UP

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Kagiso Asset Management

Quarterly

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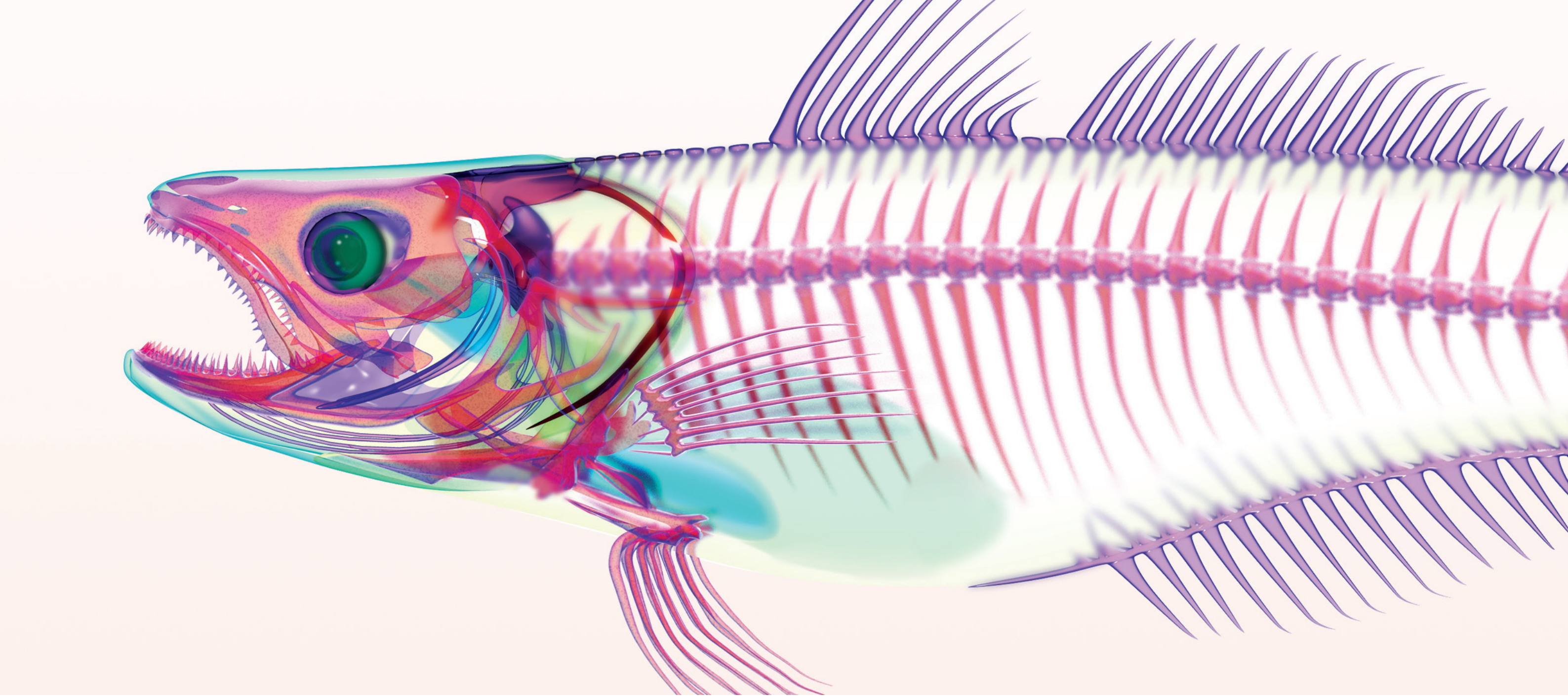
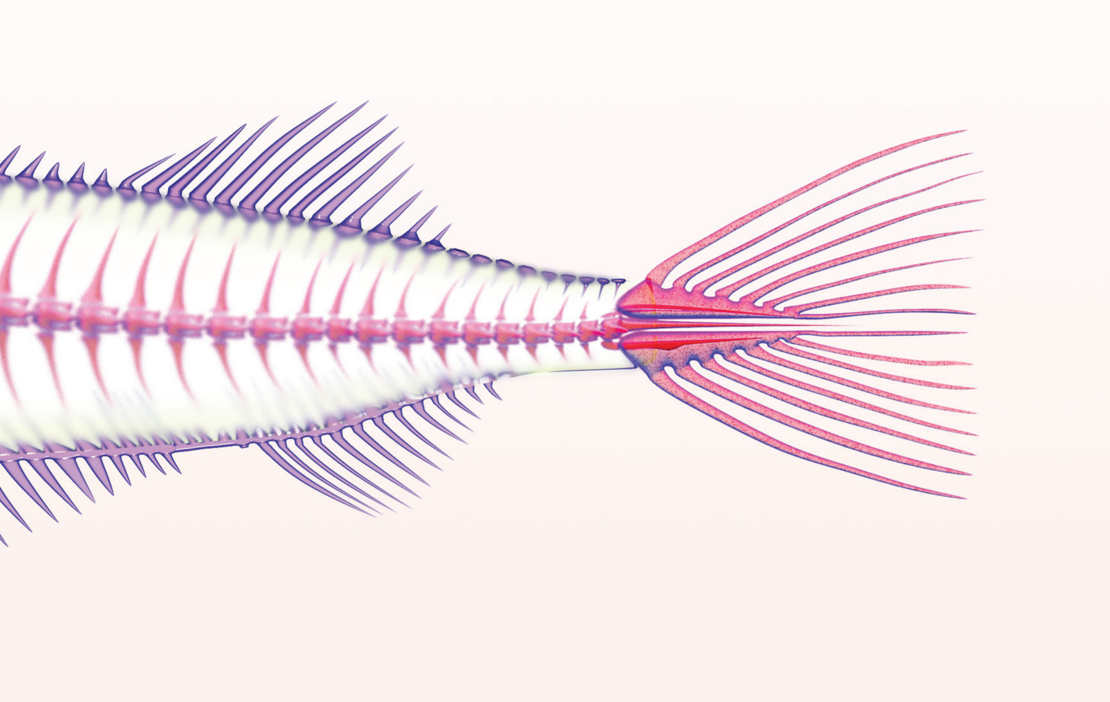




Trawling for opportunity

Dirk van Vlaanderen - Associate Portfolio Manager

"For thousands of years, humans have relied on fishing to provide a reliable and sustainable food source. Today, commercial fishing has morphed into a global industry, with significant barriers to entry and large amounts of capital investment required.

We explore the South African fishing industry and consider its ability to meet the insatiable global demand for wild-caught fish."

Trawling for opportunity

Give a man a rod

The global demand for fish continues to grow unabated as population growth, rising income levels and increasing awareness of the health benefits of eating fish (relative to other animal proteins) make it a popular choice. The supply of wild-caught fish has plateaued since the mid-80s (left chart below), as overfishing and poor marine resource management saw supply unable to keep up with increased demand. The rise in fish-farming, or "aquaculture", has largely filled the gap between the supply and demand for fish protein, now contributing around 45% of fish consumed.

