan Stanley Research

(as unemployed Europeans seek opportunities outside their home countries) is offsetting this decline, resulting in a structural increase in the demand for residential units over time.

Secondly, demand for smaller (one and two bedroomed) apartments is expected to significantly outpace the overall housing market. This is largely due to shifts in family structures, longevity and greater wealth.

Thirdly, while being the economic powerhouse of an anaemic Europe, Germany's labour force productivity growth has consistently exceeded wage growth, which has lagged that of neighbouring European countries. Wages therefore need to catch up and disposable income should rise. Despite lagging other countries, German disposable income has grown faster (3.2% CAGR) than rentals (2.8% CAGR) since 1980, making renting very affordable for the average person. However, we believe that certain parts of Germany might not benefit as much as others, given a skewed geographical distribution in economic activity in favour of Western Germany. The exception in the east of Germany is Berlin, which has an extremely strong economy.

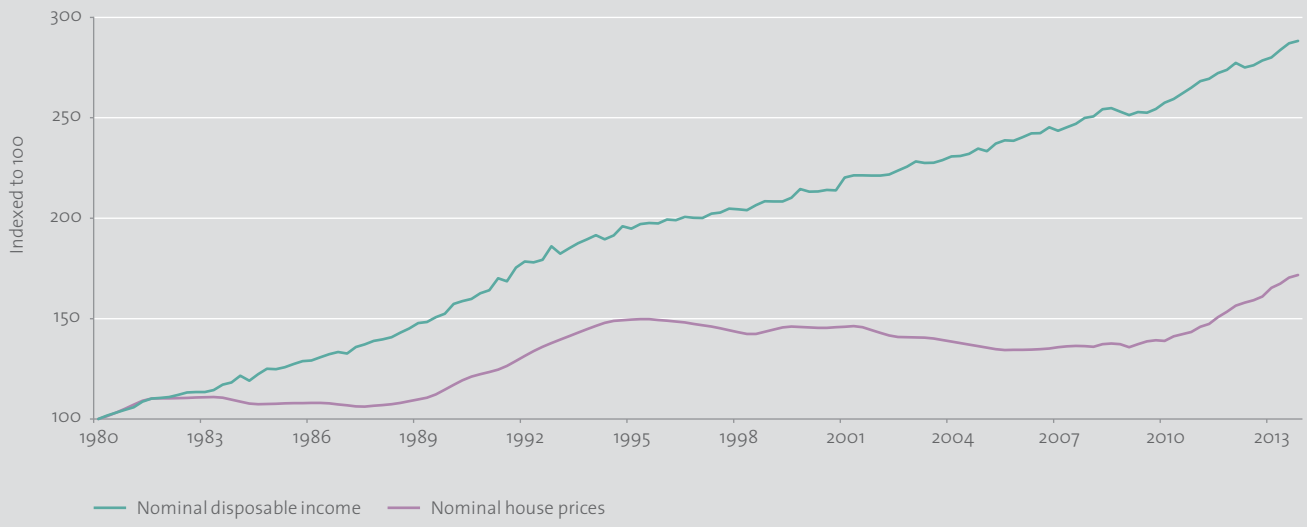
These factors are contributing to prevailing market rentals being significantly higher (up to 25%) than prevailing rents across Germany. The key to unlocking this 'rent potential' lies in the rate of tenant fluctuation in property portfolios (ie natural vacancies due to weddings, deaths, relocations and other life stage transitions). Following discussions with the management of companies in this sector, we expect fluctuation rates of around 11% across Germany, hastening the realisation of market rentals. There is likely to be a sustained environment of rental growth ahead.

2. Constrained supply

In the near term, we anticipate insufficient German residential space growth. This constrained supply is due to difficulties associated with obtaining zoning permissions and a general shortage of open land available for greenfield development. The key barrier to building new supply is that building costs are high, and in many cases it is currently cheaper to buy an existing apartment than to build a new one.

The increase in the German population due to immigration is much higher than the increase in new housing units or planning permissions. Per capita housing completions remain at the same level as the UK and are just under half of what they are in France or Switzerland.

German residential affordability



Source: OECD

The case for German residential real estate

Since we do not expect building costs to decline any time soon, higher sale prices are required to incentivise new builds given the substantial deficit in German residential space emerging over the next few years. Therefore, there is also an underlying upward pressure on rental rates.

3. House prices beginning to rise

House prices in Germany have lagged those of similar developed nations for a very long time (see graph below) with no real growth since 1970. However, it appears that property prices are finally beginning to rise. The attractive rental demand dynamics, coupled with constrained supply, is resulting in a very attractive market for property investors.

In addition, highly accommodative monetary policy in the Eurozone has driven interest rates and corresponding mortgage rates to all-time lows. Current rental yields are in the region of 5% to 7%, allowing investors to buy properties at a significant spread to funding costs. Transaction volumes of German residential portfolios have been accelerating since the doldrums of 2009 and 2010, rising from around €2 billion in 2010 to over €10 billion in 2012.

