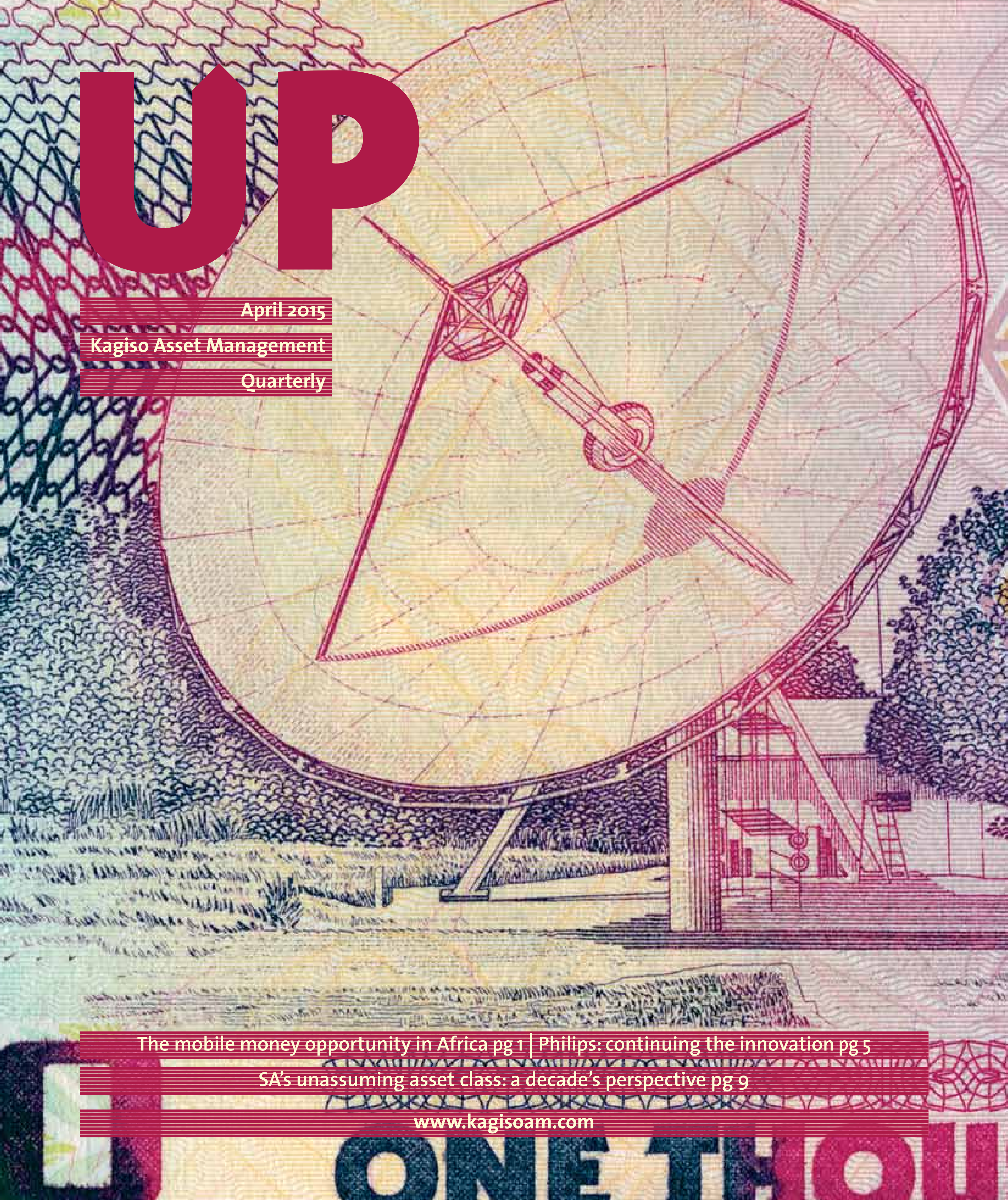
UP

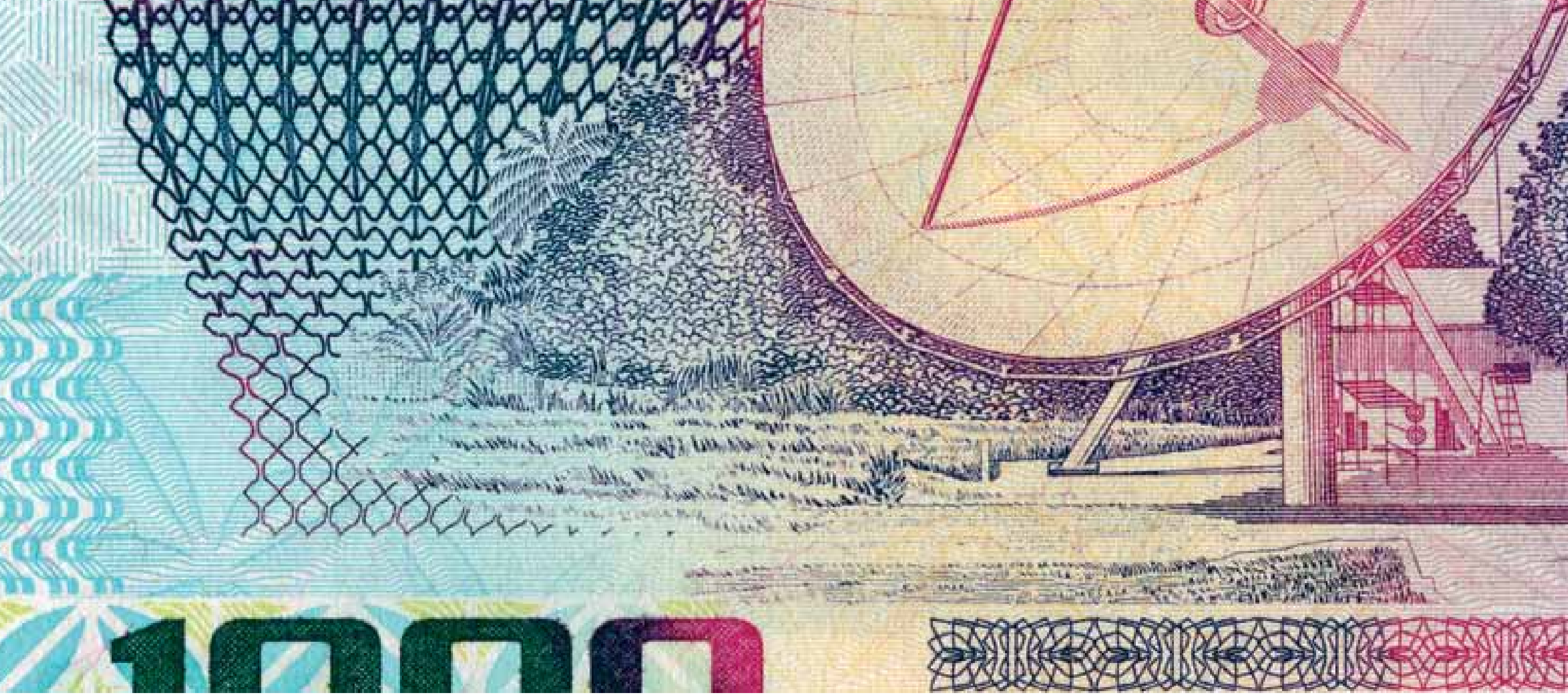
April 2015

Kagiso Asset Management

Quarterly



www.kagisoam.com



The mobile money opportunity in Africa

Aslam Dalvi - Investment Analyst

"Over the last five years, we have seen a rapid increase in global mobile money services, driven largely by the substantial growth in the mobile phone market. In developing countries, around 2.5 billion people are unbanked and have limited access to traditional banking facilities. However, it is estimated that over one billion of these people have a mobile phone, which has proven to be the ideal technology platform to bring banking to historically underserved communities."