The South African fishing industry

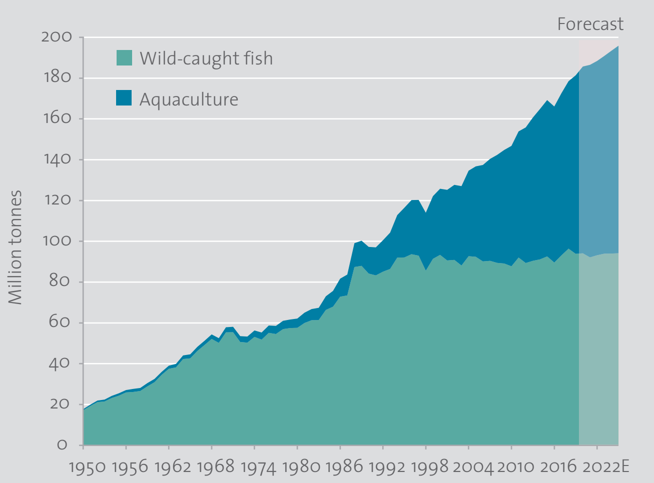
The wild-caught fishing sector in South Africa falls under the remit of the Department of Environment, Forestry and Fisheries (DEFF) and includes the recreational, commercial and small-scale fishing sectors. The biggest economic contributor is the commercial fishing sector, comprising 22 different fisheries - the largest of which are discussed in more detail herein. We estimate that the fishing industry generates over R25 billion in revenues and employs over 27 000 direct employees, particularly from rural communities and smaller seaside towns.

South Africa's marine resources have generally been well managed, with quotas allocated to rights holders on a 10- to 15-year basis. This allows rights holders sufficient time to earn a suitable return on the significant capital investment required to fund large seagoing vessels and establish processing facilities onshore. Each year, the Total Allowable Catch (TAC) per species is determined based on the health of the biomass - the size and number of the population of any given species. Quota holders are permitted to catch their allocated share of the TAC, of which a large portion is exported.

The fisheries that generate the largest revenues are tabled on the next page and detailed per species as follows:

- **Hake** is by far the largest fishery, generating revenues in excess of R5 billion per annum. South Africa's hake resource has been certified as "blue label", or sustainable, by the Marine Stewardship Council (MSC) - a designation that sets it apart from other hake resources around the world. Sea Harvest and I&J are the two largest companies with local retail brands and around 60% of their product is exported to Europe and Australia. Cape hake is regarded as a premium product in Europe and Australia based on taste and its MSC blue label status, and is sought after by

Global fish supply



Source: FAO, Kagiso Asset Management estimates

Abalone farm

Source: globalafricanetwork.com

restaurants and retailers. The large, deep-sea vessels required, coupled with the significant investment behind onshore processing facilities, makes this the most capital intensive of all the fisheries.

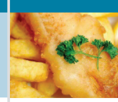
- **Small pelagic fish (sardines/pilchards and anchovies)** are caught using multi-purpose vessels, typically in shallower water than hake. South Africa's pilchard resource is at a critically low level, however, recent improvements in the biomass are encouraging signs of a recovery. Pilchards are mostly canned and sold in South Africa and neighbouring African countries. The biggest brand, Lucky Star (owned by Oceana), has had to adapt its model to account for the low supply of South African pilchards and is now the largest buyer of pilchards in the world - sourcing them from all over the globe to be canned in South Africa. Locally caught anchovies are used as a protein source in the production of fishmeal (used in animal feed) and fish oil (used for aquaculture) that is sold in East Asia, Europe and the Middle East. Interestingly, the anchovies for sale in South Africa are imported from Europe.
- **Squid** is normally caught in smaller boats, close to shore, using lines. The biomass can vary significantly from year to year, making it a more unpredictable catch. Almost all South African caught squid is exported to Southern Europe and Japan, where it is known as calamari.
- **Horse mackerel** is predominantly found off the south coast of Southern Africa and are usually frozen whole once caught. It is sold as a relatively cheap form of protein, mainly in South Africa and other African countries (Cameroon, Nigeria, DRC, Mozambique and Angola) where it is used to make fish stew. Exports into Africa are typically priced in US dollars, with rapid payment terms that produce good cash flow.

Sustainable opportunity in aquaculture

Aquaculture refers to the farming of fish and other organisms in a controlled environment, in either fresh or saltwater. This has seen significant investment in South Africa in recent years and, in 2019, aquaculture generated an estimated R1.1 billion in revenue. Unlike commercial fishing, it does not operate under a quota or TAC regime.

South African aquaculture produces mussels, oysters, seaweed, abalone and dusky kob as saltwater species, and tilapia, barbel and trout in freshwater. Abalone is unquestionably the largest value contributor to the aquaculture industry. It is farmed in tanks along the coast (right chart on previous page) utilising fresh sea water that is pumped through the hatcheries.

Major South African fisheries

Fish type			Main markets	Commonly served as	
Hake			Europe, Australia, the US and South Africa		Fish and chips Fish fingers Hake fillets
Small pelagic fish	Sardine (pilchard)		Canned pilchards: South Africa and SADC countries		Canned pilchards
	Anchovy		Fishmeal: East Asia (China and Japan), Europe and the Middle East		Used for fishmeal and fish oil as an ingredient in animal feed
Squid			Southern Europe and Japan		Calamari
Horse mackerel			South Africa (mainly Northern Cape) and other African countries		Fish stew

Source: FishSA, Kagiso Asset Management research

Trawling for opportunity

South African abalone is a highly sought-after, premium species, which is the reason for the rampant levels of poaching along our shorelines. It is mainly sold to China, either canned, frozen or fresh.

Recent riots in Hong Kong and the impact of restaurant closures in China during the Covid-19 pandemic have seen significant disruption to exports, resulting in near-term pressure on profitability for abalone producers. The demand for South African abalone is, however, likely to remain strong when markets recover and the future potential for this industry continues to be bright.

Quite a catch

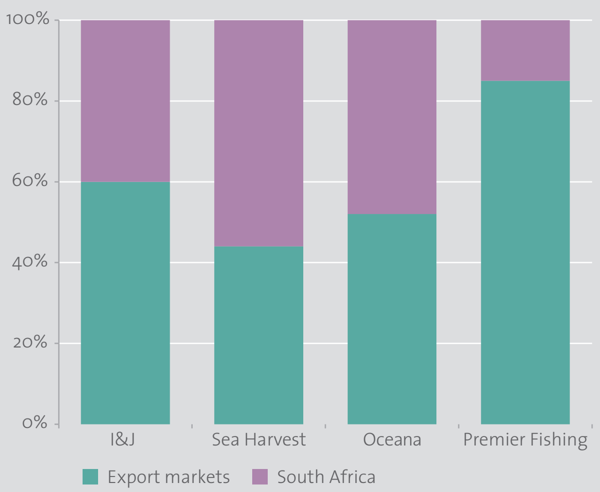
South Africa has several JSE-listed commercial fishing companies, each with their own unique mix of species and end markets (charted below).