Attractively valued and well-run companies

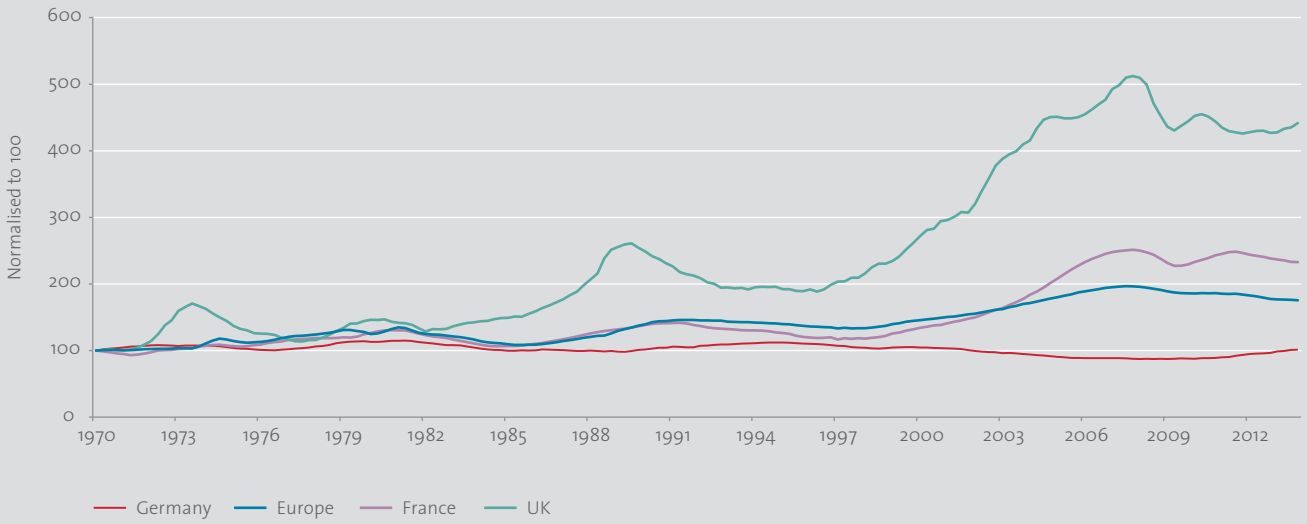
The listed residential real estate sector in Germany provides investors with the opportunity to participate in the positive evolution of this market. In particular, we have a preference for companies with the following characteristics:

- Large enough to achieve sufficient economies of scale, with benefits including expense and operating efficiencies when adding additional units to an existing platform.
- Sufficient maintenance capital expenditure. German law permits landlords to recoup up to 11% of qualifying maintenance costs (energy efficiency or senior living alterations) through rent increases, at subsidised financing. This benefits landlords through higher rentals and higher market values for their assets.
- Management teams with a track record of disciplined capital allocation and operational excellence.
- The ability to achieve sales prices on vacant units of around 20% to 50% above stated book value, which releases cash for reinvestment in the core portfolio and provides compelling evidence of an undervalued portfolio.

