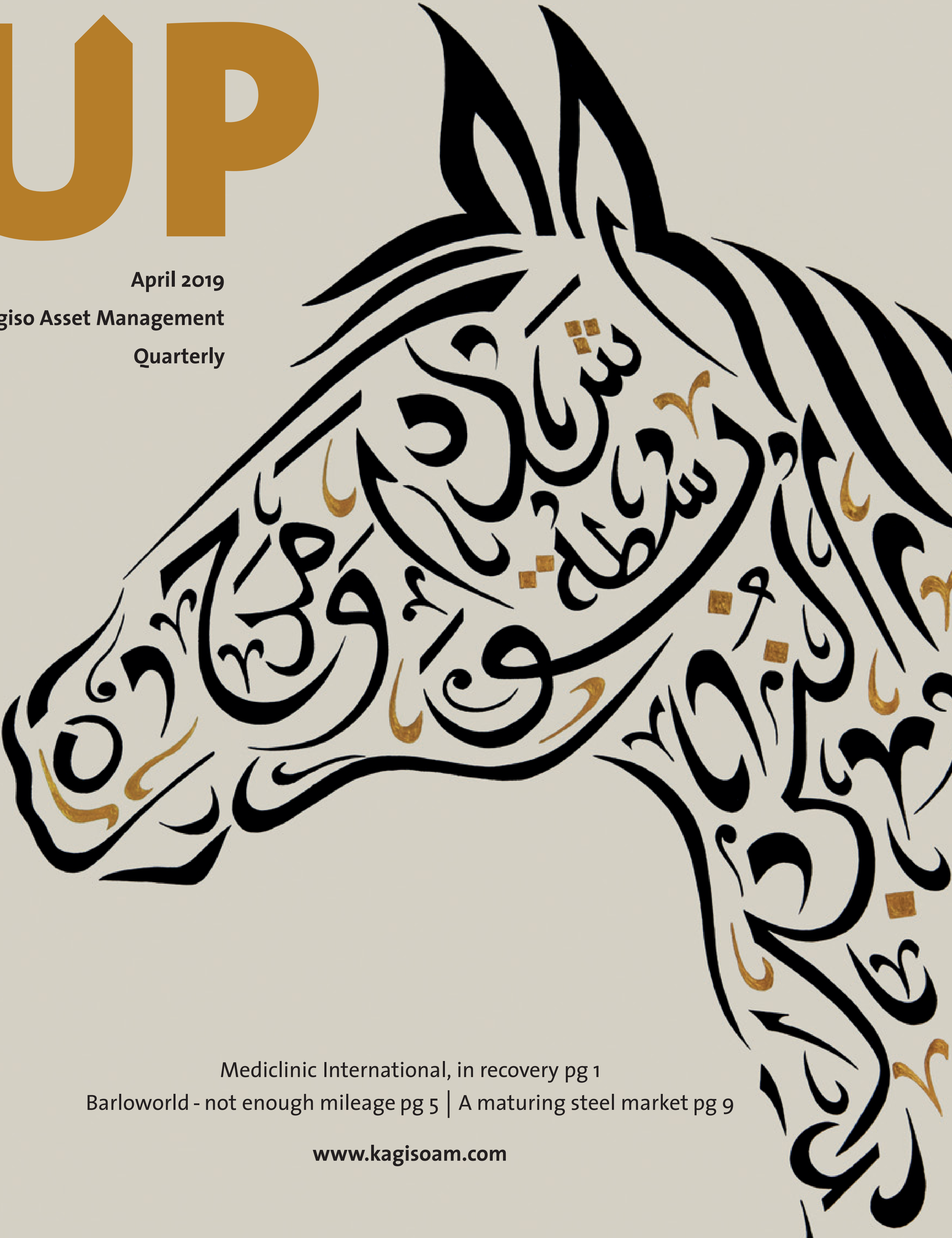
UP

April 2019

Kagiso Asset Management

Quarterly



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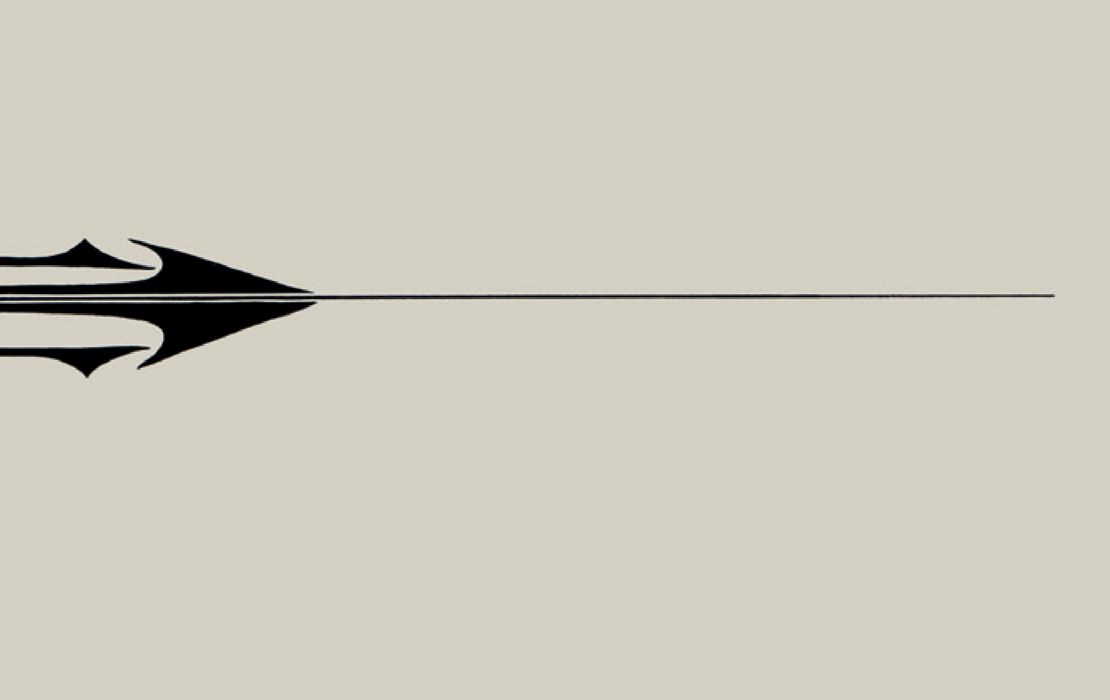


Mediclinic International, in recovery

Sarah le Roux - Investment Analyst

"Over the past three years Mediclinic International has been impacted by a number of setbacks. More recently, regulatory challenges in Switzerland have materially altered the outlook for the group. We investigate where the opportunities lie going forward."

Mediclinic International, in recovery

An extensive footprint

In the space of a decade, Mediclinic transformed itself into a leading global hospital operator with almost 70% of revenue currently generated outside of South Africa. The group operates in the premium segment of the market, investing heavily in facilities and equipment, and aims to attract the best doctors with a key focus on quality and clinical excellence. To this end, Mediclinic makes use of patient satisfaction surveys, developed by Press Ganey, to benchmark their performance against international competitors. The results of these surveys are then published in the public domain to reinforce their position as a hospital operator of choice across Switzerland, South Africa and the United Arab Emirates (UAE).

Still early in its journey, Mediclinic has only just begun to reap the benefits of a wider geographical footprint. The procurement function is in the process of being centralised so that medical consumables and equipment can be bought in bulk for the entire group. Through this process, the group is targeting savings of approximately £20 million per annum over the medium term. Mediclinic is utilising its global skills base by transferring cancer specialists from the Swiss operation to the UAE to assist in setting up a world-class cancer centre at Mediclinic City Hospital in Dubai.