- **I&J** forms part of the AVI group and has a large exposure to hake through its well-known South African brand and export business. It includes an established abalone business that contributes around 15% to its fishing profits.
- **Sea Harvest** also has a large exposure to hake. The acquisition of the Viking Seafood business in 2019 resulted in greater exposure to the wholesale fishing channel and its aquaculture business is in the process of ramping up production volumes. Additionally, the acquisition of the Ladismith Cheese Company in 2018 has enabled Sea Harvest to generate around 20% of revenues from dairy products (mainly cheese) sold in South Africa.
- **Oceana's** biggest exposure is to pilchards through the "Lucky Star" brand, and fishmeal through its US-domiciled Daybrook business and South African fishmeal operations. Hake and horse mackerel make up the balance of this more diversified specie exposure.
- **Premier Fishing** is mostly exposed to deep-sea lobster and squid, both of which are predominantly exported.

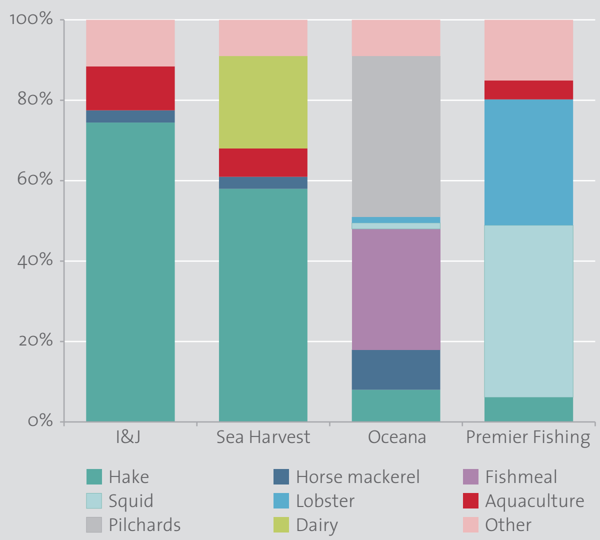
Fishing for returns

The finite supply of wild-caught fish, with increasing demand, suggests an attractive outlook for those companies that are able to profitably meet this demand. While fishing relies on uncontrollable factors such as the weather and health of the biomass, fishing companies are likely to deliver decent returns to shareholders through the cycle. Considering this, we hold shares in Oceana and Sea Harvest on behalf of our clients. UP

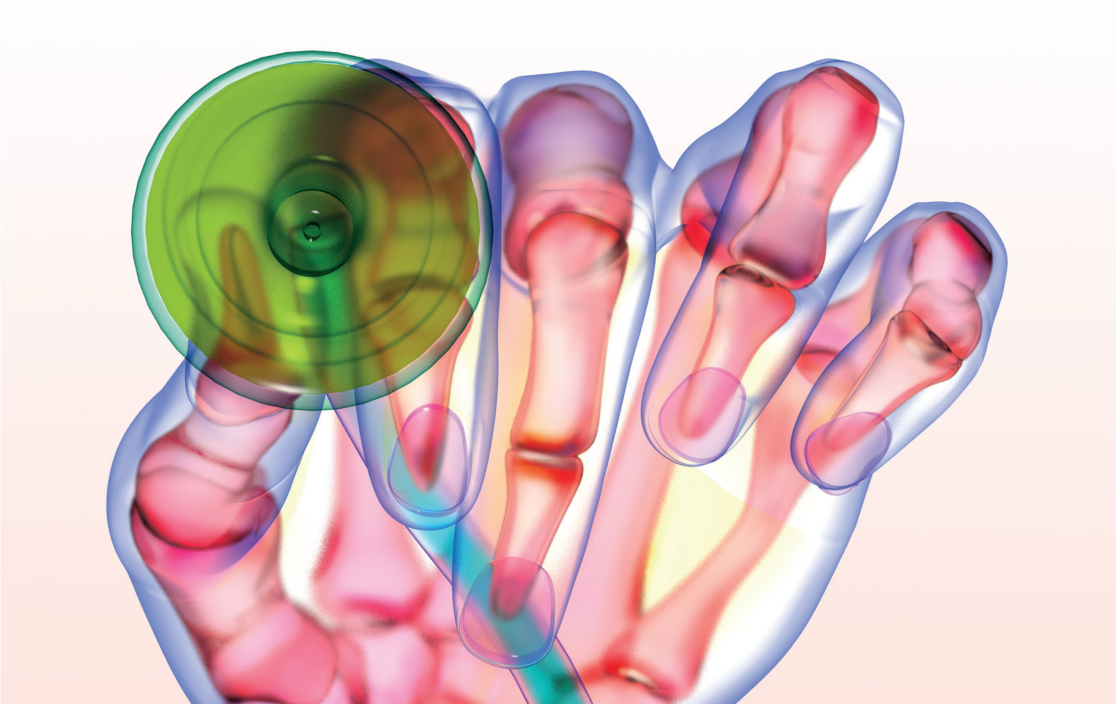
Revenue by geography



Revenue by species



Source: company reports, Kagiso Asset Management estimates



Best-laid plans for SA's private hospital groups

Sarah le Roux - Investment Analyst

"The Covid-19 pandemic has not evolved as initially expected and the impact on the South African private healthcare sector has been complex. We investigate the potential longer-term implications of the pandemic's fallout on the operations of South Africa's big three hospital groups: Life Healthcare, Netcare and Mediclinic."

Best-laid plans for SA's private hospital groups

Preparing to peak

The lockdown measures that were introduced in March 2020 impacted admissions to private hospitals on multiple levels:

- **Social distancing** practices greatly reduced the seasonal spread of flu and other viruses, thereby reducing the number of medical cases admitted to hospital. The left chart below contrasts the proportion of Ampath's respiratory viral cases that tested positive in April 2020 relative to the prior year.
- **Restrictions** on alcohol sales in lockdown levels five and four, coupled with fewer cars on the road, materially reduced trauma case volumes. The right chart below indicates the dramatic decline in weekly deaths from unnatural causes in April and May relative to expectations based on historical data from 2018 and 2019.
- **Freeing up hospital capacity** for the imminent arrival of Covid-19 patients led to a widespread delay in surgical cases.

The lockdown restrictions resulted in an almost 3-month delay in the influx of Covid-19 patients relative to earlier forecasts. Therefore, despite hospitals remaining open throughout lockdown, occupancy levels were significantly down over the period compared to prior years.

Over half of a hospital's operating costs are fixed or staff-related, limiting the opportunity to adapt the cost base to reductions in hospital utilisation over the short term. Consequently, all three listed hospital groups made deep losses for April, while level five lockdown measures were in place. Patient volumes began to rise gradually in May as regulations eased and pent-up demand for urgent surgical procedures started to manifest.