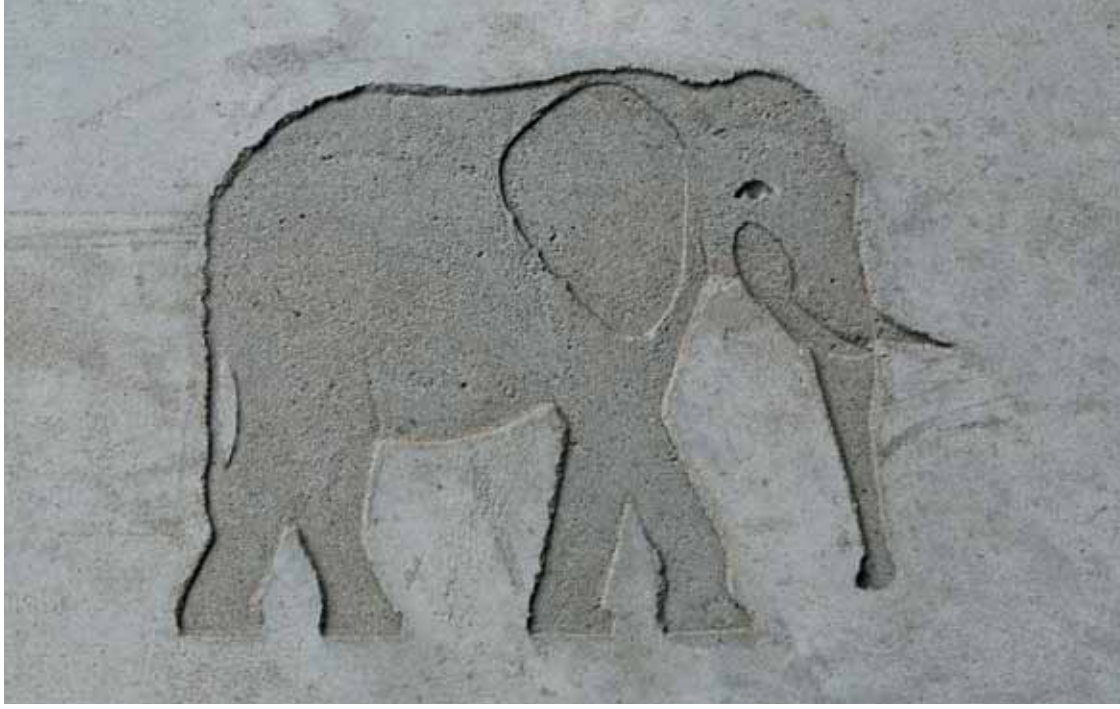
Select opportunities

Ultimately, landlords in the German residential property market are at an advantage, some of which are represented in certain high quality German property companies. We believe that our clients should benefit from owning these shares in their funds and we therefore hold Deutsche Annington, Deutsche Wohnen and BUWOG AG in our global portfolios. UP

German house prices: flat in real terms since 1970



Source: OECD



PPC's African odyssey

Victor Seanie - Investment Analyst

In this article, we examine PPC's African expansion efforts and the accompanying risks involved in investing in African cement markets.

PPC, the largest player in the local cement market, is facing increasing challenges in South Africa as the industry experiences substantial transformation due to heightened competition.

PPC's African odyssey

Sephaku Cement, which is 64%-owned by Nigeria's Dangote Cement, entered the local market last year - the first new entrant in the inland market since 1934. A second potential new entrant, financed by a Chinese company, is on the horizon. Furthermore, cement imports into South Africa, mainly from Pakistan, have grown by 80% pa over the last three years compared to growth in cement demand of just 3.8% pa.[1]

PPC's strategy in Africa

PPC has production facilities with a capacity to produce eight million tonnes of cement per year (mtpa) in South Africa, Zimbabwe and Botswana. Its strategy is to grow revenue earned outside of South Africa (Africa ex SA) from 24% currently to over 40% by 2017. Algeria, Ethiopia, the Democratic Republic of Congo, Rwanda and Mozambique have been identified as growth opportunities due to their high potential for infrastructure development, low per capita cement consumption and/or current cement shortages. PPC is also exploring opportunities beyond these countries.

This is against the backdrop of our expectation that GDP growth in Sub-Saharan African economies will be very strong over the next two decades due to favourable demographics, growing infrastructure investment and large foreign investment flows.

African cement demand

Africa ex SA represents fertile ground for high growth in cement demand. Historically, there is a high correlation between GDP growth rates and cement demand growth. The African countries that are being targeted by PPC averaged annual GDP growth rates of 6.9% over the past four years compared to 2.8% pa in South Africa.

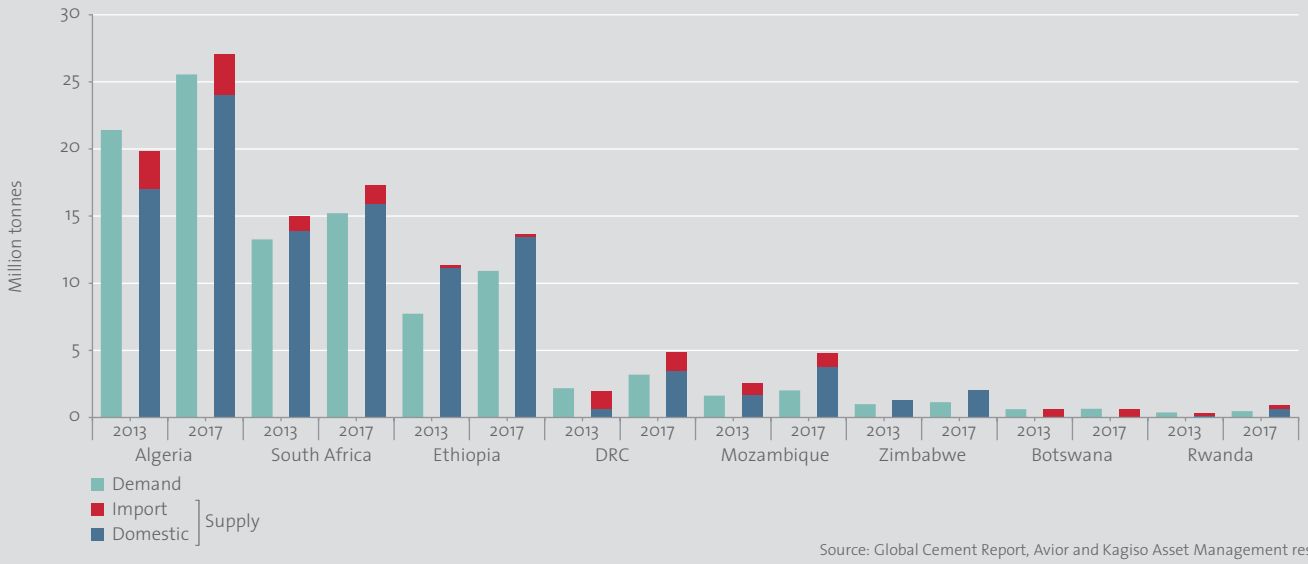
In addition, urban populations are growing rapidly and, today, around 40% of Africa's inhabitants live in cities. This rate is expected to increase to 55% in 2030. Urbanisation stimulates demand for new housing, commercial buildings and infrastructure. This, in turn, drives demand for cement. Higher personal incomes from higher GDP levels and increased access to bank credit should spur demand for formal housing.