The mobile money opportunity in Africa

There is a substantial, multi-year mobile banking growth opportunity in Africa as infrastructure challenges have led to a relatively low penetration of formal banking facilities. We believe our local mobile operators, MTN and Vodacom, are well positioned to benefit from this growth.

What is mobile money?

Mobile money can broadly be defined as the use of a mobile phone to transfer money, buy goods and make payments. An important characteristic of a mobile money system is that it relies heavily on an informal network of transactional points or agents (such as informal spaza shops). These agents are critical to the success of any system as they provide customers with the ability to pay for goods, convert cash to electronic value and withdraw cash from the money system.

Of the different models that exist for mobile banking, the most common link the mobile money account to a traditional bank. The bank is responsible for managing the 'float' of real money and regulatory compliance. An individual's digital purse or 'e-wallet' is connected to a specific bank account and mobile operators (such as MTN and Vodacom) provide the transaction platform. Phones are the enablers for basic financial transactions and the agents act as the 'bank branches'. The cost of transacting is very low relative to the cost of traditional bank services and transaction fees are shared between the mobile operators, banks and agents.

In a typical mobile money transaction, such as a money transfer, the sending party deposits money into their mobile money wallet at the local spaza shop and then transfers these funds to a relative using a simple text based mobile application on their phone. The relative can then withdraw the funds from any local agent. The transfer process is relatively quick and low cost compared to previous methods of transfer (such as the postal system), which were pricey and often took weeks to complete.

The importance of financial inclusion

Increasing financial inclusion, which is defined as the proportion of individuals and firms that use a formal financial product, is a key focus area for many developing countries as they advance their consumer economies.

Financial inclusion plays a key role in stimulating economic growth and alleviating poverty. It tackles the challenges around irregular income as it enables emerging businesses to thrive through easier transactions and greater access to credit.

In 2011, over 90 developing nations (including many African states) signed the Maya Declaration, a policy framework on financial inclusion that facilitates alternative money services

Global comparison of bank account holders

Source: Company reports and RMB Morgan Stanley estimates such as mobile money. This commitment by various nations led to the development of flexible regulatory policy, which has supported the growth of mobile money.

Technology as an enabler in Africa

Globally, there are an estimated 255 different mobile money services across 89 countries. The majority of these services are in Africa, which has the lowest formal banking infrastructure. Of the estimated 300 million registered mobile money users globally, Africa currently accounts for only around 53%.

World Bank data highlights that 24% of the sub-Saharan African population over the age of 15 years has a formal bank account, compared to the world average of 50% and an average of well over 80% in developed regions (see left chart). The underdeveloped level of banking facilities can also be seen when looking at ATM penetration, where African countries dominate the bottom of the list. In sub-Saharan Africa, there are an estimated five ATMs per 100 000 people compared to 60 per 100 000 in South Africa and an average of around 150 per 100 000 in the developed world.

While most African economies have major infrastructure challenges in areas such as electricity generation, water treatment and road construction, they generally have a well-developed mobile phone industry. This infrastructure has supported the growth of the mobile money industry over the last five years (see chart below). Mobile penetration in Africa now exceeds 65%, with an estimated 629 million people having access to mobile phone services and around 146 million that have a registered mobile money account.

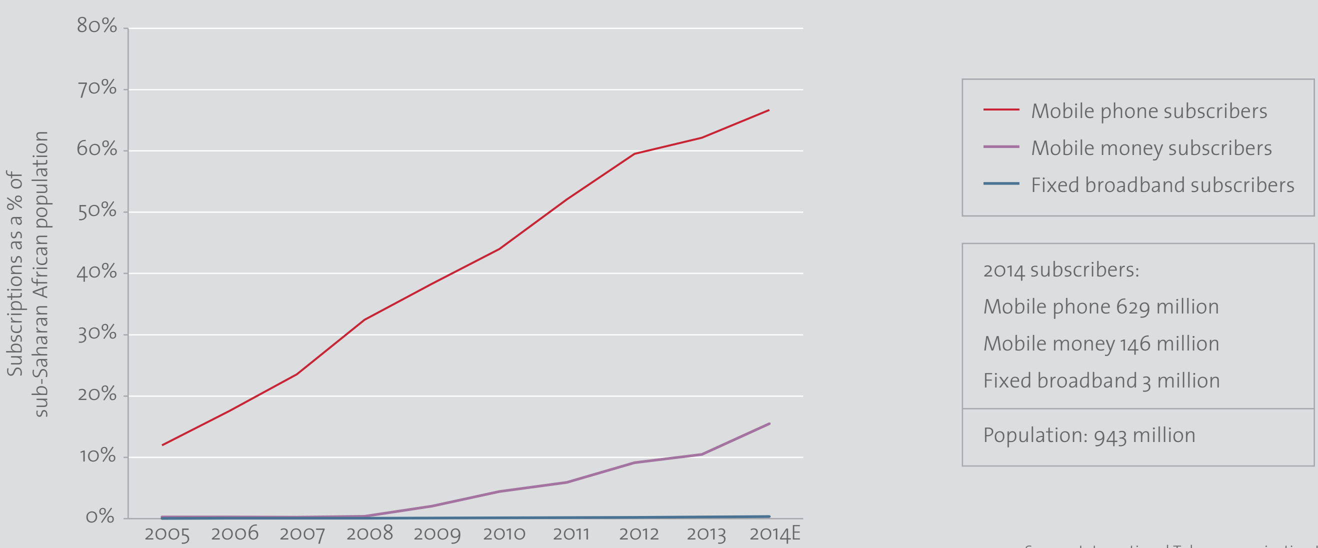
The growth of the mobile phone industry has, therefore, provided millions of people with the ability to transact without the need for traditional banking infrastructure. Since current mobile money penetration is still relatively low (16%), we believe there is significant room for growth.

Kenya

The most successful mobile money story has come from Kenya. Safaricom, a subsidiary of globally-listed Vodafone group, first launched their mobile money offering, M-PESA (pesa is money in Swahili) in 2007 and has since enjoyed considerable success.

Active mobile money users in Kenya have grown by 60% per annum over the last five years. By March 2014, there were around 26.2 million mobile money accounts in Kenya (Safaricom M-PESA users plus other operators), the equivalent of around 59% of the Kenyan population. The number of agents (Safaricom M-PESA users plus other agents) has also grown rapidly, with an estimated 116 000 active agents reported by March 2014. The depth of the mobile money distribution

Evolution of connectivity in sub-Saharan Africa



2014 subscribers:
Mobile phone 629 million
Mobile money 146 million
Fixed broadband 3 million

Population: 943 million

Source: International Telecommunication Union

The mobile money opportunity in Africa

network is significant, with around 180 agents per 100 000 people (versus only 10 ATMs per 100 000 people).

M-PESA has been readily accepted and today an estimated six million transactions are processed daily. To put this into perspective, this is double the amount that Western Union (a global money service) does globally on a daily basis. Data from the Central Bank of Kenya highlights that M-PESA processed more than US$26 billion in transaction value in 2014, making it the largest 'banking service' in the country.

Kenya is not the only mobile money success story in Africa. South African mobile operators, MTN and Vodacom, have also performed well in other markets including Tanzania, Uganda, Sudan and the Ivory Coast. These markets have demonstrated a similar acceptance of the service and very rapid growth.