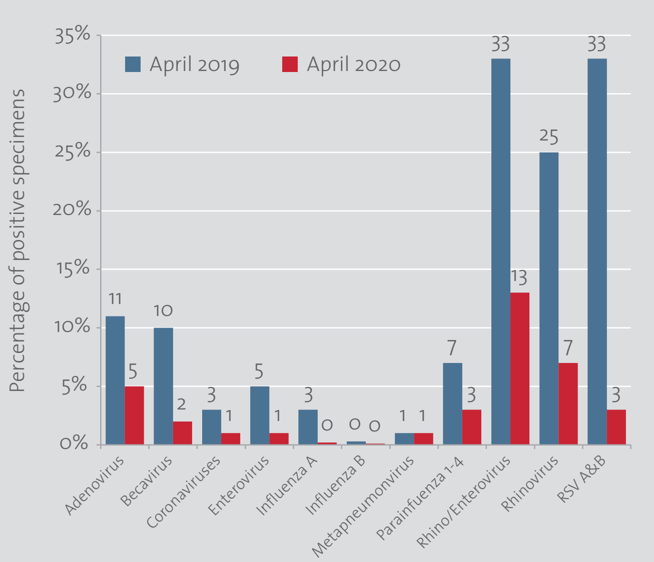
Which way will the pendulum swing?

While the peak of the pandemic in South Africa was expected sometime between July and September, its potential size and intensity was unknown and the possibility of further waves remains as such. In the lead up to the peak, private hospitals continued to operate at sub-optimal capacity utilisation levels with empty beds reserved for Covid-19 patients.

Over the peak, higher occupancy levels are expected to have led to a more efficient use of hospital assets, which should have restored profitability to some extent - even where public patients were treated on a cost recovery basis. However, where Covid-19 cases replaced more lucrative surgical procedures, or where medical admissions covered by private medical aid were replaced by government patients treated at cost, the net impact on profit margins is expected to have been negative.

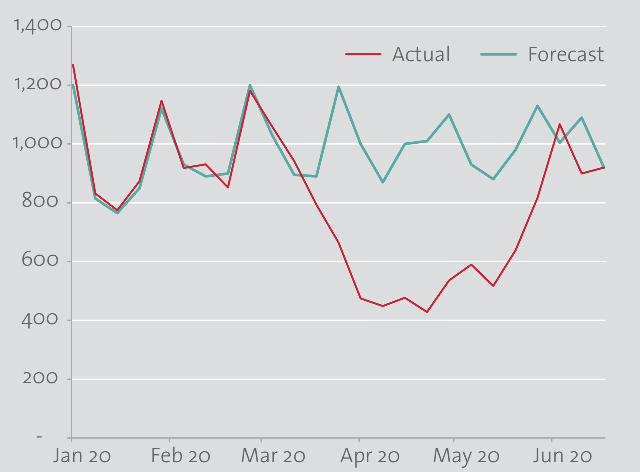
To date, South African public sector hospitals have managed remarkably well with limited assistance from the private

Ampath respiratory viral case statistics comparison



Source: Ampath, Netcare 2020 results presentation

SA weekly deaths from unnatural causes



Source: South African Medical Research Council, Network 2020 results presentation, Kagiso Asset Management estimates sector. The number of provinces experiencing their peak simultaneously would have limited the degree to which government was able to shift public sector medical staff between provinces to meet demand. Despite this, only a limited number of public sector Covid-19 cases have ultimately been treated in the private sector.

A snapshot of hospital assets

The charts below illustrate the provincial split of beds among the big three hospital operators. Private hospital operators with a higher proportion of their total beds in provinces that experienced a more intense peak, or where government facilities were under more pressure, are expected to have had a greater proportion of Covid-19 patients in their overall mix (for example Netcare's greater exposure to Gauteng). Provinces that peaked first will likely have seen a faster return to normality with non-Covid cases coming back sooner. Mediclinic's greater exposure to the Western Cape may, therefore, have allowed for a faster recovery in non-Covid-19 patient volumes versus other operators.

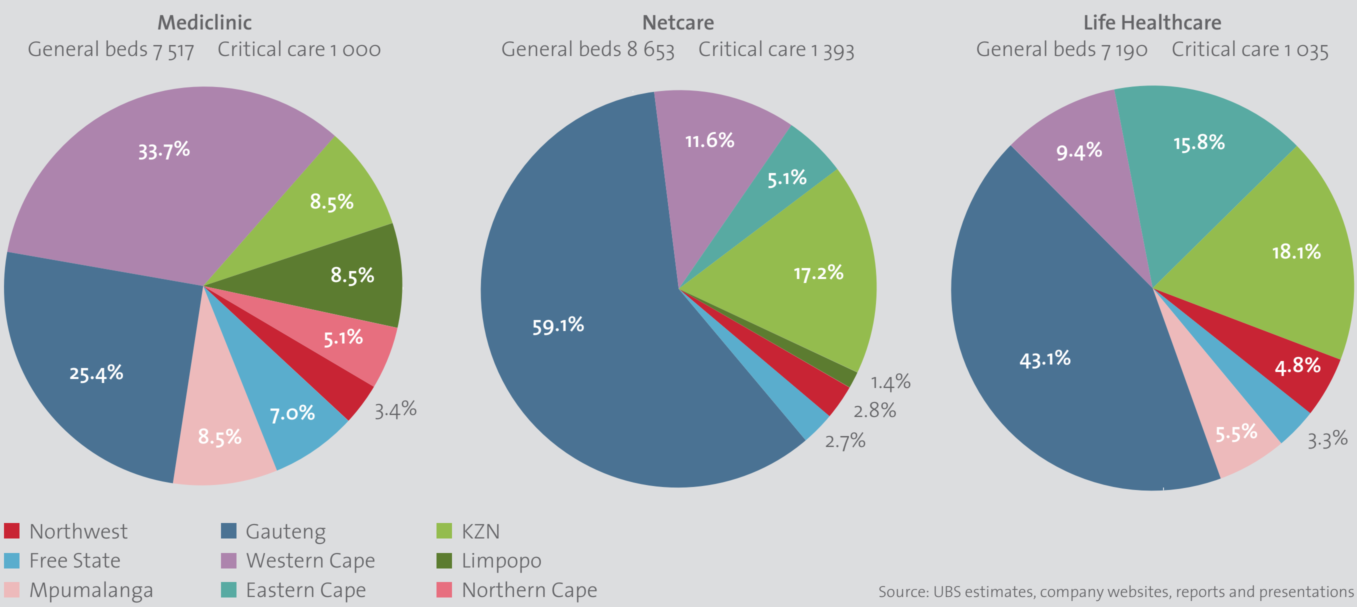
A bumpy road to recovery

Post the peak, urgent surgical procedures are likely to normalise rapidly as the risk of potential infection during recovery is outweighed by the negative consequences of further delay. The upturn in elective surgeries may be delayed if patients choose to avoid hospitals until a vaccine becomes available. The loss of medical admissions, particularly those related to viral infections, are generally more permanent and may also remain structurally below previous levels as new norms in distancing behaviour continue to dampen the spread of other viruses in years to come.

The portion of the population that is typically responsible for the greatest proportion of healthcare spend, namely those aged over 65 and those with lifestyle diseases, are also most at risk of adverse outcomes should they become infected by Covid-19. These patients are more likely to stay away from hospitals for as long as possible. Once a vaccine is approved it could take up to 18 months to become widely available due to high global demand, further impacting the normalisation of patient volumes - with some patients potentially only returning to hospitals post 2021.

