UP

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Kagiso Asset Management

Quarterly

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Portentous 2014 developments

Gavin Wood - Chief Investment Officer

After persistent trends and low volatility since the financial crisis, 2014 presented market dislocations and structural changes that we believe have important implications for the course of financial markets, whose participants seem somewhat complacent since 'momentum' has been the winning strategy for so long. We highlight some of these dislocations and changes below.

Portentous 2014 developments

The US passed on the QE baton

Quantitative easing (QE), injecting liquidity into the economy via the purchase by central banks of financial instruments from the private sector, has been executed on a grand scale since the financial crisis (see chart below) - at a time of near zero interest rates in the world's largest economies.

The US Federal Reserve has purchased US$3.7 trillion between November 2008 and October 2014 (QE3's conclusion). The magnitude of this intervention is staggering, given that the US economy (GDP is US$17.6 trillion) and bond market (103% public debt:GDP) are the world's largest. The real economy benefits of US QE have, in our view, been mixed and of diminishing effect through time, but the impact on asset prices has been massive.

In 2013, the Bank of Japan began its enormous QE programme and the European Central Bank tentatively began asset purchases in 2014, with widespread expectations of significant sovereign bond purchases to come. This significant structural change highlights the better state of the US economy and has precipitated a sharp strengthening of the US dollar against the yen and the euro. The net effect should be a tightening of global liquidity conditions, given the relative magnitude of the QE programmes, which should be negative for asset prices.

Foreigners began selling SA bonds

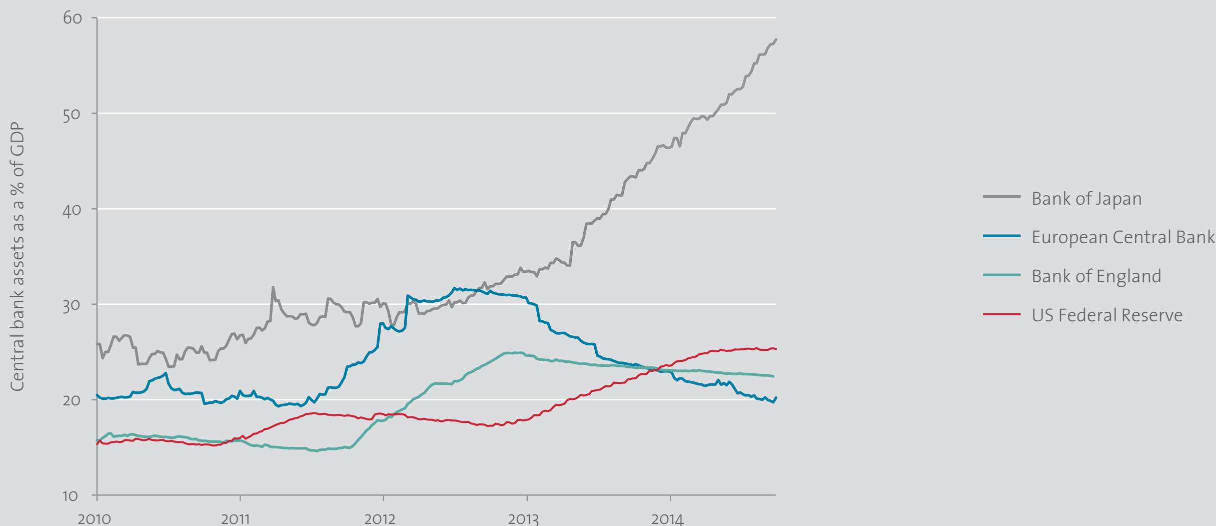
After many years of foreign inflows into our bond market, foreigners sold R71.7 billion of bonds in 2014. Coinciding with these outflows, the rand depreciated by 9.3% (to the US$) to its worst level since 2001. Receding foreign liquidity will make our government's budget deficit more difficult to finance.

Emerging market equities also saw foreign outflows of US$25 billion in 2014, while, in contrast, foreign equity inflows into SA, at R13.3 billion, were positive. However, this may have had more to do with internal problems in our emerging market peers (Russia, Brazil, Turkey, Thailand) than the absolute prospects for our companies.

China's economy decelerated further

Having grown GDP at rates of 8%-10% pa for over a decade (slowing to below 8% in 2013), China's growth rate headed towards the 7% level in 2014. Growth is likely heading lower as the economy needs to absorb excess capacity, deleverage and rebalance away from fixed investment. China's property activity slowed in 2014, housing prices declined and new residential construction fell. Limited fiscal policy (infrastructure investment) and monetary policy (lower bank reserve requirements and an interest rate cut) stimulus measures were introduced.

Different directions for central bank balance sheets



Source: BCA Research and Kagiso Asset Management research

Commodity prices fell sharply

The growth deceleration in China, the world's largest non-oil commodity consumer, came as 2014 saw an increase in supply of many of the commodities it imports. The result was large commodity price falls, with iron ore and oil prices almost halving and thermal coal down 22%. Precious metals were little changed in 2014 off already low levels as supply was curtailed.

The oil price decline is particularly important for the world economy as it is the largest commodity traded by value. The cause of the price decline was increased production from North America at a time of weak demand from Europe and China and growing use of substitutes (natural gas and renewables), with OPEC making no change to their production intentions.

These material commodity price declines will have significant implications for their respective consuming and producing countries and companies. Iron ore producers, eg Brazil and Australia, will see export revenues decline. Large net oil exporter economies such as Saudi Arabia, Russia, Nigeria, Angola, Columbia, Mexico and Venezuela will struggle as they are very concentrated around oil production. Oil price falls will particularly benefit large net importers, such as Europe and Japan.