African cement supply and demand

As urban populations grow, governments have announced plans to build houses and improve infrastructure. As a result, cement demand has outstripped supply in a number of countries, leading to significantly higher cement prices in Africa ex SA than in South Africa (see graph below).

[1] South African Revenue Services

African cement supply and demand



Source: Global Cement Report, Avior and Kagiso Asset Management research

Africa's average cement consumption is 183kg per person compared to the world average of 547kg. This indicates the extent of relative under-investment in social and economic infrastructure and the opportunity to significantly increase cement consumption.

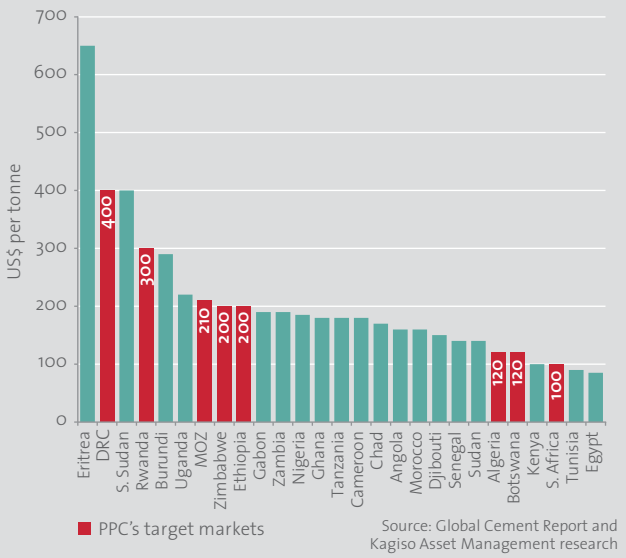
Competition

Total African cement consumption is 195mtpa and cement producers across the world have recognised the African growth opportunity. Nigeria's Dangote Cement, the world's 27th largest cement company, is investing more than US$2.5 billion to build manufacturing plants and import terminals in 13 African countries, and aims to be one of the eight largest producers in the world. This means it would have to increase production from its current level of 14mtpa to more than 50mtpa.

Further competition comes from European multinational cement producers. Due to low growth prospects in developed economies, these producers are seeking growth and expanding production capacity in developing markets, including Africa. In addition, cheap cement imports from India, China and Pakistan continue to drive down prices in Africa's coastal cities (see graph below).

As is often the case, growth expectations may be in the process of becoming inflated and extrapolated too far into the future.

Cement prices in Africa



Source: Global Cement Report and Kagiso Asset Management research

In addition to significant funding for cement capacity being available, there are a large number of Chinese and Indian cement plant construction and project management firms facilitating moderate cost cement plant building. This effectively reduces the capital barriers to entry.

These factors increase the risk of oversupply in African cement markets into the future.

PPC's African footprint

When investing in a new country, PPC's strategy is to partner with local shareholders. This gives it the advantage of establishing relationships that provide access to customers, distribution channels and raw material sources (eg lime quarries and coal). In this way, PPC lowers its costs and risks of entry into new markets. With each cement project being more than 60% debt financed, PPC's partnership model spreads financing risk among the partners.

DRC

In the DRC (where cement demand exceeds local supply by 1.6mtpa), PPC will have a 69% stake in a new 1mtpa cement venture in Kimpese. Its local partner and the International Financing Corporation hold 21% and 10% respectively. Through its partnerships, PPC has identified local coal sources that will replace more expensive coal imports. PPC is currently exporting cement from the Western Cape to Kinshasa, which allows it to establish its brand and to better understand country and market dynamics before launching production.

East Africa

In 2012, PPC purchased 51% of government and local consortium-owned Cimerwa, Rwanda's sole cement producer. Cimerwa is erecting a 600 000 tonnes per annum plant in South-Western Rwanda, near the Burundi border. As the population rapidly urbanises from a low 17%, cement demand is expected to grow from 350 000 tonnes per annum to 1mtpa over the next decade.

In addition, PPC purchased a 31% share in Habesha Cement, which is constructing a 1.4mtpa cement plant 35km north-west of Addis Ababa in Ethiopia. With GDP growing at 10% pa, high demand is set to continue in the medium term.