The prevalence of co-payments - where doctors charge above medical aid rates - is also likely to have an impact on elective procedures going forward. In households where at least one breadwinner has suffered a loss of income or a material decline in their retirement savings, elective surgeries risk

Geographic split of acute hospital beds for big three hospital operators



Source: UBS estimates, company websites, reports and presentations being deferred or cancelled altogether in favour of cheaper alternative treatment paths because of the unaffordability of the co-payments.

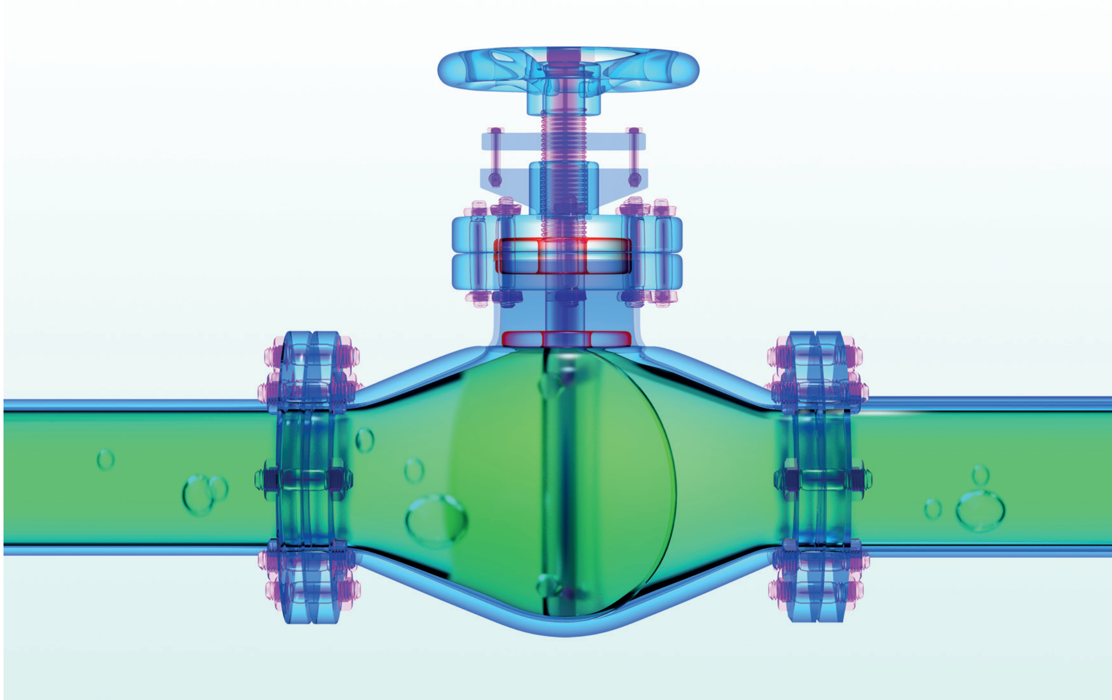
In April 2020, National Treasury estimated that pandemic related domestic job losses could be over the three million mark. Coupled with the potential implications of a planned R160 billion reduction in the public sector wage bill over the next three years, there is a significant risk to the overall size of the medical aid base. While the threat of infection lingers, there is an incentive for individuals to try and retain their medical aid cover, reducing the expected reduction in medical aid coverage over the near term.

The gradual shift to lower cost "network" medical aid arrangements has been an enduring trend over the past few years. Network plans limit a patient's choice to a prescribed list of designated healthcare service providers. This is expected to continue, particularly as above-inflation medical aid fee increases have led to an incrementally larger share of disposable income being consumed by health insurance. The negative impact of the pandemic-led economic crisis on disposable incomes is likely to accelerate this trend towards more affordable plans. Bargaining power in tariff negotiations on network deals tends to favour medical aids over hospital operators, as more expensive hospitals are excluded from the networks. Of the three listed players, Life Healthcare is currently the lowest cost operator, therefore appearing best placed to adapt to this environment. Netcare's larger proportion of ICU beds relative to competitors could prove to be a disadvantage in tariff negotiations as these beds are more expensive to operate, leading to a higher average cost per bed.

Medical aid funders are also hoping to fast-track the shift away from more expensive in-hospital care to managed care at home and telemedicine. Historically, these sorts of initiatives have met with resistance from both doctors and patients, however, fears around Covid-19 are changing that. If successful, these efforts would likely have a negative longer-term impact on hospital admissions and length-of-stay.

Beyond Covid-19

The economic crisis brought about by the pandemic has accelerated long-term affordability headwinds for private healthcare. While the long-term outlook for South African hospital operators remains relatively unchanged, the short- to medium-term prospects have deteriorated significantly. Operators that prove themselves to be the most adaptable and cost efficient will be best positioned. We remain cautious on the recovery path of the South African operations across all three hospital groups, however, we see value based on where they are currently trading. Consequently, we have retained some exposure in our clients' portfolios. UP



Kinder Morgan’s resilience

Abdul Davids - Portfolio Manager

“The recent weakness and volatility in oil prices has materially impacted the global economy as worldwide lockdowns and other containment measures - in response to the Covid-19 pandemic - caused a sudden, substantial decline in oil demand. Consequently, the share prices of most oil companies collapsed as oil prices dropped sharply.”

Kinder Morgan's resilience

Kinder Morgan, one of the largest energy infrastructure companies in the US, also fell victim to the share price rout despite the company's stable, fee-based income that is not directly affected by oil price moves. We discuss whether their midstream infrastructure will remain impervious to the effects of the current energy market distress.

A market in (turm)oil

The global oil market has been in a state of oversupply for the last few years as many oil producing countries increased their respective production levels to offset the lower prices - with Russia and the US focussed on growing their market shares. In 2019, the OPEC grouping of oil producing countries implemented voluntary production cuts to reduce the supply of oil and invited non-OPEC countries like Russia to do the same. However, in February 2020 (as OPEC and Russia tried to negotiate a production cut due to concerns that Covid-19 would massively reduce oil demand) Russia walked away from negotiations and Saudi Arabia responded by increasing supply and undercutting oil prices by $6-8 per barrel.

Excess oil production continued despite global lockdowns and a concomitant demand collapse and, while Russia and Saudi Arabia then agreed to further supply cuts, prices had already plummeted 60% from the February 2020 levels.