South Africa

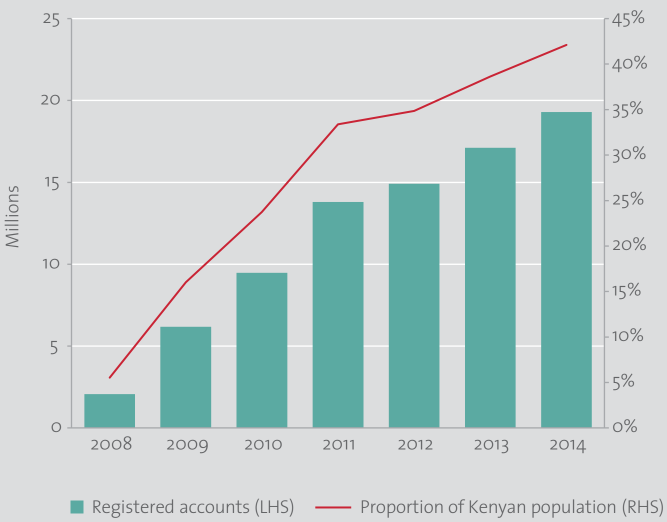
M-PESA was originally launched in South Africa in 2010 but had limited success due to challenges in rolling out a sufficiently large distribution network and the existence of a well-developed formal banking service. Vodacom recently re-launched this service and is now looking to aggressively grow the agent network, and incentivise usage through promotions such as free airtime for using M-PESA.

Despite these efforts, we believe it is unlikely that the service will be as successful as in the rest of Africa. Firstly, local banking penetration is already high and, secondly, local banking regulation is relatively strict compared to the rest of Africa. Furthermore, local airtime distribution is tilted more towards formal retail points of presence (retailers and banks) than informal spaza shops, which are needed to capture the very low end and the unbanked portion of the market.

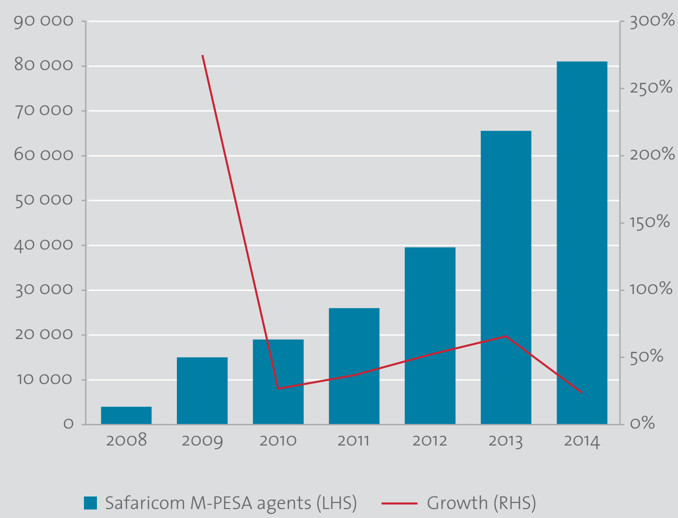
An underappreciated opportunity

Low banking penetration and limited traditional banking facilities across Africa have presented mobile operators with a unique opportunity to capture new financial services revenue streams. We are particularly excited about the recent launch of mobile money services by MTN in Nigeria, which we believe has the potential to be a material contributor to group profitability over time. The Nigerian population (of around 173 million) uses mobile phones extensively and has had relatively low access to traditional banking services. MTN is currently rolling out a very large agent network, targeting more than 100 000 agents over the next two years. This network will rival Safaricom in size and, provided MTN delivers on its goals, will provide a strong platform for growth. UP

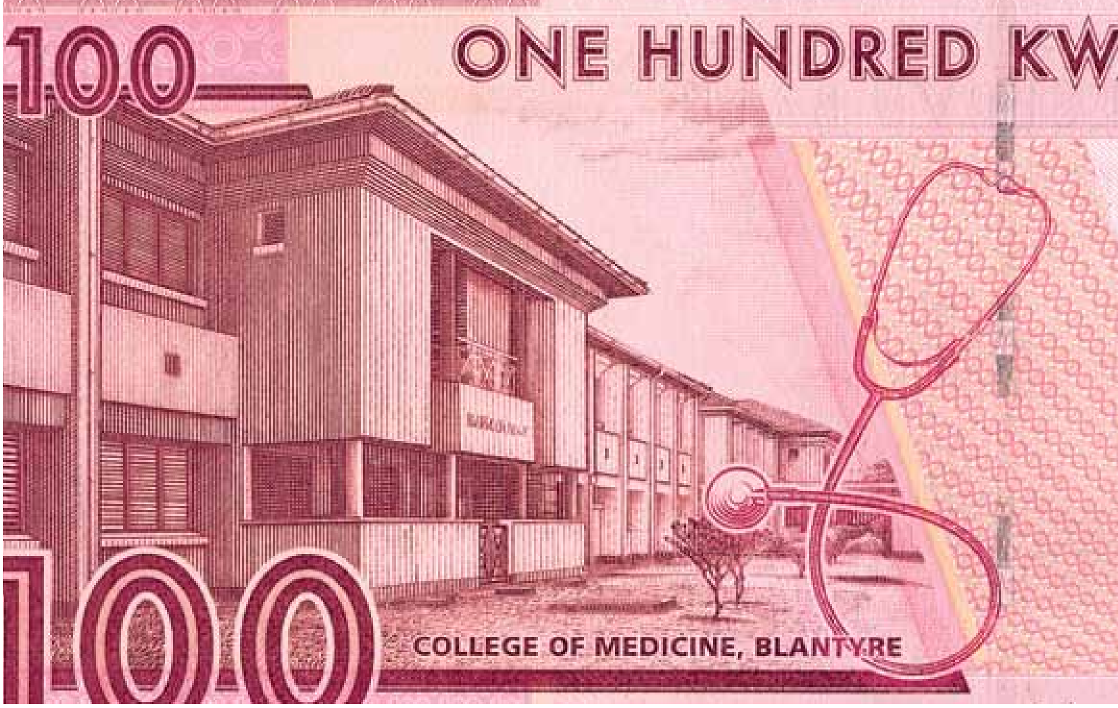
Safaricom M-PESA users in Kenya



Safaricom M-PESA agents in Kenya



Source: Safaricom and Kagiso Asset Management research



Philips: continuing the innovation

Jihad Jhaveri – Investment Analyst

"Koninklijke Philips was founded in 1891 in Eindhoven, Netherlands and within a few years became the world's largest producer of light bulbs. By the 1920s, Philips had firmly established itself as a pioneer in the electric shaver, radio, x-ray and fledgling TV markets."

Philips: continuing the innovation

The strong Philips culture of research, development and innovation spawned many notable achievements over the years (eg audio cassettes and compact discs were both Philips inventions) and further established the company's strong brand value. From the early 2000s, Philips began to restructure and refocus its portfolio and shed its Business Electronics, Semiconductor and Audio-visual divisions.

Today, Philips comprises three key divisions: Healthcare, Consumer Lifestyle and Lighting. As a further step in the restructuring process, management plans to merge the Healthcare and Consumer Lifestyle divisions (regarded as the 'jewels' in the company's portfolio) by 2016, to form the Philips Healthtec division (see chart below). The Lighting division, a leader in both the declining incandescent and growing light emitting diodes markets, will then be restructured as a standalone business.