PPC's African odyssey

Algeria

PPC has a 51% share in a new 2mtpa plant and its local partners have experience in construction and related sectors. The plant will be located in the university and technology-focused town of Setif, 268km south east of Algiers. The Algerian cement market is attractive as consumption exceeds local production by approximately 3mtpa. Moreover, the Algerian government has committed itself to extensive capital spending programmes to reduce a national housing shortage estimated at 1.2 million units.

Zimbabwe

PPC is moving its cement milling capacity from Bulawayo to the larger Harare market. The new 700 000 tonnes per annum mill will reduce PPC's distribution costs to Harare and enable the company to serve the fast-growing Tete province in neighbouring Mozambique.

Other challenges

In every new market, PPC requires technical expertise and competent workers to operate its cement plants. With Sephaku Cement recruiting skills for its new South African operations, PPC is under pressure to secure the depth of skills needed across its various operations. It is therefore training Africa (ex SA) at its Slurry (North West) plant and is deploying South Africans.

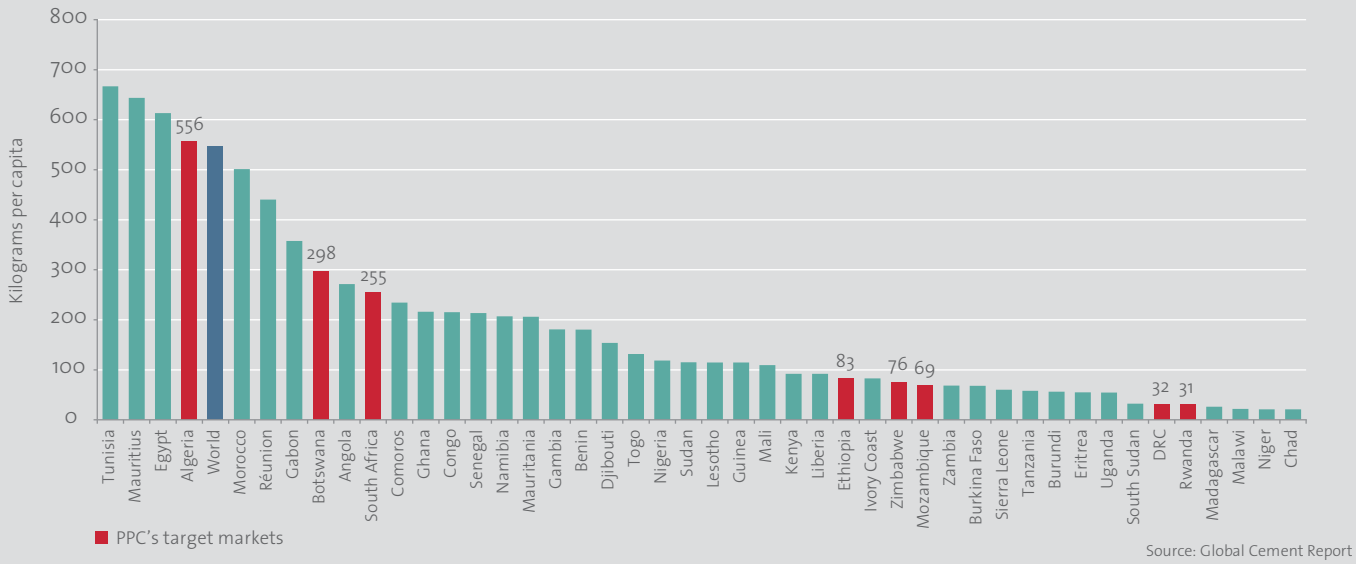
Although governance in Africa has improved over the past decade, political risk remains a key consideration given the histories and socio-economic conditions in the countries PPC has chosen to enter.