South Africa's exports are dominated (roughly 60%) by iron ore, thermal coal, platinum group metals and gold, while oil makes up some 20% of imports. The large relative oil price decline (graph below) should result in a slightly positive trade balance impact and, together with lower maize prices, will dampen price inflation, enabling the SARB to raise rates more slowly.

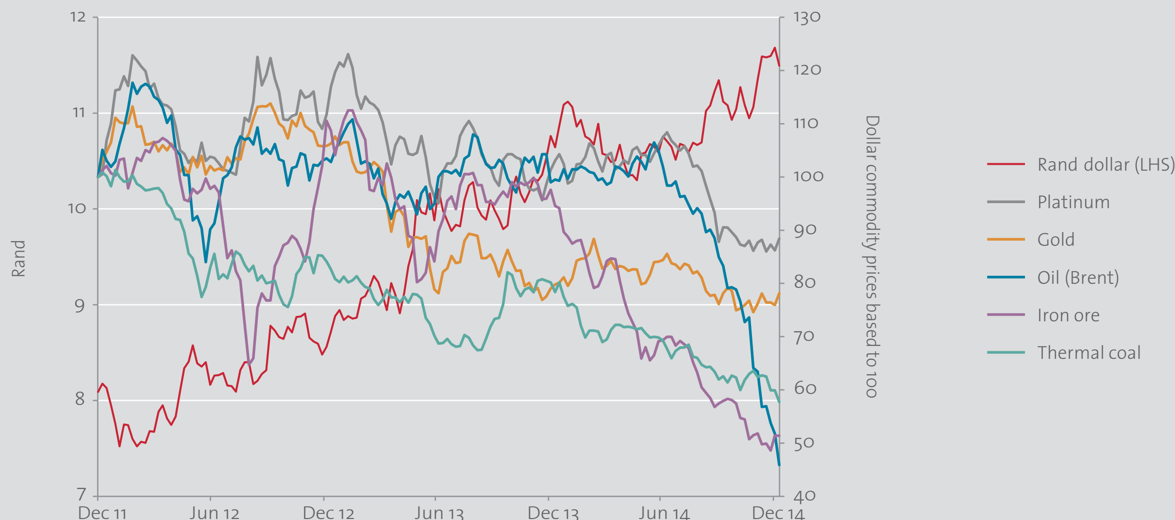
In South Africa

Local developments of particular importance for financial markets were:

- the start of the SARB rate hiking cycle;
- National Treasury announcing 'austerity measures' in its October mini-budget in the form of an expenditure ceiling and imminent tax rises;
- major splits in organised labour with the NUMSA expulsion from Cosatu and the emergence of non-aligned AMCU, whose perceived success with its platinum mine strike is fuelling a major recruitment drive from established unions in various other sectors; and
- the demise of African Bank Investments, which should serve to reduce the extortionate returns earned by unsecured credit providers in SA, to reorganise the furniture retail industry and to remind bond and preference share investors to consider credit risk.

Given these structural changes, 2015 has begun with raised market volatility and our clients' portfolios are therefore positioned for a very different environment to the one that has prevailed in recent years. UP

Falling commodity prices



Source: Bloomberg and Kagiso Asset Management research

Four-leaf Clover

Dirk van Vlaanderen - Investment Analyst

"Clover has a rich history of dairy and consumer product manufacturing over the last century in South Africa. The company converted from a co-operative to a public company in 2003 and listed on the JSE Securities Exchange in December 2010."

The Clover brand is a well-known household name in South Africa and, over the years, the company has expanded its portfolio to include a wide range of dairy-related and beverage products. The table below shows the different products by operating division, while the chart on the next page (left) gives an indication of the revenue and operating profit contribution of each division.

- Dairy fluids is Clover's largest division by revenue (48% of group) but contributes significantly less to operating profit (22%) given the lower operating margins in milk. This division mainly consists of fresh and long-life milk produced under the Clover brand, as well as Super M in the flavoured milk category.
- Dairy concentrate products is a much smaller business, contributing 14% to Clover's revenues, and includes the Mooi River and Butro butter brands and the Clover brand in pre-packaged cheese.
- Beverages makes up 24% of revenues but we estimate that this category contributes 44% of operating profit due to the higher operating margins it commands. Within this division Clover has been very successful in acquiring additional brands to its existing production and distribution capabilities. Tropika is an iconic dairy-based fruit mix, which generates around half of the beverage revenues and has shown excellent growth over recent years. Other brands include Quali (acquired from AVI in 2012), Krush (fruit juice), Manhattan (iced tea) and the recently acquired Nestlé brands of Nestlé Pure Life (bottled water) and Nestea (iced tea).

Apart from a broad portfolio of brands in attractive categories, it is worth noting that Clover has very strong market share positions within these categories. The chart on the next page (right) highlights the strength of Clover's brand portfolio, averaging a 30% share across the majority of its key categories. Strong market share positions mean Clover generally has more bargaining power with retailers, and therefore a greater ability to increase prices in order to offset cost inflation to defend and ultimately grow operating margins.