Philips Healthcare: well positioned for an ageing population

We expect global healthcare spend to continue to grow faster than global GDP in the coming years. This is due to an ageing population (the proportion of the world's population over 60 years will double from about 11% to 22% between 2000 and 2050), increased prevalence of non-communicable (or lifestyle) diseases and higher healthcare spending in emerging markets.

These trends will place a significant burden on global healthcare systems and we believe that companies that are able to proactively assist governments and healthcare providers to reduce costs will thrive.

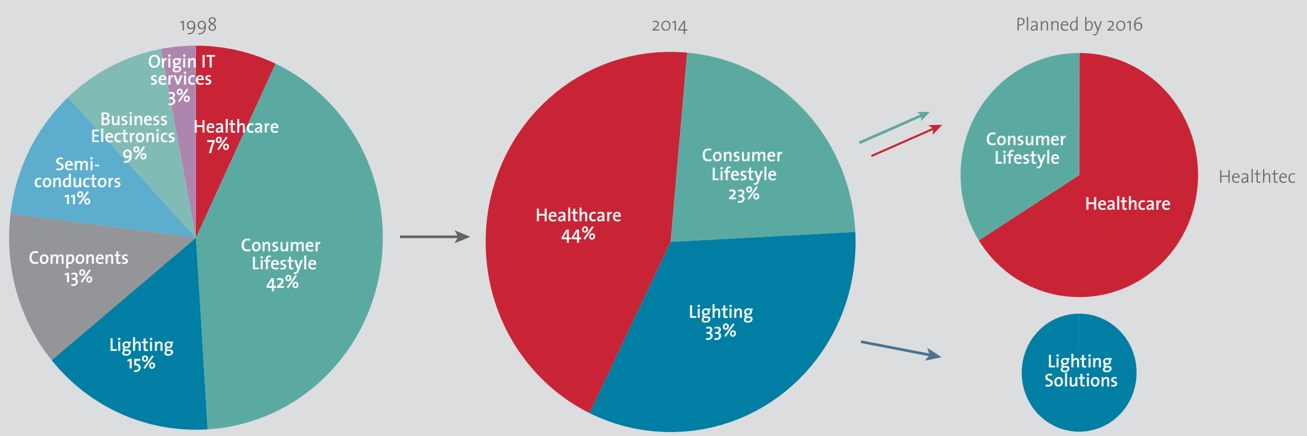
Philips Healthcare is strongly placed to benefit from the trends in healthcare spend and has, over many years, established solid working relationships with its healthcare customers.

The following offerings fall within this division:

- Diagnostic imaging: Philips has retained its first-mover advantage from the 1920s and is a global leader across the medical imaging complexity spectrum (from ultrasounds, x-rays and CT scanners to advanced MRI). The company is currently aiming to grow margins by increasing its exposure to data management and aftersales services.

- Image-guided therapy: building on its advantage in diagnostic imaging, Philips is the leader in image-guided therapy solutions. These systems are part of the fast-growing field of non-invasive medical treatments, which are favoured due to reduced patient trauma, shorter hospital stays and lower costs. Philips' products provide the visual maps that allow clinicians to guide catheters into

Restructuring to expose the Healthtec jewels



Source: Company information and Kagiso Asset Management research patients' bodies to perform treatments across the fields of cardiology, oncology and neurology.

- Hospital clinical monitoring: the company has a long history of providing a wide range of monitoring solutions (standard patient monitoring, foetal and maternal monitoring and hospital surveillance solutions). These products have been used in hospital settings for many years and Philips has dedicated significant resources to advancing the technologies being used.

- Home healthcare solutions: in the US, a key feature of the Affordable Care Act ('ObamaCare') is to increasingly move healthcare to the lower cost homecare setting. This is particularly important in the case of long-term care related to an ageing population. Philips Home Care has a global offering ranging from sleep and respiratory care to home defibrillators and fall detection devices. The company's leading position in clinical monitoring in hospitals is giving it a natural advantage in the provision of home clinical monitoring, particularly in the US. This trend ideally suits Philips' innovation culture, which aims to use technology and mobile connectivity to safely move healthcare into the home.

Philips Consumer Lifestyle: a widespread brand in niche markets

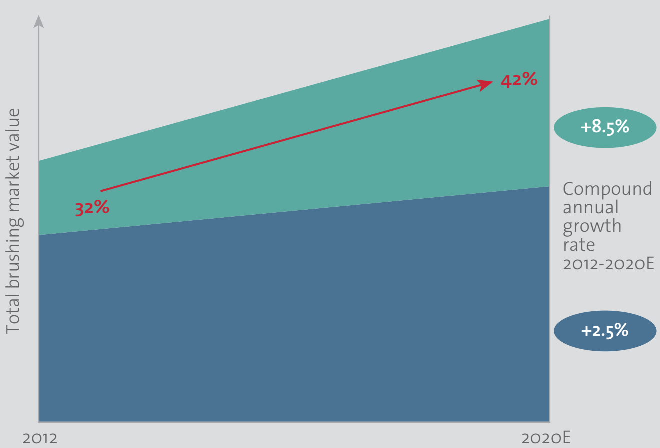
Philips Consumer Lifestyle has exposure to markets that have higher-than-average growth characteristics and a fast-growing emerging market customer base (making up 50% of the division's revenue). In many of these markets, this division occupies either a number one or two competitive position.

The main product categories are:

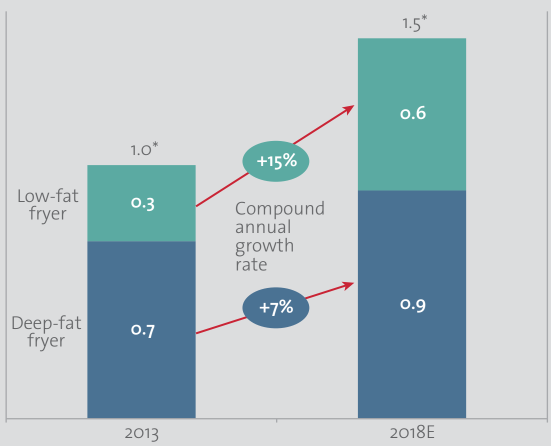
- Personal care: Philips shavers dominate the male grooming category with a 40% market share. New customer growth is strong and high levels of customer loyalty mean that the company can maximise lifetime value. The division also has strong positions in female depilation, hair care and skin care.

- Health and wellness: Philips is a joint leader in the fast-growing and very profitable electric toothbrush market. This market is forecast to grow at 8.5% pa by 2020, versus 2.5% for the manual toothbrush market (see left graph below). Again, with high levels of customer loyalty, the company is able to maximise lifetime customer value. Philips is also a strong player in the breast pump market (number one in China) and is benefiting from the growth contributors in this segment. These include increased female participation in the workplace, growing awareness

Electric vs manual toothbrush growth potential



Airfryers to show significant market growth



*Market value deep-fat fryer vs low-fat fryer (EUR billion)

Source: Company data

Philips: continuing the innovation

of the benefits of breast milk and low existing levels of use in populous, growing emerging markets like China, Brazil and India.

- Small domestic appliances: Philips has a strong position in coffee machines, food processors and juicers. However, this division's success story in recent years has been its ownership of the air fryer market. This product enables fast, convenient cooking in a much healthier way and has enjoyed significant consumer acceptance in both developed and emerging markets (see right chart, previous page).