Similarly, Mediclinic Middle East's (Mediclinic ME) extensive experience in operating outpatient clinics is being called upon to assist Hirslanden in adapting their model to the new regulatory environment in Switzerland.

Diverse operating models

In South Africa, independence between different healthcare service lines is prescribed by law. With limited exceptions, the private hospital sector cannot directly employ doctors and is also prohibited from owning laboratory and radiology services. Procedures are generally charged on a fee-for-service model, where each service provider charges for the specific service they render. Patients therefore receive multiple bills for a single hospital stay, either directly or via their medical aid. Although one may receive an estimate of the surgeon's fees beforehand, the entire cost of an operation remains largely unknown until one is discharged. The amount owed to the hospital is particularly difficult to determine in advance as it is calculated based on several variables, including theatre time and equipment usage, type of patient recovery room, total length of stay, and medication and consumables used while in hospital.

In contrast, pricing in Switzerland and Abu Dhabi is fixed per procedure with all service providers (surgeon, anaesthetist, hospital, etc) allocated a portion thereof. Dubai is following

A brief history of Mediclinic International

1983	1986	1995 2006	2007	2012	2015	2016
Founded by Rembrandt in South Africa	Listed on the JSE Securities Exchange	Strong growth in SA via organic expansion and acquisition of 37 hospitals	Acquisition of leading Swiss hospital group Hirslanden Entered Dubai by acquiring a controlling interest in Emirates Healthcare, subsequently rebranded to Mediclinic Middle East	Buyout of minority shareholders in Mediclinic Middle East	Acquired a 29.9% minority interest in Spire Healthcare in the UK	Expansion into Abu Dhabi via acquisition of Al Noor Hospitals Group, leading to a secondary listing on the London Stock Exchange

Source: Mediclinic annual reports and investor presentations, Kagiso Asset Management research suit and implementing a similar tariff system. This pricing structure incentivises providers to be more efficient, as any additional costs incurred beyond what is included in the tariff calculation are not recoverable. There are no laws requiring independence between the various healthcare functions. By vertically integrating services and directly employing doctors, hospitals can in effect receive the full tariff and control all cost elements, maximising overall profit per procedure. Hirslanden and Mediclinic ME employ doctors and perform radiology and laboratory services, although Hirslanden also relies heavily on independently contracted doctors.

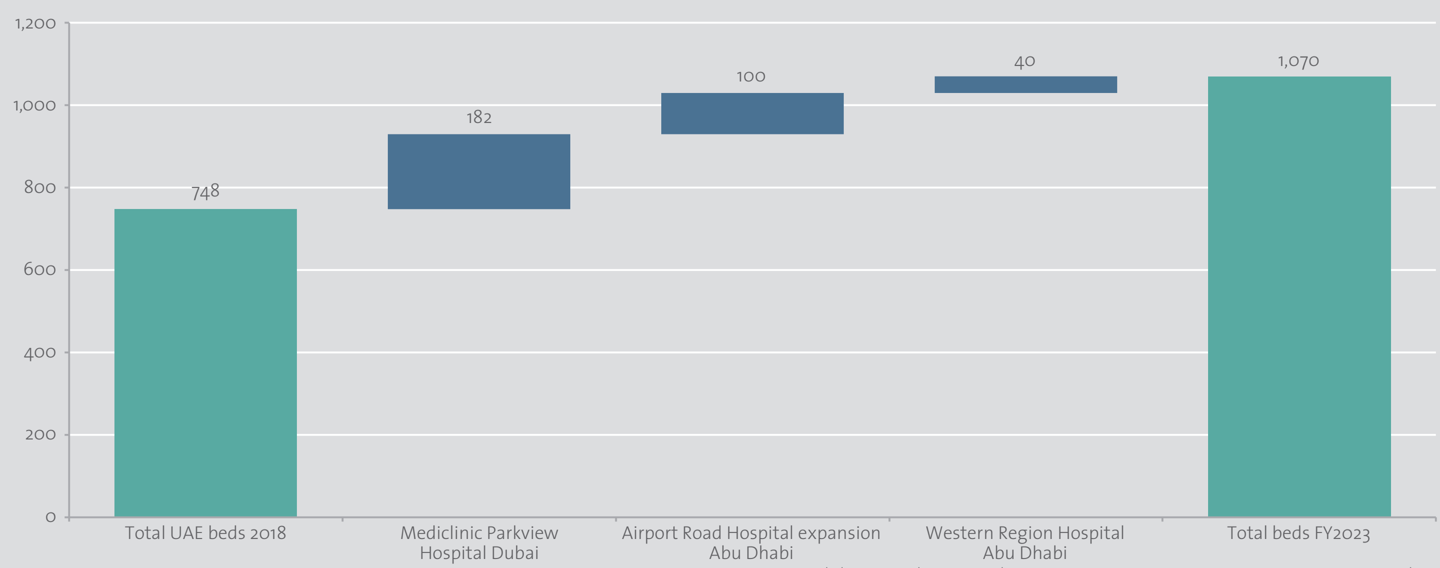
Dissecting the UAE position

Following the acquisition of Al Noor Hospitals Group, substantial work was required to align their Abu Dhabi operations with Mediclinic's existing business in Dubai. Doctors in Abu Dhabi were receiving commissions on laboratory work and radiology tests, thereby incentivising them to over-service patients by ordering more tests than were strictly necessary. Despite this being common practice in the UAE, Mediclinic took a firm stance that this was contrary to the group's values on ethical treatment. Doctor remuneration was restructured to remove any such incentives and, as a result, many of the doctors resigned. The process of recruiting new doctors, rebranding hospitals and improving overall quality and service levels in order to attract a more premium patient base has been challenging. It has also had a material impact on the financial performance of the UAE operations since acquisition.

By March 2023, Mediclinic International is expected to have around 1,100 hospital beds in the UAE, a 43% increase since March 2018. This should result in substantial earnings growth over the medium to long-term. In the short term, occupancy will be low, and costs will rise as these facilities are opened. This is expected to offset some of the benefits of the recovery in Abu Dhabi (graph below).

Increased competition poses a threat to how quickly the group can fill these beds, however, Mediclinic's brand strength is a competitive advantage which is expected to assist the group in navigating this journey. Furthermore, Mediclinic's investment in an extensive network of primary care and outpatient facilities in prime locations should assist in directing patient referrals to Mediclinic hospitals when specialist care is required. The group has also worked hard to strengthen their relationship with regulators in Dubai and Abu Dhabi. Regulations surrounding clinical quality and appropriate utilisation of services are expected to be introduced over the medium to longer-term and Mediclinic should be well positioned as a net gainer of market share when these regulations come into effect.

Five-year bed expansion plan in the UAE



Source: Mediclinic annual reports and investor presentations, Kagiso Asset Management research

Mediclinic International, in recovery

The graph below illustrates the significant UAE revenue growth in the four years following the opening of the City Hospital in Dubai in 2009, demonstrating that the local management team has a good track record in filling new capacity.