Clover is often mistaken for a 'dairy' company. While this is where its roots lie, the company has successfully used dairy as a platform to gain scale and has diversified through this scale into the higher-growth and more profitable beverages category. It has done this to the extent that the beverages category is now a larger profit contributor than dairy. While dairy remains important to Clover, we expect that the company will continue to add a range of adjacent products to

Products and brands per reported division

Division	Products	Brands
Dairy fluids	Fresh and ultra high temperature milk ('UHT'/ 'long life'), cream, maas, yoghurt and custard	
Dairy concentrate products	Butter, spreads, pre-packed cheese, condensed milk and milk powders	
Beverages	Juices, iced tea and bottled water	
Ingredients	Bulk condensed milk, creamers and powdered milk	
Distribution services	Proprietary and third party storage and distribution services and in-store merchandising	

Source: Company data and Kagiso Asset Management research

further bolster its current portfolio and gain additional economies of scale.

Distribution platform is a key competitive advantage

A lesser-known fact about Clover is that it has the largest chilled distribution network in South Africa (over 14 900 points), delivering mainly its own brands but also third party products (such as Enterprise and Red Bull). This vast geographic reach and high frequency of deliveries remains a key competitive advantage. Clover is also one of only a few companies to do in-store merchandising for its own and third-party products. This is an advantage as it helps the company to ensure the best product placement in the stores and to combat retailers pushing their own label products over the Clover brands.

Invested for growth

Clover has been investing in its growth infrastructure for many years. Project 'Cielo Blu', which began in 2010 and was completed in 2014 at a total cost of R340 million, was a major efficiency initiative. The project addressed historical inefficiencies in the supply chain network and has resulted in a cumulative R100 million of production and distribution savings in the business. Most importantly, Cielo Blu was implemented to create sufficient capacity within the production and distribution network to support Clover's growth plans, which is fundamental to the company's investment case.

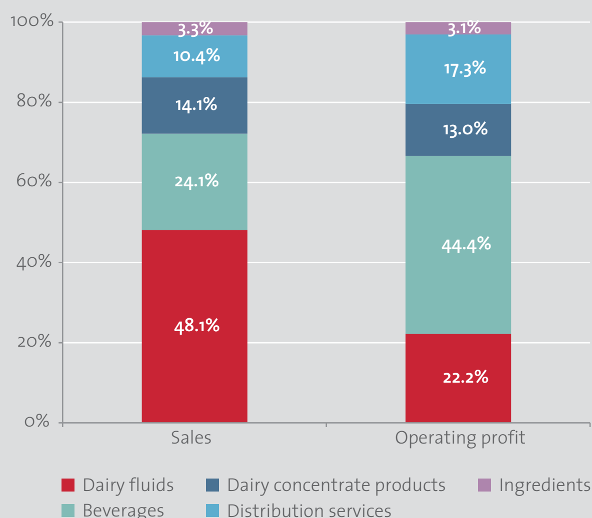
Clover is therefore well positioned to benefit from any additional brands and products that it can add to its distribution platform and is currently looking to grow internally as well as through acquisition. Acquisition targets would benefit from a wider distribution platform resulting in higher revenues and lower distribution costs - given Clover's significant scale. A good example of this is the acquisition of Nestlé's beverage brands in 2013, which Clover has already turned profitable after years of losses within the Nestlé stable.

Divorcing Danone

French dairy giant, Danone, and Clover have been collaborating in South Africa since 1995. Clover currently provides a range of services to Danone, including the supply of raw milk and other raw material procurement, manufacturing and packaging of custard, sales and merchandising services, and distribution.

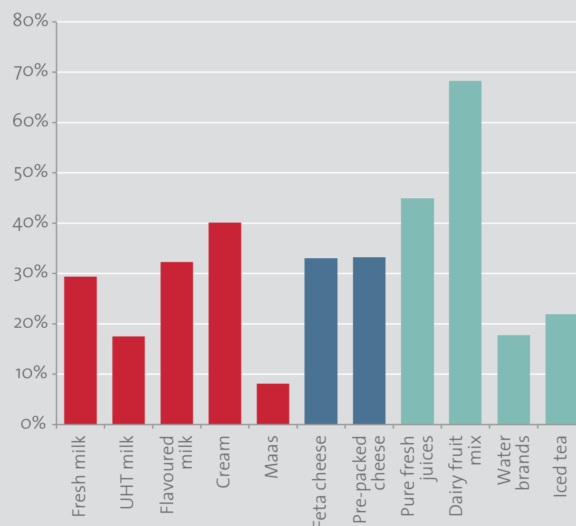
Under the agreement, Clover has not been allowed to produce yoghurt or custard as this competed directly with Danone's main product offering. Danone currently dominates the yoghurt market in South Africa with a 44% market share

2014 divisional breakdown of sales and operating profit



Source: Company data and Kagiso Asset Management research

2014 market share per key category



Source: Beverages data, SAMPRO, BofAML and Kagiso Asset Management research

(pie chart below), which is mainly through its ubiquitous Nutriday brand. It is also the leading producer of custard through the Ultramel brand. This 20-year partnership comes to an end in January 2015 and Clover is set to embark on a new adventure in the previously off-limits categories of yoghurt and custard.

In order to gain immediate scale and expertise in yoghurt, Clover acquired Dairybelle's yoghurt business in 2014 for R125 million, which included a yoghurt manufacturing facility in Bloemfontein and the well-known 'Fruits of the Forest' brand. Clover plans to refresh this brand in January 2015 and enhance its geographic reach through its superior distribution platform, thereby increasing its market share above the 7% level it currently enjoys. The second part of the move into yoghurt involves launching the Clover brand as a premium yoghurt to complement Dairybelle's middle price point positioning.

Management are targeting a 15% market share in both custard and yoghurt in the next few years, with the ambition to increase this to 20% over time. We estimate a 15% share in both would add R600 million to Clover's revenue and R90 million (a 31% increase) to operating profits.