Philips Healthtec

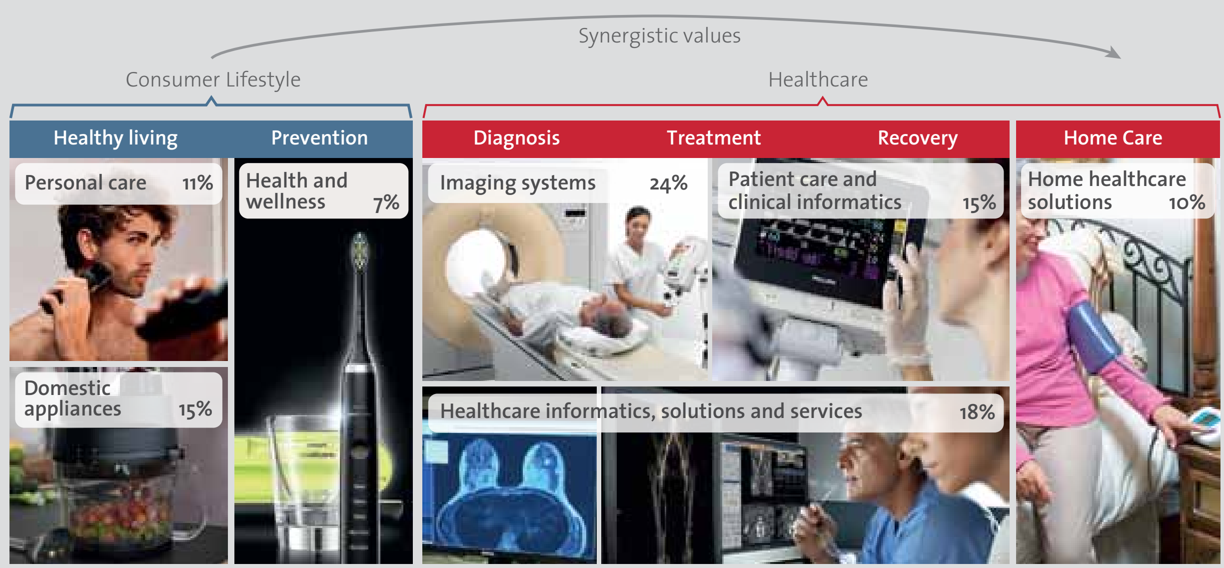
Following the planned amalgamation of Consumer Lifestyle and Healthcare, the Healthtec business will position itself for the convergence it expects across the healthy living continuum. From this we expect:

- the Consumer Lifestyle division's customer-focused design culture and marketing capabilities to help Philips grow in the Home Care segment. The choice of products in this segment will be consumer led and we expect the strong brands and user-friendly design to contribute significantly to success;
- the already strong focus on healthy living of the existing Consumer Lifestyle range to be amplified in the future; and
- the Consumer Lifestyle offering to increasingly focus on consumer products aimed at preventing illness (the division's marketing for electric toothbrushes already promotes the preventative benefits of the product).

2014 headwinds provide an attractive entry point

Philips' operational performance in 2014 was poor, due to quality control issues at a US imaging equipment factory, which forced a costly temporary shutdown. Looking beyond this to the strong future potential of the Consumer Lifestyle, Healthcare and Lighting divisions, we see value in the company and therefore hold Philips in our relevant portfolios on behalf of our clients.

Building the leader in Healthtec



Source: Company data

SA's unassuming asset class: a decade's perspective

Suyesh Ramphal - Analyst Associate

Listed property has exceeded all expectations over the last decade, outperforming traditional asset classes (equities, bonds and cash) in South Africa by delivering 21.5% annually over the period.

This impressive total return from the listed property index (SAPY) was due to a combination of distributed income yield, which averaged 7%, and substantial capital growth of 14.5%. Distribution growth and a positive re-rating, as yields compressed, boosted capital growth over the period.

SA's unassuming asset class: a decade's perspective

Re-rating, the rise in the price of an asset relative to its recent earnings, can be understood to represent a combination of, firstly, increased optimism regarding the prospects for the asset and, secondly, the asset's price simply implying lower future returns (ie becoming more expensive).

There are a number of reasons why the listed property sector delivered such impressive and sustained growth over this period, even through the difficult years of 2008 and 2009.

Growth attribution

Structural industry advantages

Escalations on multi-year leases, which were generally higher than inflation as a market standard, served to provide relatively secure and growing income for listed property funds.

Buoyant retail environment

A resilient consumer (boosted by strong wage inflation, government social grants and increasing access to debt), coupled with an aggressive roll-out of space by retailers, has contributed to retail properties outperforming office and industrial alternatives substantially over the period. Large regional centres have focused on improving their leisure and entertainment offerings to attract customers, and dominant smaller centres in good locations proved defensive as consumers attached greater value to convenience.

Recently, increased demand from international retailers for prime retail space has kept vacancies low, improved rental growth and provided positive rent reversions. Given the listed property sector's average retail exposure of around 55%, the buoyant retail performance contributed significantly to overall earnings resilience.

Inorganic growth

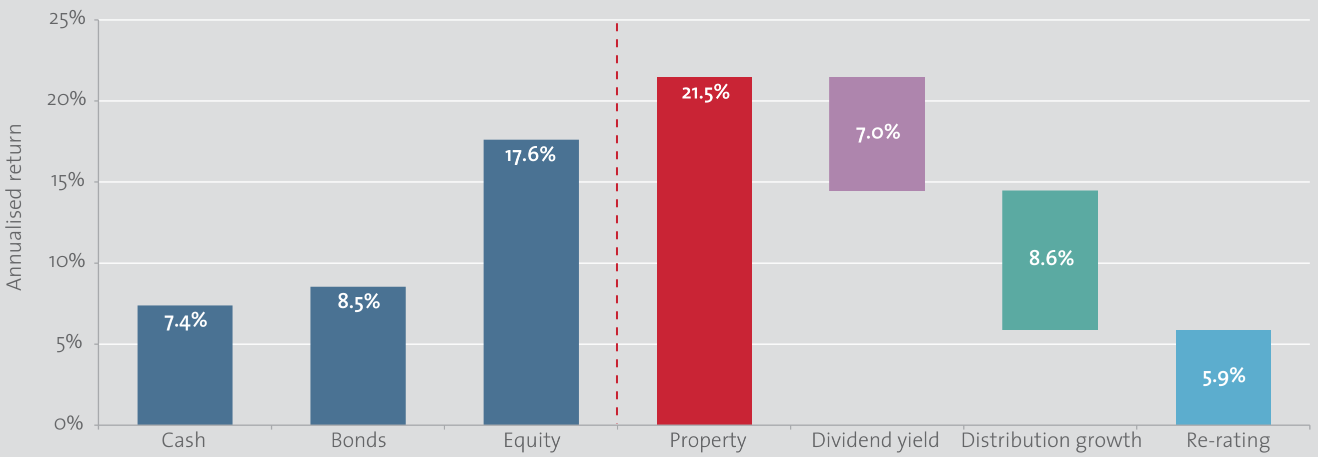
South African property companies seized the opportunity of lower funding costs to implement yield-enhancing acquisitions (both locally and internationally).

Development

The listed property sector has a history of generally well-executed development activity, which contributed significantly to growth over the years. In addition to the development of new properties, large capital outlays for retail centre refurbishments and extensions have aimed to provide a unique customer experience. Improving the energy efficiency of property assets has reduced the rental cost for tenants.

The growing influence of development activities in the funds has been crucial to sustain distribution growth within the sector. Increased development opportunities have provided a steady supply of property to grow earnings, and developments are often completed at attractive yields (expected rentals as

Asset class total returns over the last decade to 31 December 2014



Cash = STeFI Index
Bonds = All Bond Index
Equity = FTSE/JSE Top 40 Index
Property = FTSE/JSE SA Listed Property Index

Source: Company reports and Bloomberg

a proportion of developmental cost) - further boosting the sector's growth.