Tough road ahead

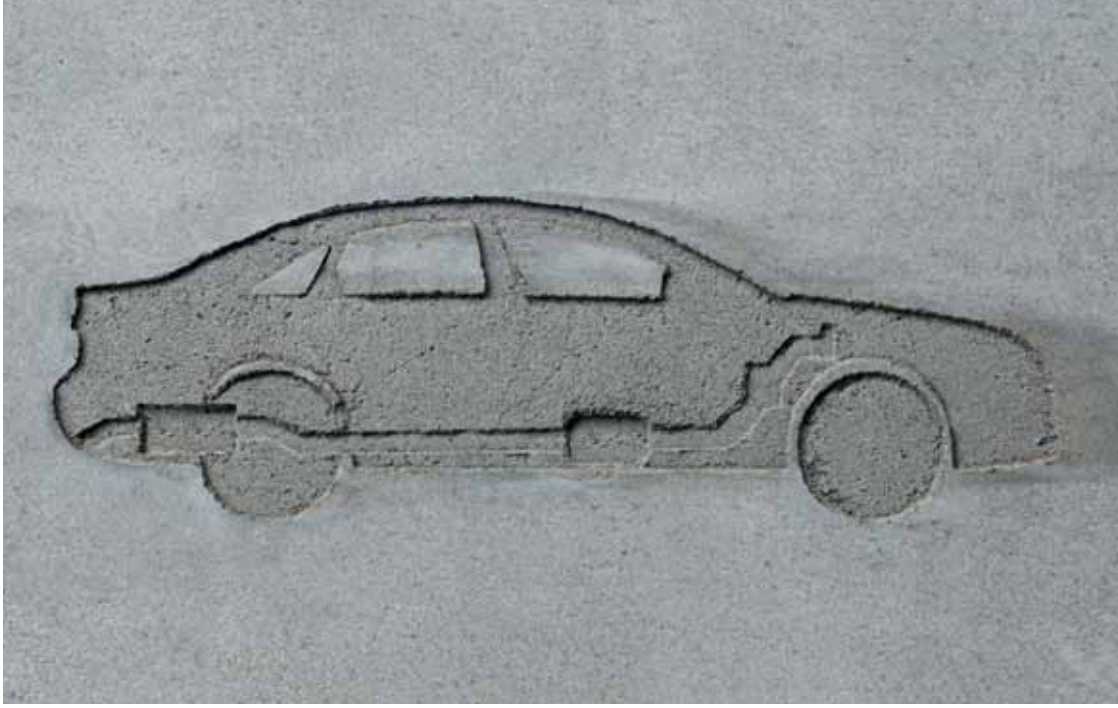
PPC's total share of capital investment in its new African operations will be in excess of R5 billion. New plants are estimated to begin operating from 2015 through to 2017 and to reach normal production within two to three years. By then, cement demand growth is likely to moderate somewhat and significant new cement supply would have come on stream. The risk is that competition could intensify, causing prices to drop, ultimately resulting in margin pressure and reduced ultimate returns on investment.

While we currently do not own PPC shares in our client portfolios, we will continue to closely monitor the company's African expansion and related developments. UP

Per capita cement consumption



Source: Global Cement Report



Umicore's early starter advantage

Jihad Jhaveri - Investment Analyst and Mahir Hamdulay, Analyst Associate

Umicore is a global materials technology and recycling group based in Belgium, which has a growing relevance to the future of our environment. It has unique technological resources and has invested considerably in future capacity. We believe the company will deliver strong returns to shareholders in future years.

Umicore's early starter advantage

The company started back in 1805, when industrialist Jean Dony obtained the concession for the exploitation of the Vieille-Montagne zinc mines in Moresnet, which today border on Germany and Belgium. Umicore's current business is the result of various corporate amalgamations of various mining and smelting companies over the years, although the company today no longer has any mining operations. It focuses on four key areas:

- Catalysis: one in three passenger vehicles are fitted with auto catalysts produced by Umicore.
- Energy materials: one in five lithium ion batteries (portable electronics) contain Umicore energy material.
- Performance materials: the company's high-end performance materials are used in satellites that orbit the Earth and in robots that navigate Mars.
- Recycling: a clear competitive advantage for Umicore is its ability to 'close the loop' by recycling materials from its customers, other industries and used products. Its ability to achieve greater efficiencies and output through its recycling knowledge and techniques translates into a better financial outcome for the group.

Umicore's strategy focuses on four global themes that we believe are of vital relevance to the future of our world. These are: emission controls, energy storage, renewable energy and resource scarcity.

Catalysis

Pollution, particularly air pollution, is a major problem in many of the densely populated cities of the world. This is a rapidly escalating problem in emerging markets, where air quality is deteriorating, particularly due to the rising number of vehicles on the roads.

Umicore has been developing, producing and engineering catalysts for a wide range of engines since the 1960s and is one of the world's top producers. Increasingly stringent emission controls throughout the world place a heavy premium on technological development. Umicore is well positioned to benefit from these controls due to its technical developments and its infrastructure presence in emerging markets, specifically South East Asia and China.

Energy materials

Umicore has a significant head start in the lithium ion battery market as it is a major producer of cathode material, which is needed to build these batteries. The company has been spending heavily on research and development to maximise its chances of success in this exciting area.

Umicore's global themes

Resource scarcity

Renewable energy

Emission controls

Energy storage

Not too long ago, electric cars were a distant dream, but today they are becoming a reality due to advances in battery technology. If the vehicle electrification market takes off, there will be a need for very large and efficient batteries.

The battery applications for domestic solar power also offer vast opportunities for Umicore. While costs of domestic solar power systems have declined substantially over the last few years, one of the remaining obstacles is the mismatch between energy production and usage as people are generally at work during the day (when the sun is shining) and need the energy at night. The solution to unlocking the potential for solar power in the residential market is to find affordable, reliable battery solutions. Lithium ion batteries are the current technology of choice and Umicore, as a supplier of energy materials for these batteries, is therefore well positioned to benefit.

Performance materials

Umicore produces a number of highly specialised materials that have rare qualities. It is a key supplier of Germanium wafers, which are used in very high-end solar power cells on orbiting satellites. Fuel cells that create energy using hydrogen may have significant energy production potential in future. Umicore, through its joint ventures, supplies key components needed to build these hydrogen fuel cells.