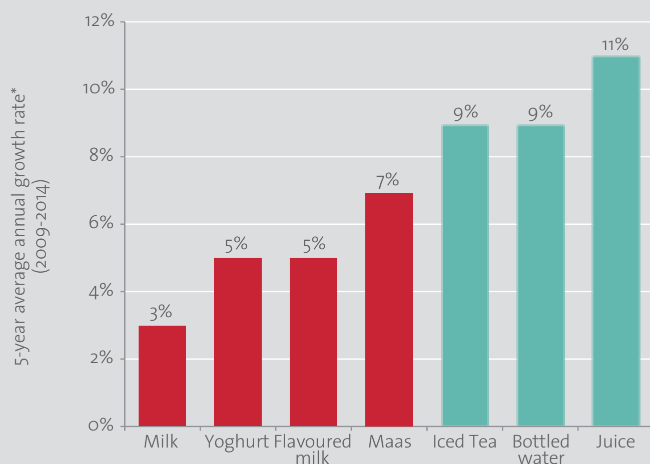
Shifting the business mix

The shift into beverages and now yoghurt and custard has sound strategic rationale given the higher growth and profitability profiles of these categories relative to Clover's traditional milk offering. As shown in the chart below, milk has been the slowest growing segment over the past five years (with volumes up 3%), while yoghurt and some of the beverages categories have grown volumes between 5% and 11% pa. Operating margins in these adjacent categories are also very attractive and can be as much as six times the 2% - 3% that Clover generates from milk. Milk will remain core to Clover given the importance it holds for group scale, but the shift into adjacent categories enhances the group's growth and profitability profile.

Unique asset

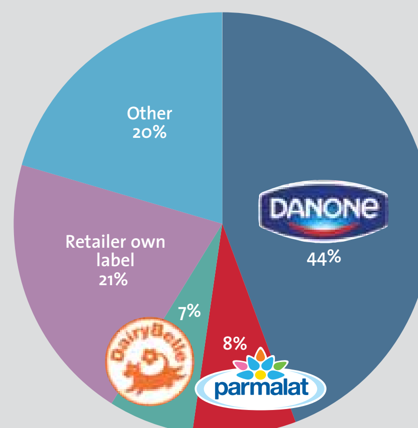
Clover's strong and diversified brand portfolio and leading distribution network combines to create a unique platform with the potential to create significant value through further organic growth as well as through acquisitions. We believe the current share price undervalues the future potential of this strategy and we therefore hold Clover in our portfolios on behalf of our clients. UP

Annual market volume growth rate per category



* Maas 2-year average annual growth rate

2014 SA yoghurt market share



Source: BofAML and Kagiso Asset Management research

Clothing retailers: winter is coming

Simon Anderssen - Investment Analyst

South Africa's four large listed clothing retailers (the Listed Four[1]) have traded remarkably well through the country's recession and low economic growth environment since 2008. Over the six years to June 2014, clothing retail sales have increased 8.8% pa, while consumers' nominal disposable income has increased in line with nominal GDP growth at around 8.2%. The Listed Four have outperformed, with sales growth of 11% pa. Management and shareholders have been rewarded with compounded growth in the combined market value of 32.5% pa.

[1] Woolworths, Foschini Group, Truworths and Mr Price

There are structural and cyclical reasons for this strong outperformance. Continued positive growth in South Africa's middle class and the expansion of the social grant system are examples of trends that have structurally increased the country's potential consumption expenditure. Simultaneously, the explosion in consumer credit[2] has provided a cyclical boost to discretionary spending. Significant market share losses from Edcon, the country's largest clothing retailer, are another reason for the Listed Four's relative outperformance.

Goodbye summer

We do not believe that the above forces can continue to sustain strong clothing retail sales growth because South Africa's low-growth economic outlook is not supportive of the private sector employment growth that is the key to an expanding middle class. Furthermore, a large fiscal deficit will make it difficult for government to continue to be the primary marginal employer going forward and growth in the number of social grant recipients will be modest from here.

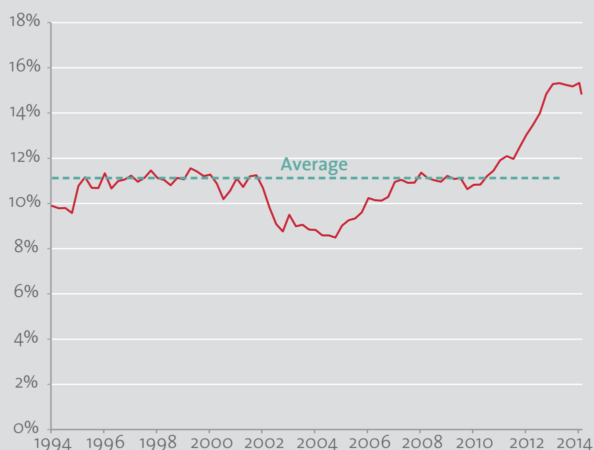
Notwithstanding the sharp contraction in the growth in personal loans since September 2013 and African Bank's failure in August 2014, total unsecured consumer credit has continued to increase as consumers shift to credit cards and overdrafts. It is revealing that total consumer credit outstanding has not yet declined in absolute terms and remains very high as a proportion of disposable income (left chart below). In other words, consumers have not yet reduced debt levels after a three year credit binge.