A few companies with a greater focus on development (as opposed to purely having an income focus), such as Attacq and Pivotal, have entered the sector over the last few years.

Prudent management

In general, management teams have demonstrated good skill in making and executing shareholder-friendly developments and acquisitions. A degree of conservativism (when it comes to taking on debt and in setting market expectations) has also served the sector well.

Assets have been well managed, reflected in the ability to deal with increasing electricity and municipal costs, and the effective positioning of tenants in retail centres.

Declining interest rates

Following the South African Reserve Bank's move to an inflation-targeting framework in the early 2000s, interest rates have reset lower, reducing funding costs and assisting distribution growth for listed property companies. Against a backdrop of slowing economic growth and falling inflation, many central banks across the globe injected a substantial amount of monetary easing into the system, resulting in lower bond yields.

South African rates have also come down, supporting the compression in property company yields over the period (the re-rating effect).

Improved investor confidence and liquidity

The introduction of globally-recognised Real Estate Investment Trust (REIT) standards has improved visibility and international comparability of South African property companies[1]. Additionally, the increased market capitalisation and liquidity of the sector in general - and particularly companies such as Growthpoint - has contributed to yields moving lower.

Market characteristics over the last 10 years

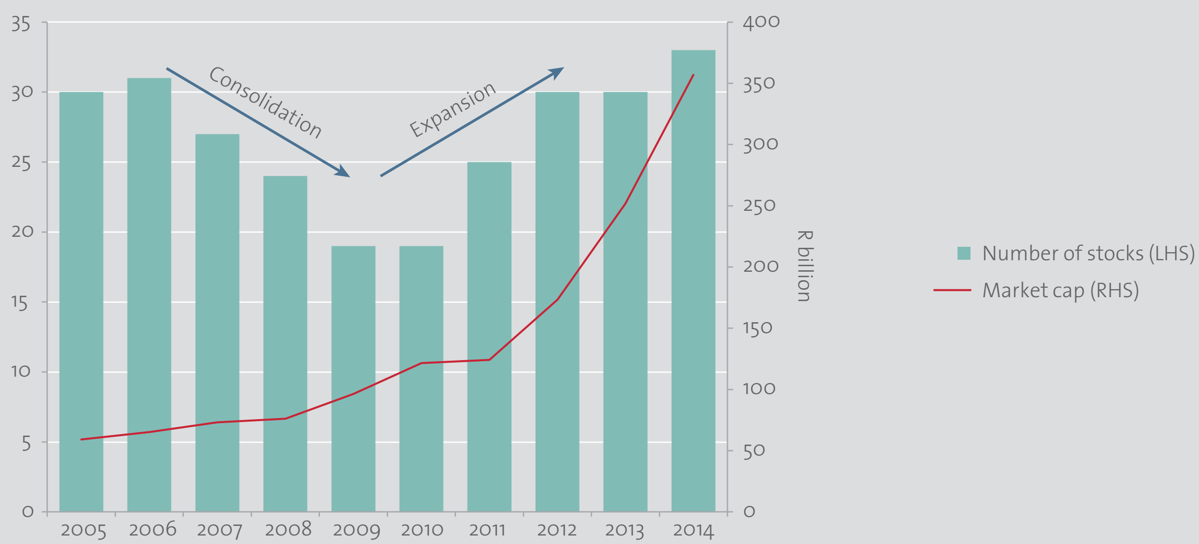
Consolidation and expansion

The market value of the listed property sector has grown to about R357 billion, representing a substantial 3.1% of the total JSE Securities Exchange market capitalisation.

The sector has been among the most active in the market over the period, with a substantial number of new listings, capital raising exercises, mergers and acquisitions. It has gone through a number of expansion and consolidation phases over the years (see chart below). After the Global Financial Crisis, vacancies increased, placing pressure on rental income and distribution growth. This led to a period of consolidation.

[1] Some of the benefits of REIT status include tax exemption and a 100% pay-out of earnings to shareholders

Rapid expansion in the listed property sector



Source: I-Net

SA's unassuming asset class: a decade's perspective

In 2011, there was a surge in listings and distribution growth began to rise again as the economy recovered. From 2012 onwards, there have been large equity injections into the sector, either from capital raisings or new listings. The sector has become very capital hungry and, with many share prices at all-time highs, equity capital raisings have become an attractive source of funding.

More recently, the consolidation theme seems to be re-emerging. A lack of quality stand-alone assets in the market has forced property funds to explore mergers and acquisitions (both locally and internationally) to grow distributions by pursuing economies of scale. This strategy is supported in the short term by attractive funding costs, which are expected to rise in the medium term as interest rates begin to normalise.

The rising importance of foreign operations

The growth in foreign property assets held by the South African property companies has been significant. As a whole, the sector's foreign exposure currently stands at 18% (excluding Intu and Capital & Counties, which are dual listed in the UK) and continues to increase (see chart below).

These investments have been varied in nature, from UK and Continental European retail and office assets (for eg New Europe Properties and Redefine International) to Australian office and industrial assets (eg Growthpoint Australia and Cromwell). A recent trend has been the increased focus by some companies on growing their exposure to African assets, north of our borders.

The sector has benefited substantially from its international diversification, driven by astute investment decisions, good underlying performance and a significant weakening rand relative to the sterling, euro and Australian dollar.

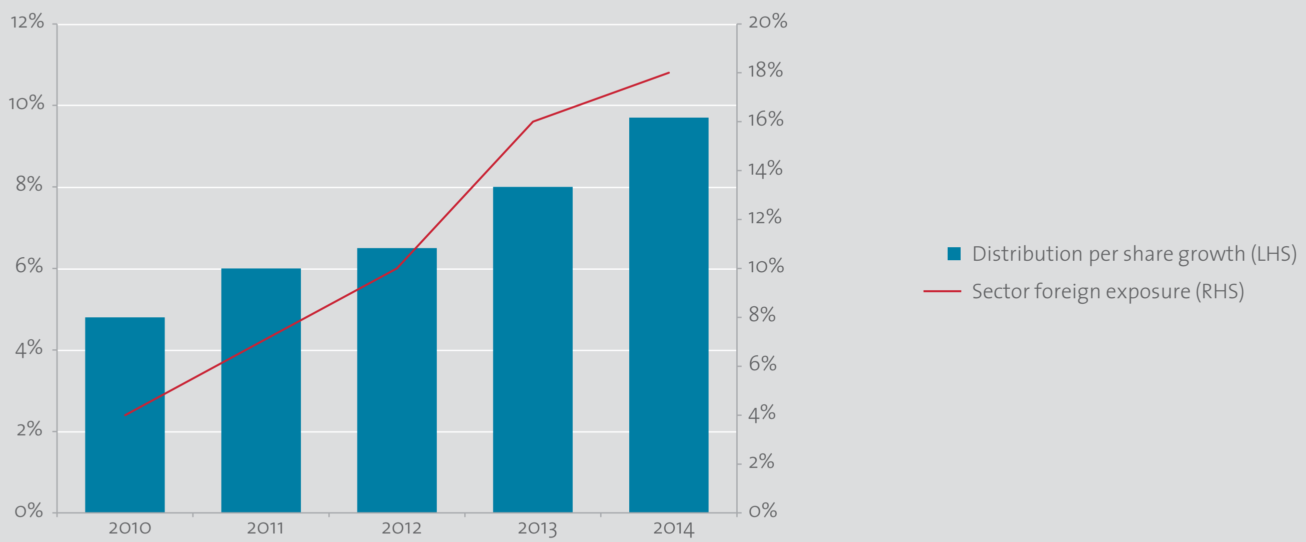
Implications for our clients

The listed property sector has exceeded most expectations over the last 10 years.