The Swiss dilemma

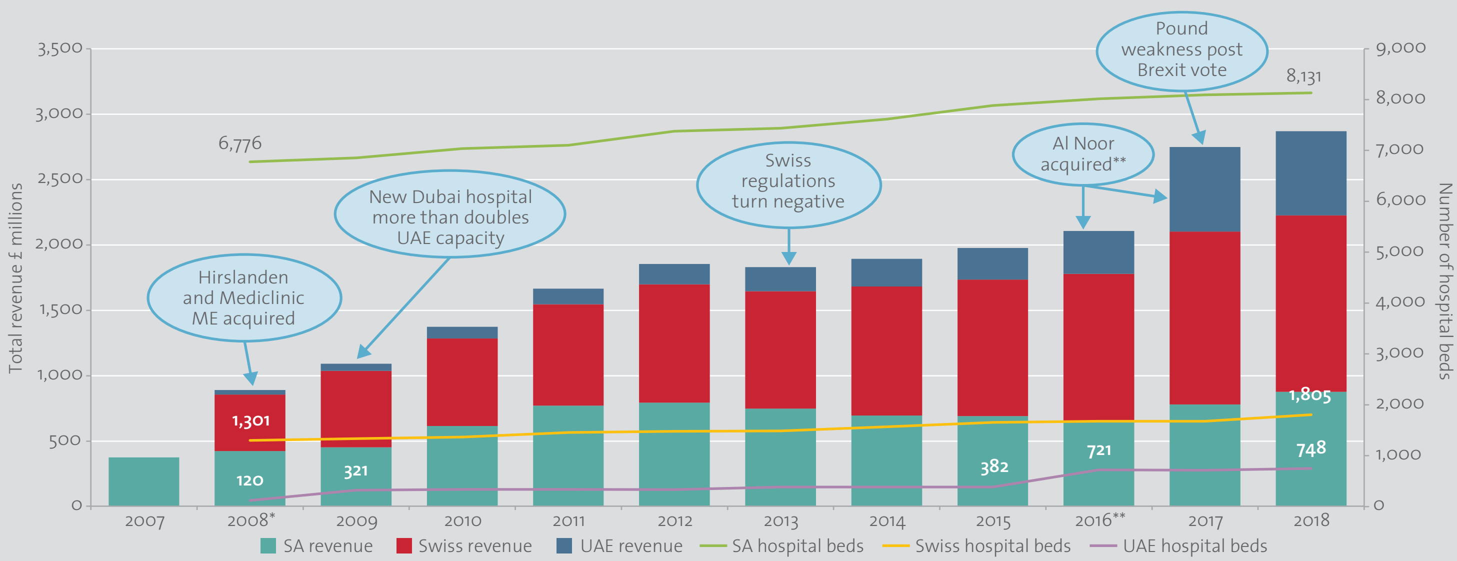
Swiss regulations have recently come into effect to lower tariffs and restrict treatment options on certain medical procedures. A large number of operations that were previously performed in hospital with overnight stays now need to be treated as day case surgeries, for a significantly lower fee. As a result, hospitals are struggling to fill beds and cover costs. Mediclinic's Hirslanden business has had to accept a larger proportion of lower revenue, basic insured patients, leading to a material decline in profitability. The business is struggling to adjust its cost base to cater for the new regulatory environment and there are significant risks of further negative changes in the medium term. There is, however, substantial value in the Swiss asset base and the acquisition debt is tied to the Swiss operations with no recourse to the remainder of the Mediclinic business. Therefore, despite weak prospects and high uncertainty, we believe there is little risk of a net negative contribution to the group.

Attributing value

The South African and Middle East businesses have little debt attached to them and all geographies are highly cash generative. Looking forward, the South African operations are expected to deliver a steady performance. In the UAE, the worst of the restructuring financial impacts appear to be over and performance is beginning to improve, with contributions to total group earnings expected to increase meaningfully as capacity fills.

While there are substantial concerns around regulation and the performance of the Swiss business, investors are currently paying a fair price for a stable South African business, purchasing the UAE business at a discount and paying next to nothing for the Swiss business. For this reason, our clients are now invested in Mediclinic. UP

The evolution of international expansion



*Swiss revenue for FY08 has been annualised for comparative purposes. Mediclinic ME was acquired at the beginning of the financial year so no adjustment was required.
**The acquisition of Al Noor occurred just before year end. Therefore, although the number of UAE hospital beds increased in FY16, the revenue impact of the acquisition only came through in FY17.
Source: Mediclinic annual reports and results presentations, Kagiso Asset Management research

Barloworld - not enough mileage

Meyrick Barker - Investment Analyst

South Africans' interest in Barloworld would be through renting a car from Avis or Budget, walking into one of Barloworld's 45 car dealerships, or seeing Barloworld-branded trucks traversing our freeways. On a mining or construction site, the Caterpillar equipment surrounding you would have been sold by Barloworld. In days gone by though, this industrial conglomerate's offering was significantly broader.

Barloworld - not enough mileage

Once a South African giant

Barloworld, originally "Barlows", traces its roots to the turn of the 20th century when Major Ernest (Billy) Barlow established Thomas Barlow & Sons, in Durban, and began trading in woollen goods. His eldest son "Punch", an engineer by trade, took over the business in 1927 and in the same year, Barlows became the South African sales agent for Caterpillar. Legend has it that Punch's first sale was attributed to winning a bet with a sugarcane farmer that a tractor could out-plough a span of oxen.

Barlows listed on the Johannesburg Stock Exchange in 1941 and, over the next five decades, rapidly expanded both its geographic reach and business sector exposure. Stock listings in London and Frankfurt followed and, by the late 1980s, Barlows was listed in the top 100 on the Fortune 500 list of largest global companies. At its peak, Barlows was the second largest industrial and mining company in South Africa, ranking only second to Anglo American. Business interests then spanned non-durable consumer goods, gold and coal mining, sugar, wood, steel and cement.

Streamlined but sub-par

Beginning in the 1990s, investors increasingly placed pressure on diversified industrial conglomerates to simplify. Consequently, household names including Nampak, Plascon, Tiger Brands, PPC, Adcock Ingram, Reunert and Illovo Sugar were moved out of Barlows.

Despite significantly streamlining its business offerings, Barlows has been a weak economic performer for an extended period, persistently failing to generate adequate shareholder returns on capital (graph below). Barlows has since chosen to focus on what can loosely be called a distribution business (split across two divisions, Equipment and Automotive), and a separate sub-scale Logistics business.

Currently, the group is undergoing a management transition, presenting an opportunity for the new CEO (appointed in 2017) to address the poor returns on capital. The search for a replacement CFO is ongoing.