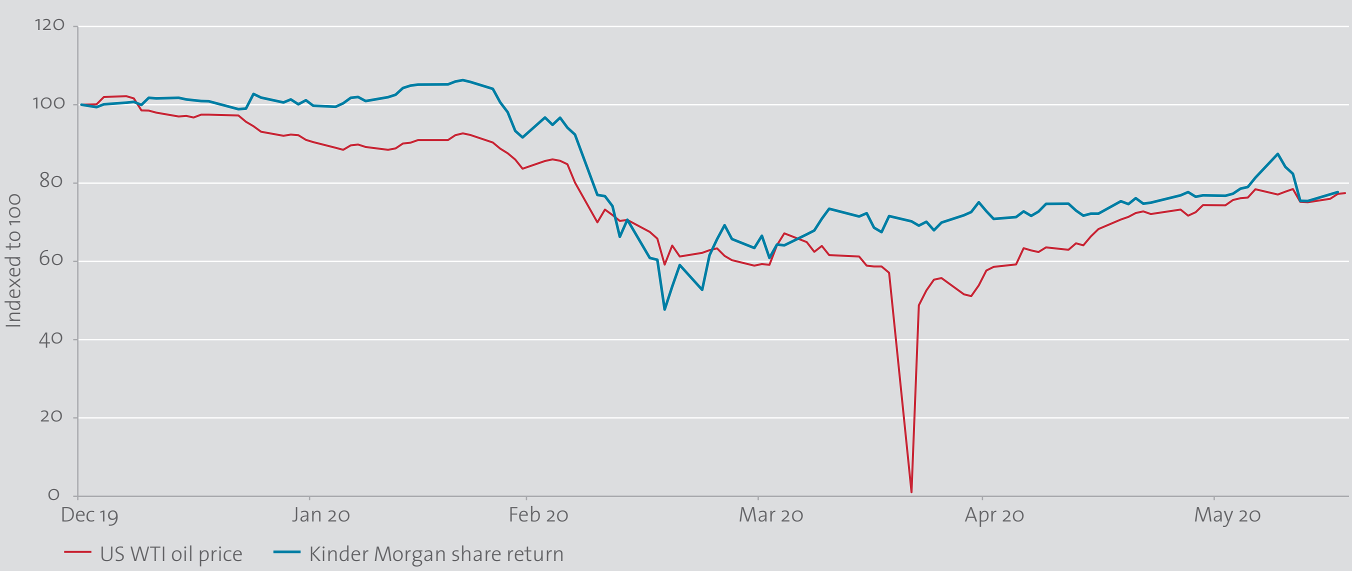
The US oil price futures contracts require the physical delivery of oil to settle each contract. In April 2020, US oil storage facilities were full, with a record-setting 160 million surplus barrels of oil stored on tankers at sea[1]. Normally, futures contracts would be rolled over to the following month without physical settlement taking place. However, the market turmoil with the US in lockdown and little visibility on oil demand recovery, prompted oil traders to view the May contract as untouchable. With no one willing or able to accept deliveries and storage filled to capacity for the first time in history, producers were willing to pay buyers to take oil off their hands. This resulted in oil prices sinking to below zero, with May futures for West Texas Intermediate (WTI) oil closing at -$37.63 on 20 April 2020.

Kinder Morgan hitches a price-ride

Oil prices have somewhat recovered, and the chart below highlights the contiguous performance of US oil prices alongside Kinder Morgan's share price since the start of the year. Evidently, Kinder Morgan's share price has declined in lockstep with the oil price and, at mid-June, both were trading close to 20% lower than the January 2020 levels.

[1] According to Reuters

Kinder Morgan share return and US WTI oil price



Source: Bloomberg

Unparalleled asset footprint

Kinder Morgan is a 'midstream' energy company - a term used to describe one of the three major stages of the oil and gas industry. Midstream activities include the processing, storing, transporting and marketing of oil and natural gas. Upstream (raw crude oil and natural gas exploration and production) and downstream (refining crude oil into gasoline, diesel and other fuels) are the two other stages.

The company operates across five divisions including the transportation of natural gas and crude oil, as well as the storage of refined energy products and carbon dioxide. Assets are dominated by the vast network of pipelines used to transport natural gas from various production and processing facilities to customers across the US - accounting for 60% of profits. Their considerable pipeline network spans almost 113 000 kms, moving approximately 40% of the natural gas consumption of the US, further augmented by over 4 800 kms of crude oil pipelines, 147 terminals and 16 product tankers (illustrated below).

In 2015, natural gas surpassed coal as the largest consumed fuel source for electricity generation in the US, becoming the fuel of choice to drive the US economy (left chart on following page). Kinder Morgan remains well-placed to continue to benefit from the increasing domestic consumption of natural gas in the US.

Earnings stability amid pandemic-induced volatility

Kinder Morgan uses its unparalleled $73 billion asset base to generate fee-based revenues, with over 90% of the company's revenue linked to take-or-pay contracts or fixed-fee revenues based on volumes moved through the vast pipeline infrastructure. Take-or-pay contracts entitle the business to receive payments regardless of throughput or utilisation of the company's assets by its customers, therefore ensuring a high degree of certainty and revenue stability. Their asset base shares some of the desirable characteristics of a "toll bridge-like business" in that:

- the vast infrastructure of pipelines that span the breadth of the US is not easily replicable, ensuring a monopoly position;
- the company earns a reliable and predictable revenue stream from the use of its infrastructure that offers long-term earnings visibility; and
- the business model is uncomplicated and relatively easy to manage.

Kinder Morgan's customers are primarily the end-users of the products transported and handled by the pipeline infrastructure. Typically, they include large integrated state utility companies such as oil refineries and other industrial users, many of which are substantial businesses with strong balance sheets and

Kinder Morgan's asset footprint

Source: Kinder Morgan

Kinder Morgan's resilience

excellent credit ratings. Consequently, the business's quarterly profits have remained stable over the last 21 quarters.

The right chart below depicts Kinder Morgan's quarterly adjusted earnings (EBITDA) together with the US oil price. In 2018, oil prices dropped by approximately $25, yet operating earnings only declined by $15 million, which is less than 1% over the period. The company has consistently generated more than $1.7 billion in operating earnings over the last five years despite periods of significant oil price volatility and weakness.

Covid-19 impact expected to be less severe

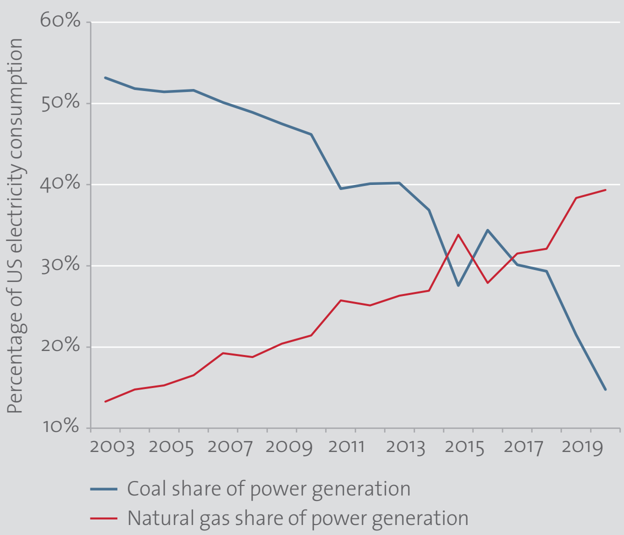
The Covid-19 pandemic has had a profound impact on the US economy, which ground to a halt as many states implemented lockdown measures to slow the spread of the virus. Energy demand declined significantly, forcing Kinder Morgan to assess the likely impact of the pandemic on the business.

Notwithstanding a $40 per barrel decline in US oil prices since the start of 2020, the company is only expecting an 8% decline in earnings and cashflow for the 2020 financial year. In addition, the business announced that it will be increasing its dividends by 5% in 2020, from the 2019 level of $1 per share. This is a positive indication of the company's highly resilient earnings amid unprecedented volatility and weakness in energy prices, particularly at a time when many energy companies are cutting or suspending dividend payments.