Looking ahead, we have seen lower starting yields than have historically been the case. While this suggests elevated valuation risk, the prospect of steadily growing shareholder returns compounding over time are, however, attractive in the low-return world that likely lies ahead. Defensive and predictable earnings streams, good management teams and growing offshore and development exposures are further positive characteristics.

In an uncertain, distorted and expensive market, we therefore believe selected listed property shares offer our diversified client portfolios an attractive additional exposure. UP

Foreign exposure of the listed property sector



Source: Company reports and RMB Morgan Stanley estimates

Video streaming into the future

Victor Seanie - Investment Analyst

"Unlike traditional satellite and cable TV services, video on demand (VOD) allows viewers to select and watch content at any time rather than at a specific broadcast time. VOD services are delivered via the internet over fast broadband connections, and content can be accessed either by buying or renting individual titles or paying a monthly fee for unlimited access."

Video streaming into the future

The unlimited access option, known as subscription video on demand (SVOD) and popularised by companies such as Netflix and Amazon, will account for just 3% of the global pay TV market in 2015 - perhaps indicating its significant future growth potential. In South Africa, developments in the VOD market are still nascent and it remains to be seen how services such as Times Media Group's VIDI and Altron's Node will fare.

Viewing changes

While older generations tend to stick to traditional cable and satellite pay TV, younger generations find instant gratification in VOD and are more open to abandoning traditional pay TV (see chart below).

The instant availability of movies and complete TV series has resulted in changes in viewer behaviour, with consumers clearly following content, not networks. A recent survey found that 75% of British TV viewers admit to binge-watching and 61% of Netflix subscribers do so regularly. These trends have created a rise in the demand for content.

To offset the resultant increase in bargaining power for content creators, companies like Netflix are producing their own high-quality content. This raises barriers to entry for new VOD firms. The provider with the largest content library is likely to enjoy longer-term success as it will attract the most subscribers and therefore have the most resources to reinvest in quality content to attract additional subscribers.

Netflix

Netflix is the world's largest SVOD operator. It currently has offices in 50 countries and aims for a presence in 200 within the next two years. It has global experience in developing content selection algorithms to increase viewing time and drive sales. In the last five years, it has enjoyed substantial success in the US and parts of Europe (see graph on opposite page) and plans to enter South Africa before the end of 2016.

With its first-mover advantage, Netflix has the potential to become the dominant leader of SVOD (in a similar way in which Google dominates search engines or Amazon dominates e-commerce). Netflix's scale gives it leverage with content producers and this, combined with the ability and resources to create its own content, should provide a significant low cost advantage for the company.

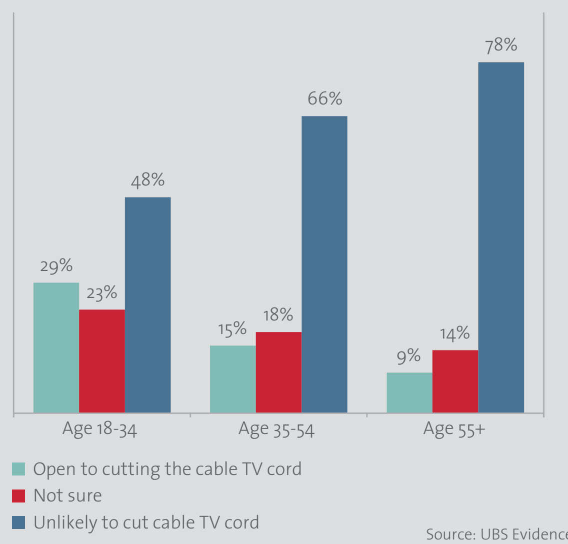
By the end of 2013, North America already had 25 online SVOD service providers. While the global VOD competitive landscape is still evolving, Netflix, Amazon and Hulu are the current leading international players. Facebook and Instagram are also rapidly developing their own online video strategies.

Pay TV response

Traditional pay TV providers have responded by introducing their own VOD services both online and via their existing, albeit limited (relative to broadband), cable and satellite networks (eg DStv's Online, Box Office and Catch Up services). However, despite these measures having some success at retaining subscribers, average revenue per user is likely to decline given the competition. Pay TV providers have also had to offer more services (eg adding free internet access to their packages) to boost their value propositions relative to VOD, thereby raising costs.

Premium programming is increasingly being used as a customer retention tool. This, coupled with more owners of film content rights making their exclusive content available via VOD, is leading to an increasing number of households with more than one pay TV subscription. In most cases, by adding SVOD, households are substituting spend that would have gone to DVD rentals and purchases. In fact, in some markets

Millennials indicate less affinity towards cable TV



Source: UBS Evidence Lab

the decline in DVD box set sales closely matches the rising spend on SVOD.

Some pay TV companies, such as US premium cable and satellite television network, HBO, are offering their content to customers who subscribe to a competitor's platform. Locally, StarSat (formerly TopTV) customers can subscribe to DStv Online without the need to buy a more expensive DStv satellite subscription.

While traditional pay TV providers in mature markets are experiencing small subscriber declines, developing markets with lower pay TV penetration rates continue to experience traditional pay TV subscriber growth. This is especially the case in countries that have relatively low broadband availability, speeds and affordability.

South Africa

DVD-quality video streaming typically requires download speeds of at least 3MBps and standard high-definition video requires at least 5MBps. In South Africa, consistent high speed broadband internet for an uninterrupted high-definition viewing experience is not yet widespread. Fixed-line fibre deployments and mobile LTE roll-outs should continue to increase broadband speeds in most areas and lower its cost.

The pace of SVOD growth will be constrained by the slow development of broadband in South Africa.

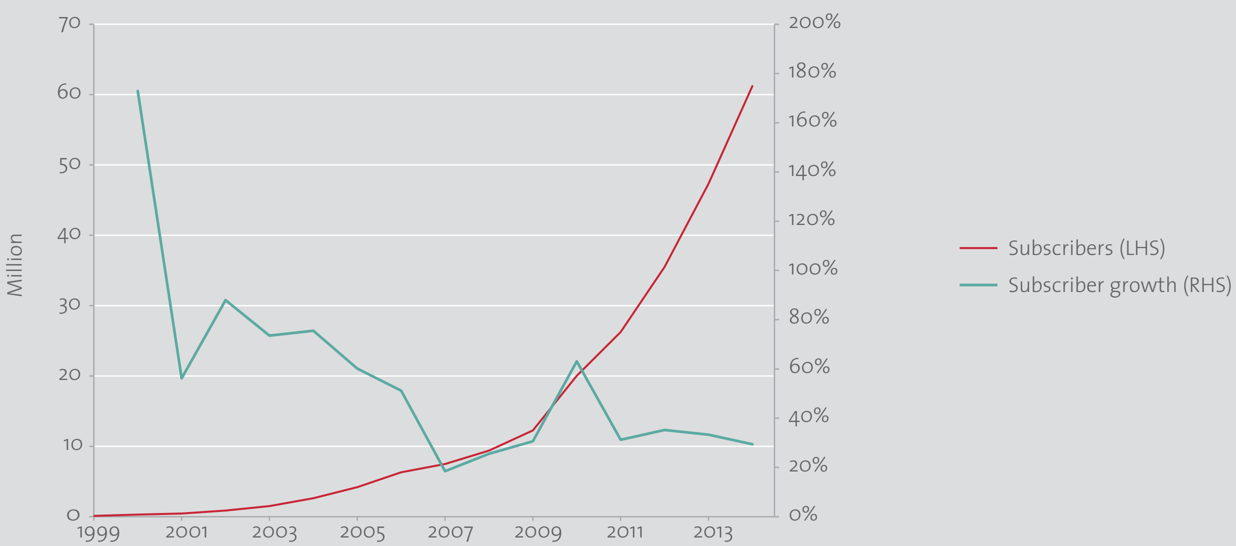
Multichoice (DStv) has a two-fold advantage. It is observing and learning from overseas developments and developments around Digital Terrestrial Television in South Africa. The slow roll-out of broadband in South Africa has provided time for the company to position itself to withstand some of the competitive headwind. In addition, the slow broadband roll-out is holding back potential competitors.