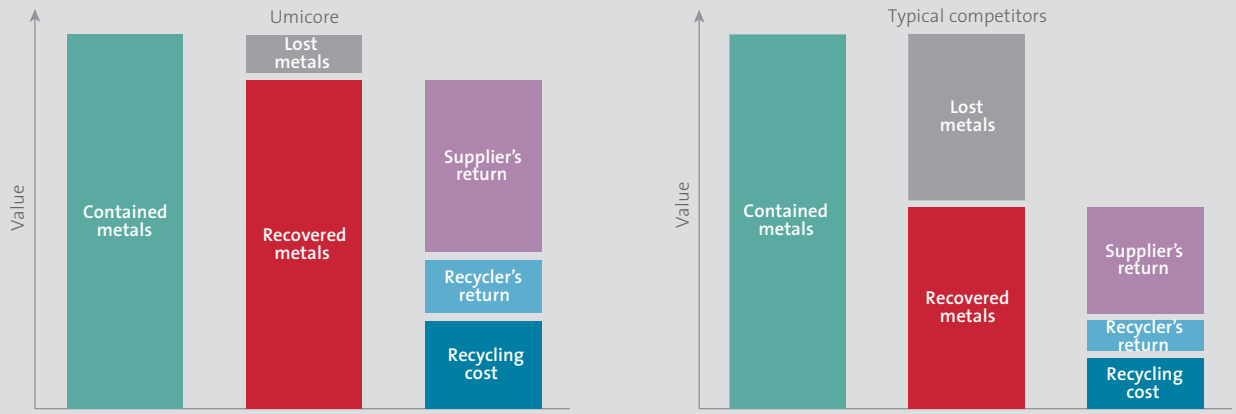
Recycling

We are living in a world with a finite amount of natural resources. As populations expand, the demand for commodities will increase and it is unlikely that mining companies will meet this heightened demand.

Due to the large amount of vehicles on the roads, an increasing amount of platinum group metals (PGMs) needs to be recycled when these vehicles are no longer in use. Umicore is the largest precious metals recycler in the world (gold, platinum, palladium, rhodium and iridium) and also recycles base metals (copper and nickel). This has been the company's core business for a long time and it has gradually gained a substantial competitive advantage through incremental operational improvements.

Umicore specialises in a high proportion of complex recycling, often re-treating residues that are left once other recyclers, refineries or mining companies (including South African PGM miners) have subjected contained metals to their recycling processes. The company's niche position in this area (ie it has much higher 'recovered metals' and 'supplier's return' categories than its competitors) is illustrated in the graphs below. These specialised forms of recycling are increasingly difficult to do and are therefore significantly more profitable for the recycler.

Umicore's superior recovery process



Source: Company presentation

Umicore's early starter advantage

In addition, there are increased regulatory pressures to recycle more of our electronic waste in order to ensure that the valuable (and sometimes environmentally hazardous) metals contained in smartphones, tablets and other consumer electronic goods are reclaimed. Umicore was a pioneer in the complex processes needed to recycle the growing number of lithium ion batteries that power our electronic goods.

Another significant opportunity may be the recycling of spent batteries from hybrid and entirely electric vehicles. The large battery packs in these vehicles comprise a significant portion of the total vehicle cost, and efficient battery recycling will be crucial to the economics of owning these cars. Environmental regulations around the world are becoming stricter and, in some areas, the collection and recycling of such batteries is already compulsory.

Competitive advantage

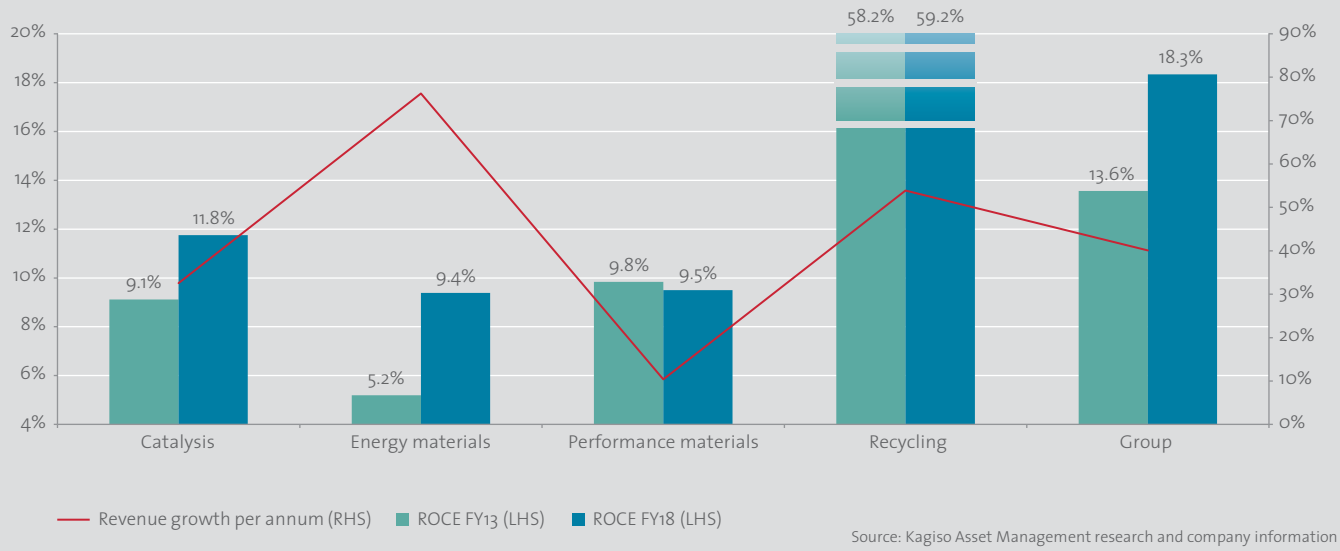
Umicore invests heavily in the expansion of its operations and in research and development, which we believe entrenches its competitive advantage. Given its niche recycling segment, it will be embarking on an expansion programme at the flagship Hoboken plant in Belgium (with a planned 30% increase in capacity). We view this favourably given that the recycling division, which has the highest Earnings Before Interest and Taxes (EBIT) margins and Return on Capital Employed (ROCE), is expected to show significant growth.