Based on these factors, we firmly expect modest or negative real (after inflation) clothing retail sales growth over the next few years as the level of sales normalises to consumers' true spending power. Since we expect wages, rental and utility expenses for retailers to continue increasing in real terms, compounded by current commitments to open new space, operating expense growth for the retailers is likely to grow faster than retail sales. This is negative for future profitability of the Listed Four.

To defend against costs outgrowing sales, the Listed Four can gain market share by increasing sales faster than the overall market. We believe that this will be a challenge.

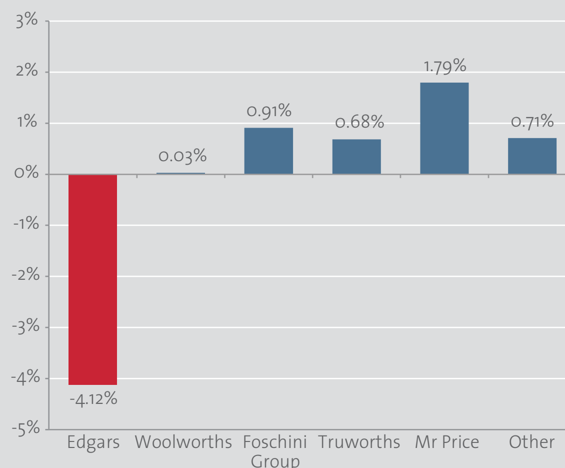
[2] Personal loans, credit cards, overdrafts and other unsecured household credit

Consumer debt to disposable income



Source: South African Reserve Bank and I-Net

Change in market share: 2008 to 2014



Source: Stats SA, company reports and Kagiso Asset Management research

Clothing retailers: winter is coming

Dividing the pie

Retail is a zero-sum game and for every outperformer there is an underperformer. The underperformer over the last six years has been Edcon, which has lost 4% market share since delisting in a private equity buyout in 2008. The Listed Four have benefited disproportionately (right chart on the previous page) from the troubles at the country's largest retailer.

Delving deeper shows that new brands or formats account for the majority of these market share gains. For instance, the Woolworths group's stable market share over the last six years is fully accounted for by sales of its Country Road brands[3]. In other words, market share of the existing Woolworths brands has declined.

Similarly, more than half of the market share gains achieved by Foschini Group and Truworths over the last six years have come from brands that were relatively small at the start of the period. The flagship formats Foschini, Truworths and Truworths Man have lost market share or achieved minor gains.

While Mr Price's single brand accounts for the majority of clothing sales, its strong outperformance is a combination of excellent operational execution and a relatively large overlap with Edcon's target market. Mr Price's aggregate share of clothing in South Africa is now comparable to Truworths and Foschini Group.

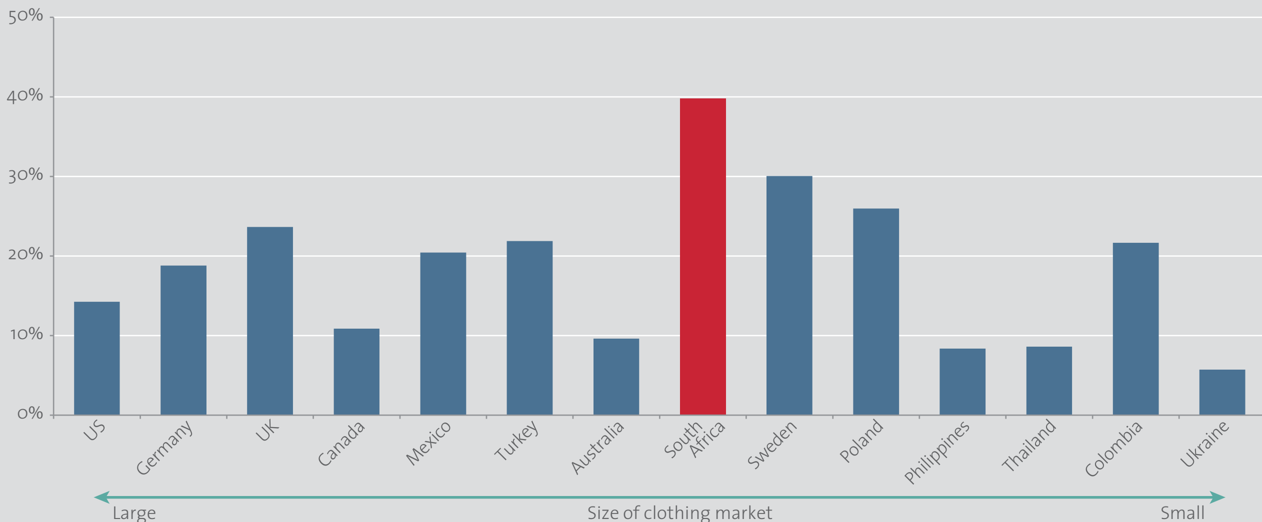
Edcon's financial position has deteriorated significantly over the last two years and we believe that a capital restructuring is imminent. The business' operations are profitable (before interest costs) and are showing signs of marginal improvement. We expect the degree of underperformance to narrow under a revised capital structure.

A final observation is that clothing sales in South Africa are concentrated in a small number of brands. The chart below shows that the market share of the 10 largest clothing brands accounts for nearly 40% of all sales. This is a much higher proportion of sales concentration than is normal in other countries. Fashion fundamentally relies on a variety of styles and designs and we expect this concentration to decline as our market matures.