Prepared to weather the storm

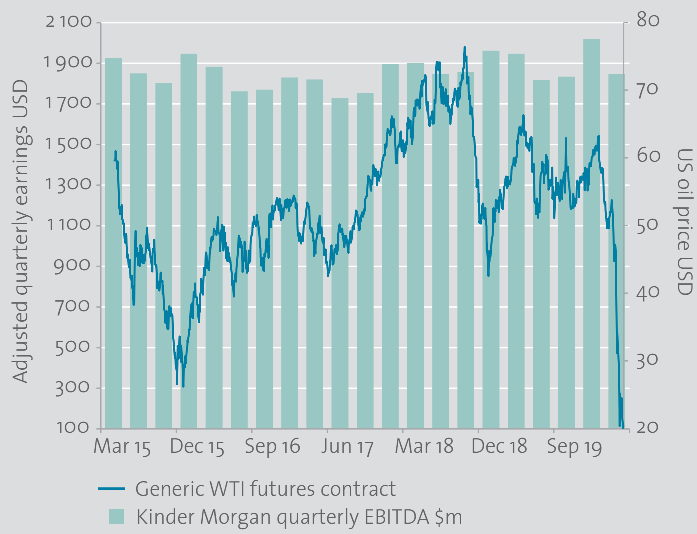
The economic impact of Covid-19 is still evolving and it is, therefore, too early to distinguish genuine value opportunities from potential value traps among the energy companies. Those such as Kinder Morgan that are structurally sound, with stable cash flows, manageable balance sheet debt and disciplined management, are likely to weather the storm. UP

US electricity generation by source

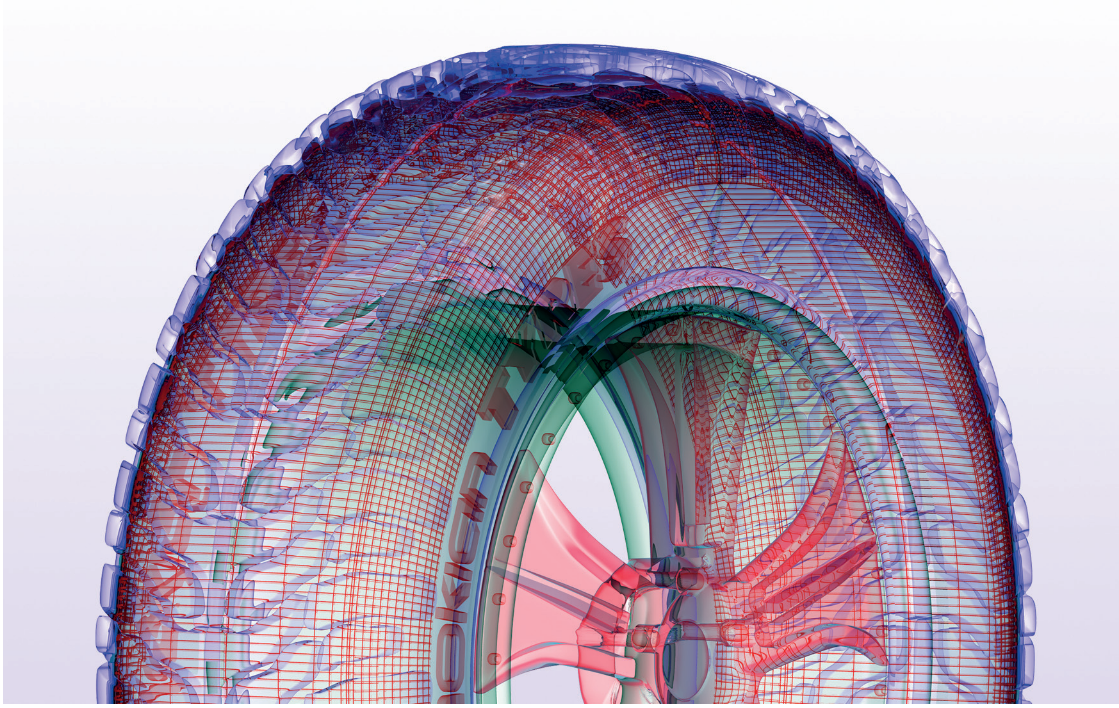


Source: EIA, Bloomberg

Quarterly earnings vs US oil price



Source: Kinder Morgan



Nokian treads confidently

Sheldon Kisten - Investment Analyst

"In countries with colder climates it is commonplace, and often compulsory, for vehicle owners to change their car tyres seasonally. Higher natural rubber content, wider tread blocks, deep grooves and studs are some of the characteristics of winter tyres that enable better performance in challenging conditions."

Nokian treads confidently

Since splitting from the Nokia Corporation in the 1980s, Nokian has grown into a diversified tyre manufacturer targeting many tyre segments and geographical markets. As the inventor of the winter tyre and in many respects pioneering innovation in this regard, Nokian has become the market leader in the Nordic region and, in our view, is poised for global growth.

Viking of the Nordics

In Finland, the 1920s brought about a transition from horse-drawn carriages to trucks and lorries that motorised road and goods transportation. Weather conditions often proved treacherous, with heavy rain and snow regularly endangering drivers, pedestrians and horses. Drivers resorted to attaching snow chains to their truck tyres to gain more traction on the slippery roads.

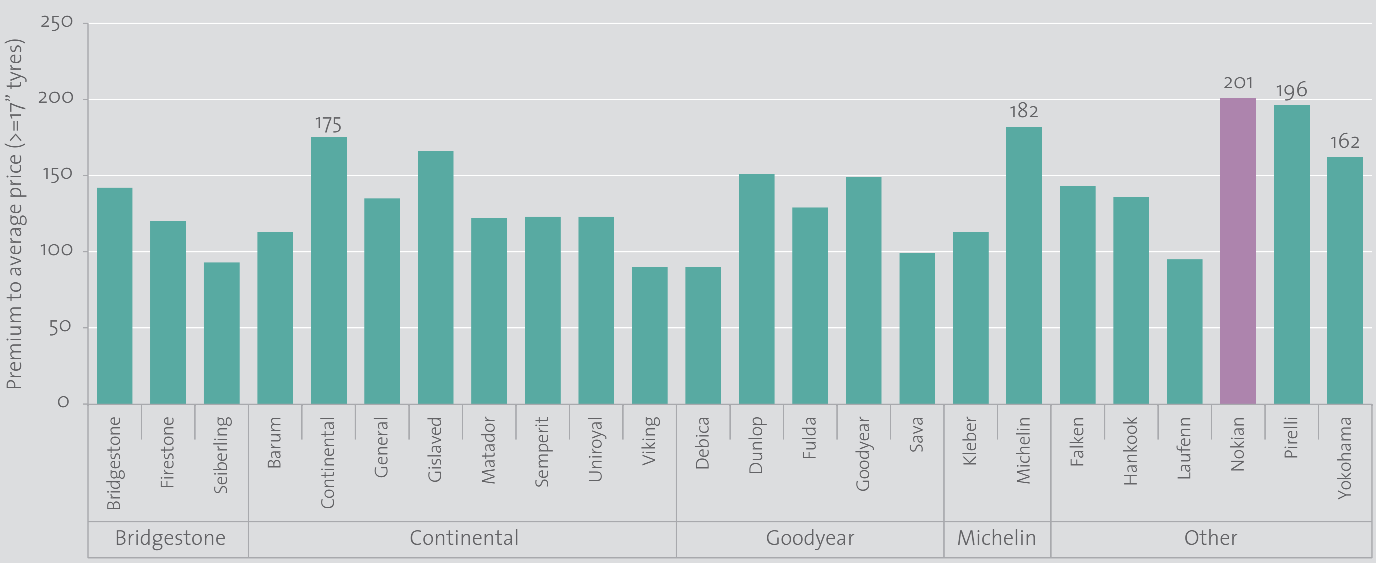
In 1934, Nokian manufactured the first winter tyre for trucks, which boasted a transverse groove type of tread, providing a tooth-like grip and greatly improved traction in the soft mud and snow - unique at the time. This period also saw a flood of passenger vehicles on the roads and Nokian quickly identified the need for similar technology to be applied to smaller car tyres. This gave rise to the first winter tyres for passenger vehicles in 1936 and, in the 50 years that followed, the company demonstrated a great deal of innovation in this area. Their well-honed experience paid off in 1978, when Finland passed a law deeming the use of winter tyres as mandatory. Germany and Russia, among others, later followed suit with this practice.