Over time, VOD companies in South Africa will need to differentiate themselves through content. It is conceivable that local VOD firms will eventually compete for highly-prized live sports rights, further raising sport content costs for companies such as DStv.

SA's VOD contenders

In September 2014, Times Media Group launched VIDI, which delivers internet SVOD TV series and movies to subscribers for R149 per month and VOD movie rentals for up to R27. Altron's Node satellite set-top box, which launched at the same time, provides content similar to VIDI as well as home automation and surveillance, prepaid service purchases and a Wi-Fi hotspot for R299 per month and movie rentals for up to R25.

Netflix subscribers



Source: Netflix

Video streaming into the future

VIDI competes with Node, DStv and global companies such as Netflix and Hulu. About 20 days after launching, VIDI had 2 000 subscribers compared to Node's 15 000 for the same post launch date period.

Six years after its 1997 launch, Netflix had 1.45 million subscribers and made its first profit. Since then, it has averaged a 5% profit margin. VIDI claims it needs 40 000 subscribers to break even (versus the 90 000 that Altron projects for Node's breakeven) and forecasts spending R40 million per year on content, ramping up annually (versus DStv's R8 billion annual content spend). The forecast break-even level of 40 000 subscribers appears overly optimistic as it implies annual revenue of only R72 million.

In general, local VOD services currently offer older, less compelling and less exclusive content than global competitors such as Netflix. VIDI and Node each offer under 500 titles compared to Netflix's more than 25 000. DStv's Catch Up and Box Office carry around 147 titles at any given time. However, a Personal Video Recorder increases VOD content to over 1 200 titles - assuming there are an average of 20 titles on each of the 63 channels (see table below).

Early VIDI subscribers seem to be tech-savvy individuals with the fastest broadband connections. VIDI represents an internal customer for TMG's film distribution division, which should add to group margins. However, its weakness in the medium term is the fact that users cannot download and save content. Therefore, patchy internet services in most areas limit its potential market. In addition, movie studios sell VOD rights non-exclusively, thereby lowering entry barriers.

Nascent industry

Revolutionary industries have usually spawned new companies, only a few of which have survived to dominate the field. The same will most likely happen to the yet unproven VOD market. It is still too early to tell which VOD firms will be successful in South Africa. However, given the global nature of competition in the field, we believe Netflix may well be the front-runner when it formally enters South Africa.

A comparison of VOD services

	VIDI	Altron Node	Netflix	Hulu Plus	DStv Box Office Online	DStv Extra	Video store
Delivery technology	Internet streaming	Satellite	Internet streaming	Internet streaming	Internet	Satellite	DVD
Set-top box	R0	R3 500	R1 400*	R1 400*	R0	R1 900	R0
Monthly subscription	R149	R299	US$8.99 (R109)	US$7.99 (R97)	R0	R399	R0
Data cost per month (ADSL+30GB @ 0.3c/MB)	R682	R0**	R682	R682	R682	R0**	R0
Effective total subscription	R831	R299	R781	R770	R682	R399	R0
Content downloadable?	No	Yes	No	No	Yes	Yes	No
Subscription content	1 000 hours	700 hours	25 000 titles	10 000 titles	0	63 TV channels	
Movie rental content	100 titles	75 titles	N/A	N/A	185 titles	20 titles	4 000+ titles
Movie rental prices	R15 - R27	R15 - R25	N/A	N/A	R10 - R27	R27	R15 - R30
Movie rental prices (incl data cost)	R55 - R77	R55 - R75	N/A	N/A	R60 - R77	R27	R15 - R30
Subscription titles (equivalent, estimate)	425	297	25 000	10 000	N/A	1 260	N/A
Subscription per title (cents)	196	101	3.1	7.7	N/A	32	N/A

*The cost of Apple TV set-top box used by SA subscribers of Netflix and Hulu **Satellite, not internet data

Source: VIDI, Altron, businessbee.com, moneycrashers.com, htxt.co.za

Kagiso Asset Management Funds

Performance to 31 March 2015	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]
Unit trust funds[3]							
Equity Alpha Fund	3.2%	13.8%	13.6%	18.0%	20.5%	Apr-04	1.5%
South African Equity General funds mean	11.5%	16.4%	14.4%	15.4%	16.9%		
Outperformance	-8.3%	-2.6%	-0.8%	2.6%	3.6%		
Balanced Fund	6.6%	12.3%	-	-	11.9%	May-11	1.5%
South African Multi Asset High Equity funds mean	12.0%	14.6%			13.1%		
Outperformance	-5.4%	-2.3%			-1.2%		
Protector Fund	7.1%	9.1%	7.4%	10.5%	10.9%	Dec-02	1.6%
CPI + 5%[4]	9.0%	10.3%	10.2%	11.0%	10.7%		
Outperformance	-1.9%	-1.2%	-2.8%	-0.5%	0.2%		
Stable Fund	8.0%	9.3%	-	-	9.4%	May-11	1.1%
Return on large deposits*	5.5%	5.2%			5.3%		
Outperformance	2.5%	4.1%			4.1%		
Institutional funds[5]							
Managed Equity Fund	1.3%	14.2%	14.3%	-	14.4%	Sep-06	
FTSE/JSE SWIX All Share Index	17.7%	21.4%	18.1%		15.4%		
Outperformance	-16.4%	-7.2%	-3.8%		-1.0%		
Core Equity Fund	6.0%	18.0%	16.2%	18.6	19.3%	Nov-04	
FTSE/JSE SWIX All Share Index	17.7%	21.4%	18.2%	19.0	19.6%		
Outperformance	-11.7%	-3.4%	-2.0%	-0.4	-0.3%		
Domestic Balanced Fund[6]	7.6%	11.3%	12.3%	-	10.1%	May-07	
Peer median[7]	14.3%	15.4%	15.5%		11.5%		
Outperformance	-6.7%	-4.1%	-3.2%		-1.4%		
Global Balanced Fund[8]	9.8%	-	-	-	16.0%	Jul-13	
Peer median[9]	15.0%				18.7%		
Outperformance	-5.2%				-2.7%		
Sharia unit trust funds[3]							
Islamic Equity Fund	-0.2%	11.0%	11.4%	-	14.1%	Jul-09	1.2%
South African Equity General funds mean	11.5%	16.4%	14.4%		17.2%		
Outperformance	-11.7%	-5.4%	-3.0%		-3.1%		
Islamic Balanced Fund	2.5%	10.4%	-	-	8.0%	May-11	1.4%
South African Multi Asset High Equity funds mean	12.0%	14.6%			13.1%		
Outperformance	-9.5%	-4.2%			-5.1%		

[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 31 March 2015; [3] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [4] CPI for March is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 28 February 2015; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [8] Global Balanced Fund and benchmark returns to 28 February 2015; [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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