Brand development has been exactly the right strategy for the Listed Four and has been very well executed by these companies. Their success proves that South African consumers have sought variety by shifting spend to smaller brands over

[3] Country Road, Trenery and Witchery

Market share of 10 largest clothing brands



Source: HSBC, Euromonitor data and Kagiso Asset Management research

the last six years and we expect this to continue. Looking forward, we believe this supports our view that new entrants - attracted by the high returns earned by South African clothing retailers - will succeed in growing market share at the expense of the Listed Four.

The foreign contenders

For many years foreign brands entered South Africa through wholesale or agency agreements with local partners. This has changed over the last two years as large international clothing retailers have established local operations and corporate store portfolios, reflecting a significant change in strategy and a commitment of their capital to establish a local business.

Entering the southern hemisphere is a significant strategic decision for northern hemisphere companies. This is due to the commitment to increase design and manufacturing capacity to simultaneously maintain fashion credibility across different seasons.

The table below compares the Listed Four to some of the global retailers that have entered, or intend entering South Africa. The key observation is the relative scale advantage of the international companies, in terms of sales, and the low proportion of southern hemisphere stores to the current store count[4], an indication of their nascent southern hemisphere expansion strategy.

Supply chain is necessary to win

How merchandise gets onto the shop floor will be a key differentiator for clothing retailers over the coming years.

The Listed Four have for many years relied on fashion trends in the northern hemisphere and the seasonal delay to 'iterate' these designs for local tastes, source materials, manufacture in the east and ship to South Africa in time for the corresponding southern hemisphere season. This requires retailers to commit to product volumes upfront in anticipation of future demand.

The fashion risk they have had to manage is either having insufficient product to satisfy demand, resulting in foregone profits, or clearing surplus stock through season-end sales. For some retailers, discounting clearance stock is their second largest operating expense.

The international contenders entering South Africa are among the largest global clothing retailers. They have, over many years, pioneered a supply chain model that provides flexibility

[4] Cotton On is an Australian business

Comparison: international and local clothing retailers

	International retail companies						South African retail companies				
	Listed			Unlisted			Listed				Unlisted
Company	Inditex	H&M	GAP	Arcadia Group	Forever 21	Cotton On	Mr Price	Truworths	Foschini	Woolworths **	Edcon ***
Sales (in R billion)	219	187	159	39	38	not available	15	10	14	12	24
Total number of stores	6 340	3 132	3 539	3 140	600	>1 300	1 079	667	2 111	259	1 163
% of stores in southern hemisphere	9	0	0	3	3	99	100	100	100	100	100
Brands trading in South Africa (partner)	Zara	H&M*	Gap, Banana Republic (Stuttafords)	Topshop (Edcon)	Forever 21	Cotton On, Typo, Factorie	Incl Miladys, Sheet Street	Incl Uzzi, Identity, Daniel Hechter	Incl Markhams, fashionexpress, Totalsports	Incl Trenery, Country Road, Witchery	Edgars, Red Square, Jet, Legit

* Opening 2015
** Data applies to Woolworths Clothing and General Merchandise division
*** Numbers exclude CNA

Source: HSBC, company data and Kagiso Asset Management research

to frequently introduce new products and restock popular selling products in the same season. The benefit of this 'Quick Response' model is that the retailers limit the amount of product committed to upfront, thereby reducing the risk of future clearance discounts. They are also able to respond in-season to demand and thereby able to maximise profits from their best selling items.

Scale is a key advantage for a successful Quick Response supply chain and the international contenders use significantly larger production volumes to dominate global production capacity and to achieve significantly lower per-unit production costs.

While the Listed Four have invested in Quick Response capabilities over the last few years, they still lag the international contenders. Instead, their advantage is deep knowledge of local tastes and an established store portfolio. Another competency is experience in granting credit, which is an important facilitator of clothing sales for many South Africans.

The seasons are changing

The Listed Four have enjoyed an extended summer of buoyant consumption spending and a withering competitor (Edcon) to gain market share and achieve world-leading profitability.

In our view, current high share prices do not yet reflect a reversal or non-recurrence of structural, cyclical and competitive drivers of recent performance. Looking ahead, we anticipate structurally slower consumer sales from a deleveraging consumer and increased competition to erode retail profitability. This is one of the reasons that we are not invested in any of the Listed Four. UP

Mondi's packaging prowess

Rubin Renecke - Investment Analyst

While Mondi is widely known for producing office printing paper (uncoated fine paper), this global packaging company has an extensive range of other products that consumers use daily. Mondi products range from the corrugated boxes used to package new HD TVs to the microwaveable containers that hold ready-made meals to the heavy duty bags that contain cement.

Mondi's packaging prowess

We believe that Mondi is a compelling investment due to its product range, track record of innovation, dominant market shares and low-cost integrated operations. An increasing focus on environmentally friendly packaging, growing demand for convenience from consumers and growth in online shopping all bode well for the prospects of Mondi's products.

In 2013, Mondi's packaging and consumer products businesses earned revenues of €4.68 billion, representing 72% of total group revenue. Mondi's strategy is to grow these businesses with a specific focus on sales into higher growth emerging markets (currently 51% of group revenue).

With its main operations located in Germany, Emerging Europe (Poland, Czech Republic and Bulgaria) and Russia, Mondi employs about 24 400 people worldwide. The group is fully integrated across the packaging and paper value chain - from the management of its own forests and the production of pulp and paper to the conversion of packaging paper into various products for both industrial and consumer applications.

Packaging and consumer products

In its production facilities across 30 countries, Mondi produces a range of industrial and consumer packaging products, which are divided into three distinct areas:

- packaging paper (containerboard and kraft paper) production;
- the conversion of packaging paper into packaging products (such as corrugated boxes and paper bags) for industrial and consumer-related applications; and
- the production of specialised flexible consumer packaging, speciality films and hygiene components.