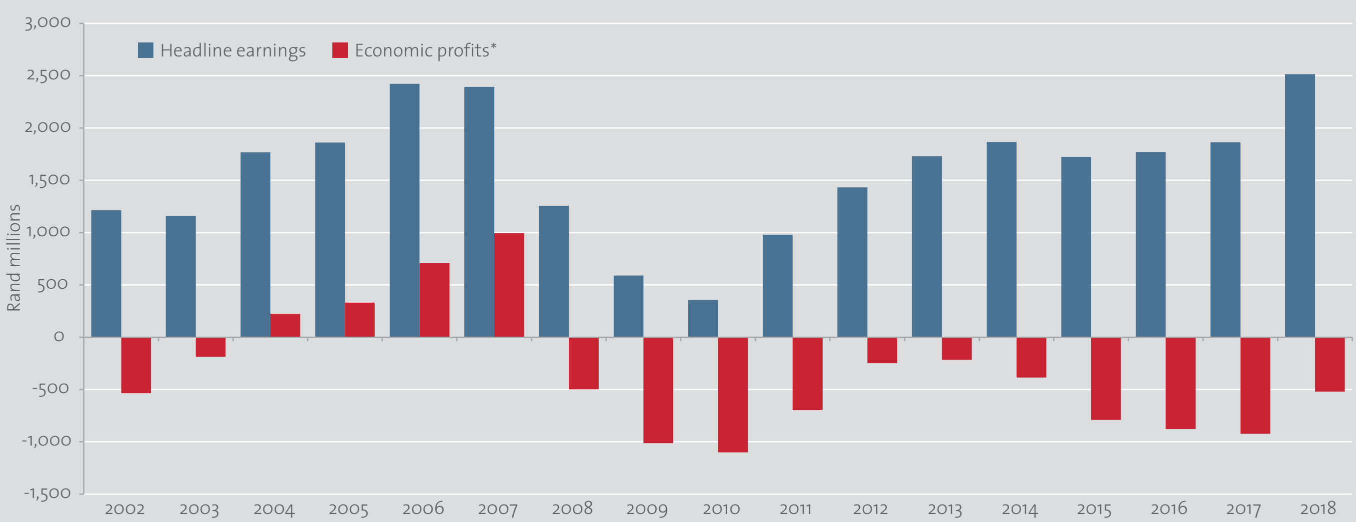
Big, yellow machinery

Barloworld Equipment generates 55-60% of group profits, with exposure to South Africa, Russia and sub-Saharan Africa (in decreasing financial significance).

The group acts as the independent local distributor, handling sales and aftermarket service for the Caterpillar brand including their more cost-effective Chinese brand, SEM. Key clients include mining and construction firms.

The global distribution model employed by Caterpillar is a means to achieve geographical coverage, while mitigating the associated risks. With little capital investment by Caterpillar (the original equipment manufacturer, or OEM), a local distributor

Failure to generate adequate shareholder returns on capital



*Positive economic profits are earned when headline earnings exceed the minimum return required by the providers of capital
Source: company reports and Kagiso Asset Management research

such as Barloworld is appointed to address regulatory requirements, invest in growing brand presence, hire and manage local employees and handle the peculiarities unique to that territory. The distributor must invest in stock to ensure that customers can be serviced promptly. This includes deploying capital in potentially higher risk jurisdictions, such as the Democratic Republic of Congo, enabling Caterpillar to avoid taking direct exposure. Essentially, the distributor acts as the shock absorber for the OEM by suffering the associated working capital strain when sales slow or customers delay payments. Although, in boom times, the distributor can enjoy significant profits - returns are typically low over time.

This dynamic was most evident in Barloworld's Iberian territory, which generated significant profits prior to the financial crisis, only to lose money for the eight years thereafter, before ultimately being sold (graph below).

On the right track

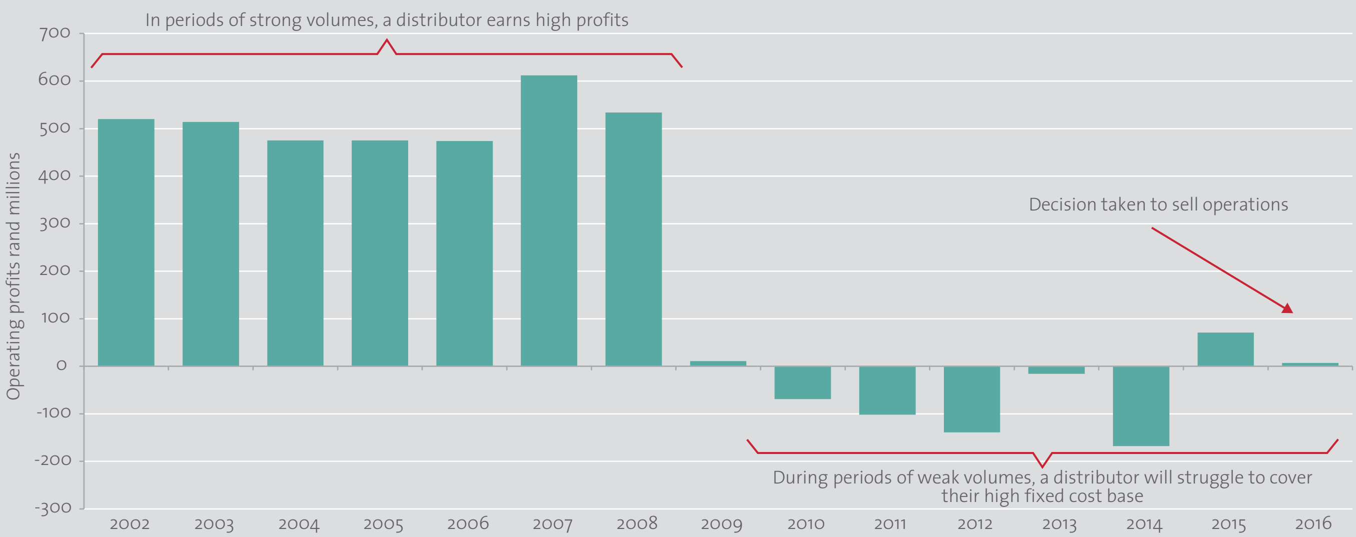
The Automotive division, generating 35-40% of group profits, was originally solely a dealership business - a fixed cost model that is highly cyclical and struggles to generate consistent returns. In 2005, Barlows acquired and delisted Avis South Africa from the JSE Securities Exchange. The diversification into a leasing, rental and fleet management operation provides natural hedges within the combined division. For example, when interest rates increase, fleet services benefit, but at the cost of car rental and new car sales.

Barloworld is the South African car rental market leader with their brands, Avis and Budget, enjoying around 40% combined market share. The fleet business manages 270,000 vehicles on behalf of corporates and the South African government. Minimising the holding cost of a vehicle (depreciation/lease charges/interest) is key to a successful car rental and fleet management agency. Barloworld have developed a highly efficient online disposal model whereby, within 48-hours of a vehicle coming to the end of its rental term, it will be sold to one of some 3,000 trade buyers. The ability to quickly scale and de-fleet the vehicle parc (total number of vehicles considered collectively) in response to changing demand dynamics, helps to protect the bottom line.

Although new transport options such as Uber pose a risk to short-term rentals, Barloworld typically makes inadequate returns on 1-day corporate rentals. Foregoing market share in this segment can be tolerated as the average car rental period is five days.

Barloworld sells approximately 30,000 vehicles per year across their dealership footprint, which includes the likes of Barloworld Toyota, NMI Durban South Motors and Barons. The group favours partnering with OEMs that have a local manufacturing base to minimise currency fluctuation impacts.

Iberian Caterpillar distributorship: boom and bust



Source: company reports

Barloworld - not enough mileage

Goods on the move

Barloworld Logistics was established in 2001 and today includes the Manline and Timber24 brands. Transport solutions for the movement of freight, fuel and abnormal loads, as well as supply chain management services are at the core of the business. Freight forwarding and warehousing solutions are also offered.

Having failed to deliver positive economic profits for the past seven years, Barloworld recently considered disposing of this division. Extensive changes have also been made to the management team and operating structure as a final attempt to improve the business. Although initial indications are positive, given the division's inconsequential size in relation to the group, its prospects have limited bearing on the investment case.

The Khula Sizwe BEE transaction

A top-up BEE transaction is currently being implemented - there are two elements to the transaction: 1) the creation of a foundation holding 3% of Barloworld shares, and 2) the transfer of R2.8 billion of Barloworld property to a black-owned property company. Positively, the foundation has a permanent shareholding structure and a mandate to focus on poverty alleviation, education and youth development. Negatively though, the cost to shareholders relative to the increase in BEE shareholding achieved is very high. We are also concerned by the conflicts of interest introduced by the material management participation in this deal, with limited alignment to Barloworld shareholder interests and substantial downside protection.