Umicore's prospects

The company's energy materials division's ROCE is currently low relative to its potential. It should expand as continued strong growth in portable electronics and new growth in vehicle electrification and energy storage drives up returns on previously spent capital. In addition, the catalysis division will benefit from the global themes discussed and from recent investments in new heavy diesel applications. The recycling division will benefit from increased capacity and higher PGM prices.

Overall, we believe that the company is well placed to generate healthy returns for shareholders in the foreseeable future, with group ROCE expected to expand to 18% from 13% currently. We therefore hold Umicore in our global portfolios on behalf of our clients. UP

Divisional ROCE and revenue growth



Source: Kagiso Asset Management research and company information

Kagiso Asset Management Funds

Performance to 30 September 2014	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]
Unit trust funds[3]							
Equity Alpha Fund	11.1%	18.1%	16.5%	20.5%	21.4%	Apr-04	1.5%
South African Equity General funds mean	14.0%	19.2%	15.4%	16.7%	17.0%		
Outperformance	-2.9%	-1.1%	1.1%	3.8%	4.4%		
Balanced Fund	10.4%	14.9%	-	-	12.7%	May-11	1.5%
South African Multi Asset High Equity funds mean	11.8%	15.2%			12.9%		
Outperformance	-1.4%	-0.3%			-0.2%		
Protector Fund	9.8%	9.5%	8.0%	11.0%	11.1%	Dec-02	1.7%
CPI + 5%[4]	11.2%	10.9%	10.3%	11.1%	10.8%		
Outperformance	-1.4%	-1.4%	-2.3%	-0.1%	0.3%		
Stable Fund	10.3%	9.8%	-	-	9.8%	May-11	1.6%
Return on large deposits*	5.3%	5.2%			5.3%		
Outperformance	5.0%	4.6%			4.5%		
Institutional funds[5]							
Managed Equity Fund	11.6%	19.7%	17.2%	-	15.4%	Sep-06	
FTSE/JSE SWIX All Share Index	18.0%	23.3%	18.9%		15.0%		
Outperformance	-6.4%	-3.6%	-1.7%		0.4%		
Core Equity Fund	15.7%	22.6%	18.6%	-	20.1%	Nov-04	
FTSE/JSE SWIX All Share Index	18.0%	23.3%	18.9%		19.5%		
Outperformance	-2.3%	-0.7%	-0.3%		0.6%		
Domestic Balanced Fund[6]	17.1%	14.5%	13.7%	-	10.9%	May-07	
Peer median[7]	18.6%	17.1%	15.9%		11.6%		
Outperformance	-1.5%	-2.6%	-2.2%		-0.7%		
Global Balanced Fund[8]	16.4%	-	-	-	20.6%	Jul-13	
Peer median[9]	18.9%				20.5%		
Outperformance	-2.5%				0.1%		
Sharia unit trust funds[3]							
Islamic Equity Fund	12.8%	15.4%	14.4%	-	16.3%	Jul-09	1.2%
South African Equity General funds mean	14.0%	19.2%	15.3%		17.4%		
Outperformance	-1.2%	-3.8%	-0.9%		-1.1%		
Islamic Balanced Fund	12.1%	13.1%	-	-	9.8%	May-11	1.5%
South African Multi Asset High Equity funds mean	11.8%	15.2%			12.9%		
Outperformance	0.3%	-2.1%			-3.1%		

[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 2014; [3] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [4] CPI for September is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 31 August 2014; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [8] Global Balanced Fund and benchmark returns to 31 August 2014; [9] Median return of Alexander Forbes Global Large Manager Watch. * Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

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