Corrugated boxes are frequently used to transport consumer products such as TVs, washing machines, fridges and microwaves. The sides of these boxes, which often require inner cushioning to protect the fragile contents during transit, are made up of three distinct layers and each layer is made up of a packaging paper with specific properties. The outer paper is made of virgin or non-recycled containerboard (produced from wood pulp), as this needs to be strong. The inner layer is made of recycled containerboard, which is cheaper to produce but is less strong because the fibres are being re-used. The centre fluted (wavy) layer, which provides the strength, is made of either virgin or recycled containerboard.

Mondi is the second largest producer of virgin containerboard in Europe.

Paper bags used for bulk industrial applications (such as sugar or flour) or consumer applications (such as cement or other DIY

Main packaging product categories and their applications

Product category	Products	Application examples
Containerboard	Virgin containerboard, recycled container board and fluting	Base materials for corrugated packaging
Kraft paper	Sack kraft Speciality kraft	Industrial bags, shopping bags, sterilised medical packaging and release liners
Corrugated packaging	Corrugated boxes, retail displays, dangerous goods packaging and mail order solutions	Transport cases for shipping FMCGs, fruit and vegetable trays and in-store retail displays
Industrial bags	Heavy duty bags	Cement bags, powdered chemical bags and flour, sugar and rice bags
Coatings, films, liners	Consumer and technical coatings, advanced films and release liners	Waterproof coatings Diaper components Medical products
Consumer goods packaging	Stand up pouches, re-closable bags and microwaveable containers	Convenience foods and products

Source: Company data and Kagiso Asset Management research

building materials) require high degrees of strength and durability. These bags are made using a different packaging paper grade, called sack kraft paper. While this paper is also made from wood pulp, a specific chemical process is applied to enhance its strength and durability.

Other paper-based products, such as paper shopping bags, sterile medical packaging and release liners (the piece of paper covering the sticky side of a plaster), are made from specially formulated kraft paper.

Mondi is the largest kraft paper and release liner producer in Europe. It is also the largest industrial bag producer in Europe, manufacturing close to four billion units a year.

Additionally, the group's flexible consumer packaging division makes a range of products including diaper elastic components and fastening systems, siliconised films for sanitary pads and re-closable plastic bags - all of which are typically made of complex, high quality, flexible plastic layers.

Breaking new ground

Ongoing innovation is necessary to ensure that Mondi continues to meet customers' evolving requirements and remains ahead of its competitors.

Some examples of its most recent product innovations include:

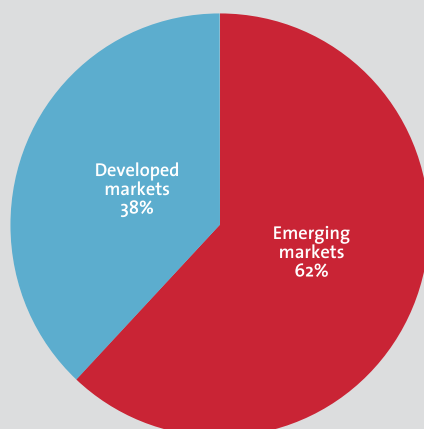
- water-resistant containerboard to replace wax-coated products for use in high humidity and cold storage applications;
- anti-piracy solutions for industrial bags (such as anti-counterfeiting labels and smart identification codes); and
- barrier lining for soup packaging (made up of a mix of paper, polyethylene and a special protection coating), which reduces the carbon footprint of the packaging as the aluminium is removed.

Asset base and markets

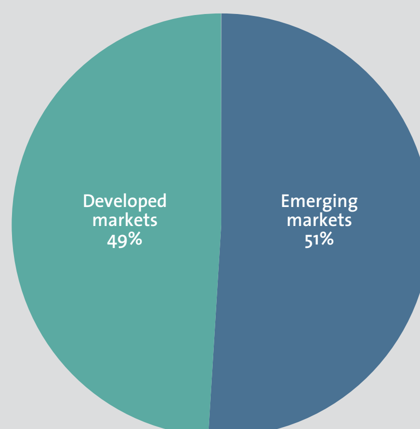
Mondi has a high quality, low cost asset base that is primarily located in emerging European countries where production costs are lower than in Western Europe. It is able to supply both developed markets and emerging markets from this region. This is particularly important in its paper-based packaging businesses, where competition is fierce.

The pie charts below shows Mondi's exposure to emerging markets. The company has been wisely investing in high return, low risk projects over the past few years and has made some astute acquisitions at attractive prices.