Optimising the capital base

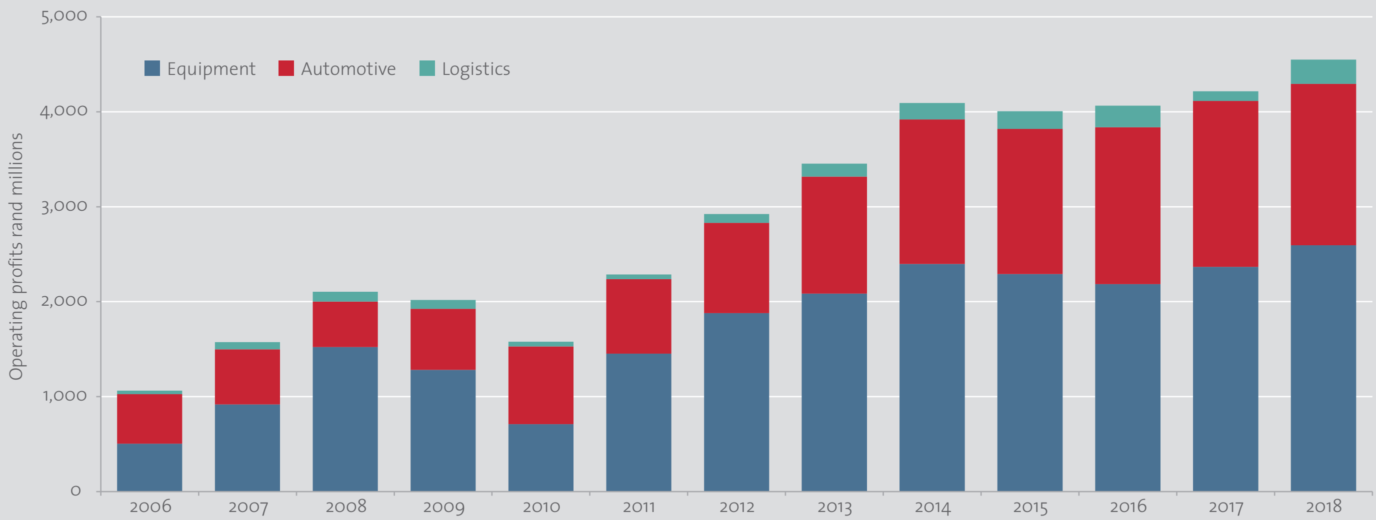
In an effort to improve the return on capital and cashflow generated by the business, management are exploring funding structures that will shift the car and equipment rental funding off balance sheet. Without knowing the details of the transaction, and importantly, the cost of the targeted off balance sheet financing, it is unclear whether any shareholder value will be created.

Limited growth prospects

Given South Africa's economic challenges, it is difficult to see significant growth opportunities across any of Barloworlds' divisions. Particular uncertainty relates to Barloworld Equipment's prospects, which are tied to mining capital expenditure levels. Although global mining capital expenditure may grow off the current base, existing political and labour dynamics will likely result in mining companies continuing to favour investing in regions other than Southern Africa. Recent tariffs imposed on Russia, the Equipment divisions' other key territory, risk reducing current profits if sustained.

The substantial BEE deal dilution prospects and management conflicts of interest posed by it are a further investment concern. For these reasons, Barloworld is currently not included in our portfolio. UP

Divisional operating profits for Barloworld



Note: Discontinued operations have been excluded from prior year results
Source: company reports

A maturing steel market

Mandi Dungwa - Portfolio Manager

"China produces more than half of the world's steel, and as its demand outlook for steel is set to decline due to changes in its economic structure, this presents the single largest threat to medium to long-term steel, and therefore, iron ore demand."

A maturing steel market

Iron ore is one of the most abundant elements on earth and is the primary component used in the production of steel. To better understand its expected future price levels, we delve into the supply and demand dynamics for iron ore in relation to developing economies.

Nearly all the earth's major iron ore deposits are in rocks that formed over 1.8 billion years ago. Then, the oceans contained abundant dissolved iron, but without the oxygen needed for oxidation. Iron ore deposits began forming when the first organisms capable of photosynthesis started to release oxygen into the waters. The oxygen immediately combined with the dissolved iron to produce iron oxides, or iron ore.

While iron makes up 6% of the earth's crust and entire core, it does not occur in nature in a useful metallic form. It is only through the process of smelting that a usable form of iron can be derived from iron ore.

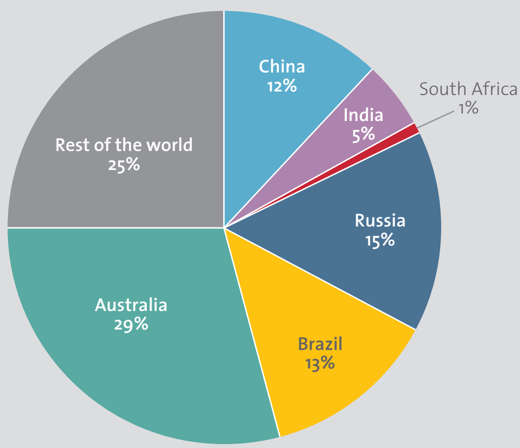
Quality vs quantity

Despite its abundance, the iron ore market has a high supply concentration, with only four top producers accounting for 49% of annual production in 2017 and more than 70% of the global seaborne market. An estimated 63% of global iron ore supply is not consumed in the country in which it is produced, requiring transportation by sea to its final destination. This exported iron ore forms the "seaborne market".

The four key iron ore producers include: Rio Tinto, BHP Group, Fortescue Metals (all Australian), and Vale (Brazilian). As per the graph below, Australia evidently has the largest global iron ore reserves (29% of total) and currently produces 37% of the global annual total. Brazil, China and Russia also have large reserves, yet the quality of their ore differs significantly by way of the concentration of iron found per tonne of ore. The graph on the following page illustrates that Brazilian ore contains considerably more iron than the Australian variant, making Vale the largest producer of high-quality iron ore products.

Anglo American, the sixth largest seaborne iron ore producer - comprising Kumba Iron Ore (South Africa) and Minas Rio (Brazil) - also produces high quality ore products, yet only makes up 5% of the seaborne market. South Africa has a small proportion of global reserves (1%), but together with India (5%), has the

2017 iron ore reserves by country



Source: US Geological Survey

highest iron contained per tonne of iron ore mined. This proves advantageous in that South African producers receive a higher price for their product, and therefore, more revenue per tonne of iron ore.