Location of operating assets



Sales by destination



Source: Company data

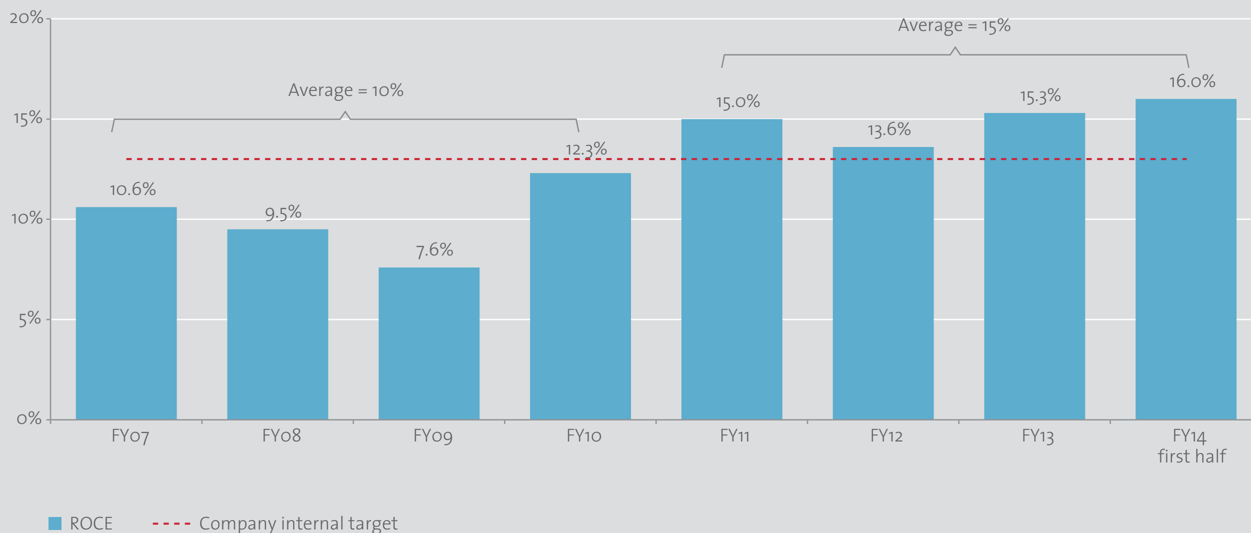
Mondi's packaging prowess

During the 2014 financial year, more than €230 million of capital investment projects will be completed and the group has earmarked another €320 million to be invested over the next year. These projects are largely aimed at reducing energy costs and improving efficiencies and production output. Mondi has a solid track record of delivering on projects and the group's strong cash flows allow it to continuously invest in its plants to improve its cost position. These internal investments position it very strongly for the years ahead.

Competitive edge

Due to its broad product range and record of continuous innovation, Mondi is strongly positioned to benefit from a constantly evolving global industrial and consumer packaging environment. The highly technical nature of many of its products, coupled with its low cost operations and leading market positions, provides the business with a natural competitive advantage. As a result of its favourable position and despite a weak European economic environment, Mondi has generated significant returns over the last four years. As shown in the chart below, Return on Capital Employed (ROCE) has consistently been above the company's internal target since the start of 2011. We believe that Mondi has the potential to do even better in a more benign economic environment and we therefore hold a significant position in this business on behalf of our clients. UP

ROCE track record over time



Source: Company data and Kagiso Asset Management research

Kagiso Asset Management Funds

Performance to 31 December 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	8.2%	16.1%	15.0%	17.8%	20.9%	Apr-04	1.5%
South African Equity General funds mean	10.4%	16.9%	14.3%	15.1%	16.8%		
Outperformance	-2.2%	-0.8%	0.7%	2.7%	4.1%		
Balanced Fund	8.8%	13.8%	-	-	12.6%	May-11	1.5%
South African Multi Asset High Equity funds mean	9.5%	14.3%			12.7%		
Outperformance	-0.7%	-0.5%			-0.1%		
Protector Fund	8.5%	9.6%	7.7%	10.9%	11.1%	Dec-02	1.7%
CPI + 5%[4]	10.5%	10.5%	10.2%	11.0%	10.7%		
Outperformance	-2.0%	-0.9%	-2.5%	-0.1%	0.4%		
Stable Fund	9.6%	9.9%	-	-	9.8%	May-11	1.5%
Return on large deposits*	5.4%	5.2%			5.3%		
Outperformance	4.2%	4.7%			4.5%		
Institutional funds[5]							
Managed Equity Fund	7.8%	17.5%	15.8%	-	15.0%	Sep-06	
FTSE/JSE SWIX All Share Index	15.4%	21.6%	17.8%		15.0%		
Outperformance	-7.6%	-4.1%	-2.0%		0.0%		
Core Equity Fund	9.6%	20.0%	16.9%	18.5%	19.6%	Nov-04	
FTSE/JSE SWIX All Share Index	15.4%	21.6%	17.8%	18.6%	19.4%		
Outperformance	-5.8%	-1.6%	-0.9%	-0.1%	0.2%		
Domestic Balanced Fund[6]	9.1%	12.2%	12.4%	-	10.1%	May-07	
Peer median[7]	13.2%	15.6%	15.1%		11.3%		
Outperformance	-4.1%	-3.4%	-2.7%		-1.2%		
Global Balanced Fund[8]	9.4%	-	-	-	15.3%	Jul-13	
Peer median[9]	13.4%				17.7%		
Outperformance	-4.0%				-2.4%		
Sharia unit trust funds[3]							
Islamic Equity Fund	7.0%	12.8%	12.6%	-	15.2%	Jul-09	1.2%
South African Equity General funds mean	10.4%	16.9%	14.3%		17.0%		
Outperformance	-3.4%	-4.1%	-1.7%		-1.8%		
Islamic Balanced Fund	7.6%	11.7%	-	-	8.9%	May-11	1.4%
South African Multi Asset High Equity funds mean	9.5%	14.3%			12.7%		
Outperformance	-1.9%	-2.6%			-3.8%		

[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 December 2014; [3] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [4] CPI for December is an estimate; [5] Source: Kagiso Asset Management; gross of management fees; [6] Domestic Balanced Fund and benchmark returns to 30 November 2014; [7] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [8] Global Balanced Fund and benchmark returns to 30 November 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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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

Email info@kagisoam.com

Website www.kagisoam.com

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