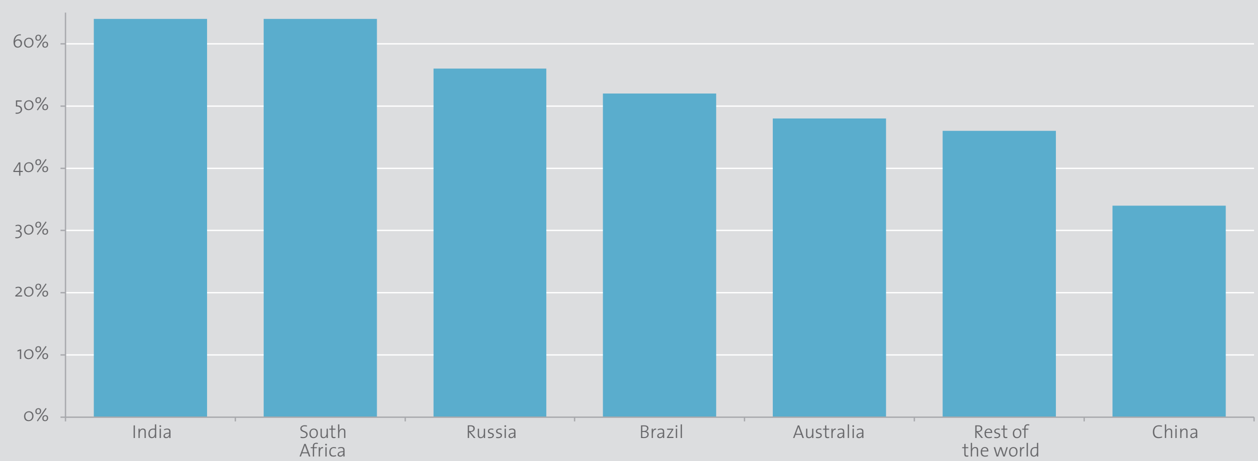
China imports 71% of the seaborne iron ore supply, making it the most significant global consumer of iron ore. Seaborne producers sell the bulk of their volumes to Chinese customers and since these volumes are transported by sea into China, freight costs are significant relative to the cost of mining the ore. Based on their proximity to China, Australian producers benefit from structurally lower freight costs, while South African and Brazilian producers experience the opposite given their greater distance from China. South African iron ore mines also typically pay high rail costs to transport ore to the ports. South African producers are compelled to use Transnet, the state-owned rail operator, who charges comparatively high railage rates. As such, costs incurred by South African producers cannot compete with their Australian or Brazilian counterparts. South Africa does, however, have the competitive advantage of producing better quality ore, resulting in the ability to fetch higher prices. This offsets the higher transport costs to some degree.

From mine to market

Mining iron ore takes place in large, open pits - a method that requires the clearing of soil and overlaying rock above the ore body to access the ore beneath it. This movement of waste matter is called stripping and a stripping ratio is the ratio of waste material required to be moved in order to extract a tonne of ore. The higher the stripping ratio, the higher the operational costs, which are based primarily on the mass of material mined. Kumba Iron Ore (Kumba) exhibits a higher stripping ratio as they move four tonnes of waste to access one tonne of ore, compared with lower cost competitors in other countries who, on average, move two tonnes of waste per tonne of ore.

Following successful extraction, the ore is transported to the nearest port, bound for its destination via sea. The logistical costs to transport ore from the Northern Cape, where Kumba and some of its South African peers operate, to the port at Saldanha Bay, is comparable to the freight cost from Saldanha Bay to China. Kumba pays this rail cost to Transnet, who manage and operate the rail line. Competitor miners in other countries tend to own their own autonomous locomotives, affording them control over railage costs.

Iron contained per tonne of iron ore production



Source: US Geological Survey

A maturing steel market

Furthermore, Kumba is subjected to irregularities by Transnet, such as derailments and inadequate maintenance of bridges and tracks. These irregularities result in logistical insecurity, high inventories and ultimately, lower realised revenues.

Maturing demand

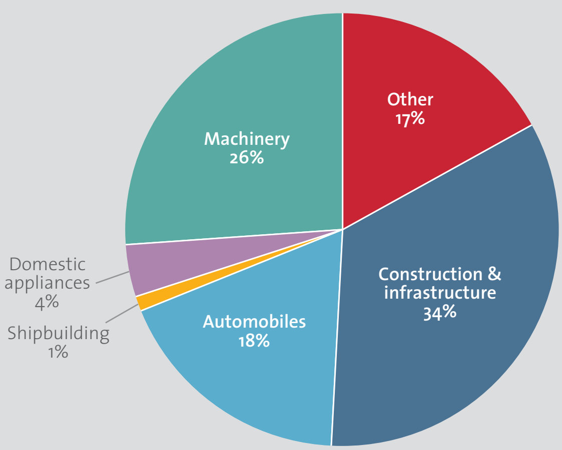
Global steel demand growth is linked to global Gross Domestic Product (GDP) growth, but there are regional differences. China produces more than half of the world's steel and is therefore a large consumer of iron ore. Chinese steel demand is largely derived in construction and infrastructure development, while other industrialised countries show higher demand from the automotive, machinery and engineering markets.

Steel is seen as an early development raw material that is high in demand in the initial phases of economic development, urbanisation and industrialisation. Late development raw materials such as diamonds, platinum group metals and oil have more consumer-related demand. As indicated below, China's end market demand picture is set to gradually change to accommodate the economic growth transition from being an investment-led economy to more of a consumer-led economy. This presents the single largest threat to medium to long-term steel, and thus, iron ore demand.

Despite a stable supply outlook, a structurally declining demand trend, particularly related to China transitioning towards more consumer-led economic growth will, in our view, result in lower iron ore prices in future.

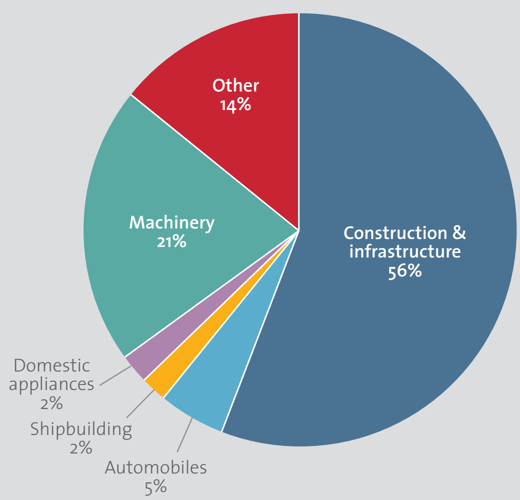
Considering this, we maintain a limited exposure to iron ore miners in our portfolios. However, we are currently invested in African Rainbow Minerals, which has material exposure to iron ore through the Assmang joint venture, in which we continue to find value. UP

OECD* countries' steel end market demand



*Organisation for Economic Co-operation and Development
Source: World Steel, CRU, Steel Business Briefing

China steel end market demand



Source: World Steel, CRU, Steel Business Briefing


Tower power

Simon Anderssen - Portfolio Manager

“With the demand for data on the rise globally, mobile networks are poised for expansion and independent tower companies are standing by to benefit from this growth.”

Tower power

Tower companies own infrastructure assets that are leased out to mobile network operators and are gaining significance as operators look to improve their return on capital, as regulators seek to promote competition and as investors pursue reliable yield generating investments. We explore these developments together with a glance at the global picture.

Tower ins and outs

A mobile telephone network comprises hundreds of locations hosting radio network equipment that sends and receives wireless communication between the user's handset and the network. South Africa is home to more than 28 000 base stations, with the highest concentration in urban areas.

Radio equipment is generally hosted on a tower, or elevated location on a building, to ensure that radio frequency signals are seamlessly transmitted and received. The towers are physically connected to a central hub, usually by way of a dedicated fibre connection. Traditionally, mobile network operators have evolved by establishing a physical network for their proprietary use - a highly capital intensive undertaking.

The number of towers in an area will depend on:

- **The quantity of data traffic** - higher consumption requires more data equipment.
- **Building density and natural obstructions** - the reflection and absorption of radio energy by buildings and vegetation can be mitigated by densifying the mobile network.
- **The spectrum used** - high frequency mobile spectrum is able to travel far yet cannot penetrate obstacles such as buildings, and vice versa for low frequency spectrum.

As mobile networks become more data-centric, moving from 2G to 4G (and eventually 5G), operators are likely to densify their tower networks to further cope with greater data demands.

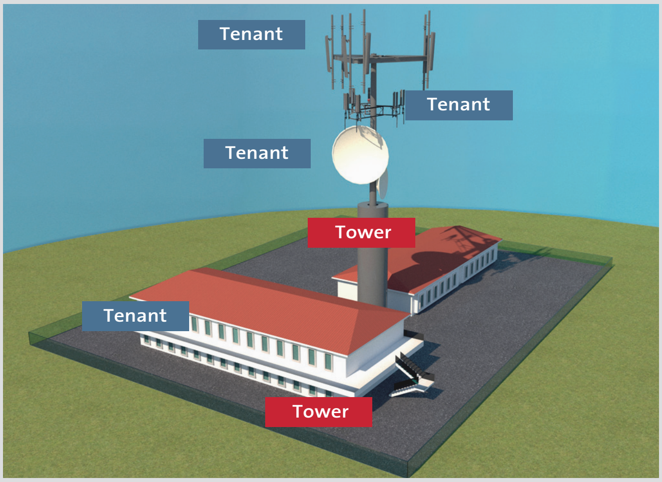
Introducing a landlord

In mature markets, some operators have shifted from differentiating themselves by network quality, to focus rather on services like bundled fixed-fibre and entertainment content. This, however, is also notably capital intensive. Operators have therefore sought to raise capital by selling their network towers to independent tower companies and entering into long-term rental agreements.

Tower companies own the physical location or sites that host the enabling structure, which is then leased to the mobile network operators on a long-term basis, with the network operator responsible for installing and maintaining its necessary radio equipment (chart below).

Ownership components of tower sites

Owned by tower company
Tower structure: normally built with the capacity to support four tenants
Land: owned or leased on a long-term basis
Generators are sometimes owned by the tower company to help facilitate back-up power for the site's tenants
Owned by tenants
Antenna equipment, including microwave equipment
Tenant shelters containing base station equipment and heating, ventilation and cooling (HVAC), which tenants own, operate and maintain
Network cables



Source: American Tower

Historically, a tower was built for the sole use of a mobile network operator, yet it could often accommodate multiple tenants. Since fixed costs such as grounds rental, taxes and site maintenance account for almost half of operational costs, accommodating multiple operators on a single tower presents a means to increase return on investment for the owner (left graph below). Therefore, as with any other landlord, the key function of a tower company is to maximise occupancy by increasing the number of tenants or equipment on each tower.

Tower companies not only acquire existing towers but also develop new towers for mobile network operators. This involves long-term development plans for imminent network rollouts or upgrades to future generations of equipment, which may require a denser network.

The operating model of a tower company is therefore attractive to many investors, owing to the revenue stream secured by long-term rental agreements against high quality tenants, with the additional prospect of further growth through increasing tenancy across the portfolio.

What's in it for the operator?

For the network operator, separating infrastructure assets from the customer-facing part of the business releases capital and increases free cashflow. This is due to the large recurring capital outlays required to build and maintain new towers being exchanged for an expense (rent), which enables the operator to improve its return on capital employed and to invest in new growth opportunities.

Furthermore, the operator may benefit from the tower company's ability to amortise operating costs across a larger portfolio of towers, and potentially to achieve a lower cost of funding for these assets by taking on more debt than the operator could.

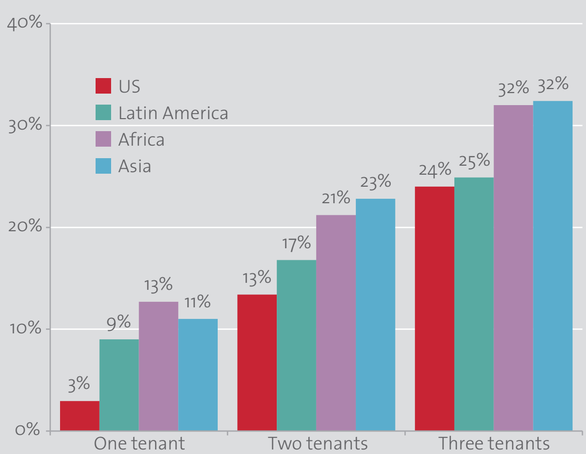
The disadvantages of selling a tower portfolio include increased operating complexity as additional stakeholders assert rights over assets that were once proprietary, and the potential to increase competition by enabling competitors access to key sites.

The global tower landscape

Only 60% of the world's 3.4 million towers are independently owned and there are varying degrees of independent tower ownership across regions (graph on following page).

In data dominant markets, such as in the **United States**, mobile operators have sold and leased most of their towers to tower companies. For example, Verizon and AT&T have leased more

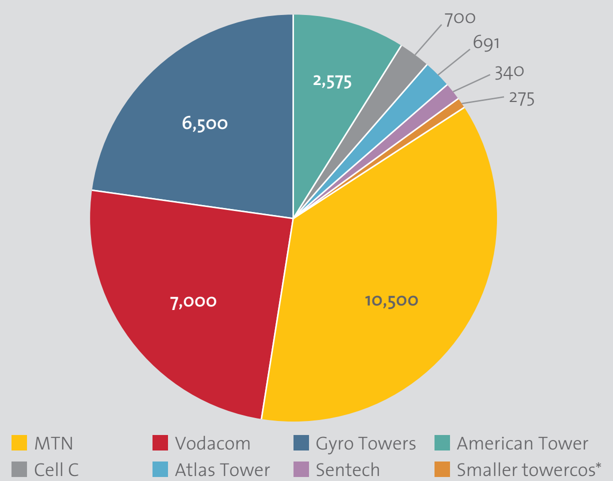
Comparison of ROI* of newly built towers



	US	Latin America	Africa	Asia
Typical tower construction cost	\$250–\$300K	\$85–\$170K	\$60–\$120K	\$20–\$30K

*Return on investment Source: American Tower

The South African tower industry



*Includes International Tower Corp, Eagle Towers, Coast to Coast, Blue Sky Towers, Pro High Site Communications, Sky Coverage and Comco

Source: TowerXchange

than 90% of their towers from independent tower companies such as American Tower and Crown Castle.

As evidenced below, **China** and **India** tower companies are also well established. The Indian telecommunications sector realised dramatic growth from the late 1990s as subscriber numbers grew rapidly and operators expanded services amid hyper-competitive pricing pressures. As a result, operators began to sell and leaseback tower infrastructure as well as outsource network management, information technology and call centres - all previously regarded as core strategic activities. Indian tower companies have since become regarded as global industry leaders.

Europe, although also considered a mature market, has been slow to accept independent tower companies. Instead, regulation has encouraged operators to form partnerships to share their infrastructure based on the potential to reduce costs across the entire infrastructure network.

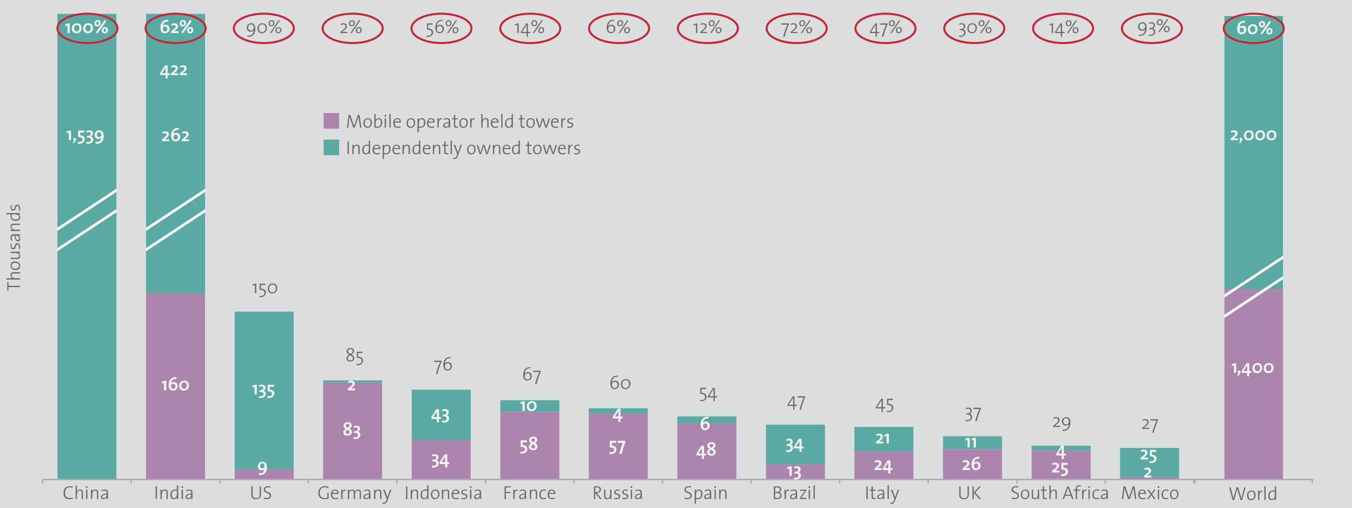
Africa's tower ownership has been affected by over 30 tower transactions in the past six years, yet third-party ownership is still estimated to be between 10-15% of the total market.

Ownership of towers in **South Africa** is concentrated among mobile operators (right graph on previous page) with MTN owning the largest portfolio of towers, currently totalling 10 500. Although the number of towers is expected to grow rapidly to accommodate the increase in data demand, the largest operators are not expected to divest of their tower portfolios in the near term.

Our global funds are invested in Sarana Menara, Indonesia's largest independent tower company. Indonesia is an attractive market because of its large, young population and relatively low level of data consumption. Continued high rates of income growth are expected to sustain significant increases in data demand that will require the expansion and densification of mobile networks across the complex archipelago nation. Sarana Menara is well positioned to benefit from this growth because it owns the largest portfolio of independent towers, with the tenancies on these towers being relatively low. The company already generates sufficient cashflow to fund a meaningful dividend and its strong balance sheet can support continued investments. UP

Global tower landscape - total sites as of July 2016

Only 60% of towers are independently owned across the globe, versus over 90% in the US and China



Source: company data, Morgan Stanley research

Kagiso Asset Management Funds

Performance to 31 March 2019	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]								
Equity Alpha Fund	13.7%	7.7%	5.3%	13.7%	16.4%	Apr-04	1.96%	0.46%
SA Equity General funds mean	1.0%	2.2%	3.7%	11.4%	12.7%			
Outperformance	12.7%	5.5%	1.6%	2.3%	3.7%			
Balanced Fund	12.3%	8.0%	6.4%	-	9.1%	May-11	1.53%	0.50%
SA Multi Asset High Equity funds mean	5.7%	3.8%	5.5%		8.4%			
Outperformance	6.6%	4.2%	0.9%		0.7%			
Protector Fund	13.5%	8.9%	6.7%	8.2%	9.8%	Dec-02	1.57%	0.40%
CPI + 4%*	8.3%	9.4%	9.7%	10.0%	10.5%			
Outperformance	5.2%	-0.5%	-3.0%	-1.8%	-0.7%			
Stable Fund	13.5%	9.1%	7.7%	-	8.5%	May-11	1.52%	0.50%
Total return of CPI+2% pa	6.3%	6.5%	6.1%		5.8%			
Outperformance	7.2%	2.6%	1.6%		2.7%			
Institutional funds[5]								
Managed Equity Fund (SWIX)	11.8%	6.8%	4.2%	13.5%	11.3%	Sep-06		
FTSE/JSE SWIX All Share Index	0.4%	3.7%	6.2%	14.2%	11.5%			
Outperformance	11.4%	3.1%	-2.0%	-0.7%	-0.2%			
Managed Equity Fund (Capped SWIX)	10.9%	-	-	-	7.2%	Jan-17		
FTSE/JSE Capped SWIX Index	-2.6%				3.4%			
Outperformance	13.5%				3.8%			
Domestic Balanced Fund	12.1%	8.7%	5.4%	11.2%	8.5%	May-07		
Peer median[6]	2.0%	5.5%	6.0%	12.3%	9.1%			
Outperformance	10.1%	3.2%	-0.6%	-1.1%	-0.6%			
Global Balanced Fund	14.3%	9.4%	7.6%	-	9.7%	Jul-13		
Peer median[7]	6.3%	5.5%	7.1%		9.1%			
Outperformance	5.0%	3.9%	0.5%		0.6%			
Bond Fund	5.3%	11.3%	-	-	9.3%	Aug-15		
BESA All Bond Index	3.5%	10.1%			8.1%			
Outperformance	1.8%	1.2%			1.2%			
Money Market Fund	8.3%	8.5%	8.0%	7.2%	7.9%	Jan-04		
Alexander Forbes STeFI Composite Index	7.3%	7.4%	7.0%	6.6%	7.4%			
Outperformance	1.0%	1.1%	1.0%	0.6%	0.5%			
Sharia unit trust funds[4]								
Islamic Equity Fund	10.3%	9.2%	5.7%	-	11.2%	Jul-09	1.44%	0.26%
SA Equity General funds mean	1.0%	2.2%	3.7%		10.6%			
Outperformance	9.3%	7.0%	2.0%		0.6%			
Islamic Balanced Fund	8.1%	6.7%	5.1%	-	6.9%	May-11	1.49%	0.17%
SA Multi Asset High Equity funds mean	5.7%	3.8%	5.5%		8.4%			
Outperformance	2.4%	2.9%	-0.4%		-1.5%			
Islamic Global Equity Feeder Fund	-	-	-	-	Not yet available	Jan-19		
Global Equity General funds mean								
Outperformance								
Islamic High Yield Fund	-	-	-	-	Not yet available	Mar-19		
Short-term Fixed Interest Index (STeFI)								
Outperformance								

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	3.8%	-3.7%	6.6%	-6.0%	8.2%	-6.0%	10.3%	-6.0%	11.9%	-9.0%
Balanced Fund	3.0%	-2.9%	4.8%	-3.5%	5.5%	-4.2%	-	-	6.2%	-4.2%
Protector Fund	2.6%	-1.5%	2.6%	-2.4%	3.4%	-4.2%	4.9%	-4.2%	9.5%	-5.3%
Stable Fund	2.4%	0.3%	2.5%	-0.9%	3.8%	-3.5%	-	-	4.0%	-3.5%
Islamic Equity Fund	3.9%	-2.2%	5.3%	-3.2%	7.3%	-4.6%	-	-	8.1%	-4.9%
Islamic Balanced Fund	3.6%	-2.4%	4.0%	-2.5%	4.6%	-3.0%	-	-	8.2%	-5.4%

Footnote and disclaimer follow overleaf.

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Footnote: [1] Annualised (ie the average annual return over the given time period); [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 three-year period to 31 March 2019; [3] Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Kagiso Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 March 2019; [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] Source: Kagiso Asset Management; gross of management fees; [6] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [7] Median return of Alexander Forbes Global Large Manager Watch.* CPI + 4% from 1 May 2018 (previously: Risk adjusted returns of an appropriate SA large cap index).