The demand for winter tyres is inherently seasonal, with the laws governing usage typically enforced for only a portion of the year. For Nokian, this translates to seasonality in inventory levels and a cost to financing the higher average working capital they require. The company uses the seasonal demand to their advantage by offering a storage service to their customers - winter tyres can be stored when not in use and refitted when required. This strengthens customer relations and boosts brand loyalty. Despite the seasonality element, Nokian has achieved strong margins through its specialisation, quality product and enduring client relationships, producing high returns over time.

Strength in diversity

Nokian's geographic footprint has grown extensively over the years and now services tyre markets across the Nordics, the rest of Europe, the US, Canada, Russia and China. It develops and manufactures winter, summer, all-season and heavy tyres and, alongside wholesalers and distributors, services aftermarket tyre demand through the Vianor chain of car service and maintenance centres. Its product offering is manufactured

Price premium vs competitors



Source: Citi research, Innovation Lab

across four large factories in Finland, Russia and the US, with an additional two tyre testing centres in Finland and another being built in Spain.

Nokian entered the Soviet Union market soon after Finland's trade agreement with the USSR in the 1960s. Four decades on, in the early 2000s, Finland's neighbouring country, Russia, was targeted as a growth market with Nokian building a large factory there. When the use of winter tyres in Russia became mandatory, the company again worked on developing customer relationships and brand loyalty, as well as further expanding local production capacity. Today, Russia is home to two of the four factories and serves as a low-cost base that exports to over 35 countries. This makes Nokian the single largest exporter of consumer goods in Russia.

Lower cost base means better margins

Innovation, coupled with a focus on product quality and service, has propelled Nokian to the top of the Nordic and Russian tyre markets, enabling them to command a price premium as evidenced in the chart on the previous page. Nokian's resultant high margins and good returns on capital have helped maintain a strong balance sheet. The company's profit margins are, however, influenced by cyclically priced raw materials (currently low), emerging market production currencies (currently weak) and relatively low Russian labour costs.

Growth carries a price

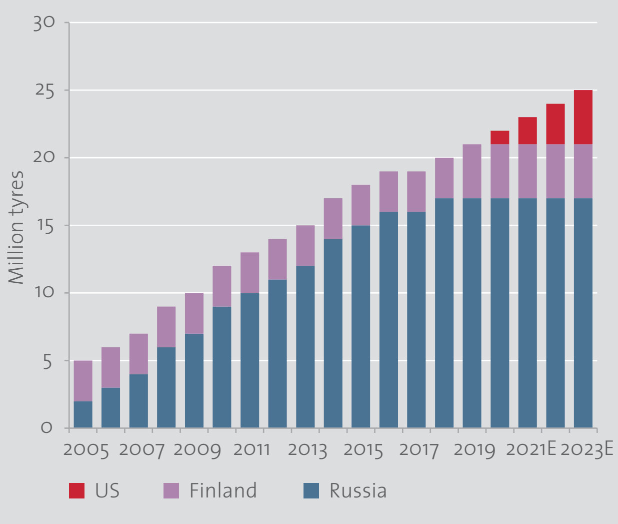
Over the last three years, Nokian has invested €661 million on capital expenditure for growth. It has completed its new US factory, acquired the Finnish heavy equipment wheel manufacturer, Levypyörä Oy (a pre-existing supplier) and, in Finland, made further factory upgrades and built a new research and development centre.

Located in Dayton, Tennessee, the new US factory is intended to directly supply the US - the world's largest tyre market. While Nokian had established a presence in the winter tyre market in the US prior to the construction of the Dayton factory (charts below), the distribution network has proven fragmented. The company anticipates that tyres from the new factory, with a "Made in America" stamp, will enable it to gain US market share.

It is also expected that the US tyre distribution network will be consolidating in the medium term, which will see tyre manufacturers and wholesalers joining forces to the benefit of large players. The recent joint venture between Goodyear and Bridgestone, called TireHub, is evidence of this trend.

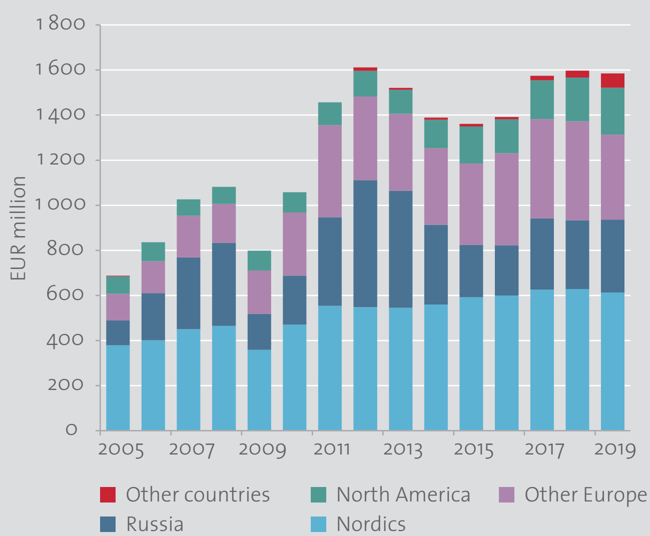
Local Nokian production in the US will reduce lead times and transportation costs, and improve the servicing of North American customers. However, a focus on the more

Nokian production capacity over time by region



Source: Citi research, company data

Nokian revenue over time by region



Source: Kagiso Asset Management research, company data

Nokian treads confidently

competitive all-season tyre market and increased operating costs will result in lower margins. We anticipate that the margin pressure will ease over time as the factory ramps up to full capacity and greater economies of scale are achieved.

Due to a colder climate, Nokian's two Finnish testing centres are limited in their ability to test all-season and summer tyre products. The new testing centre in Spain is therefore much needed - particularly as the US factory focuses on all-season tyres.

Aftermarket strength

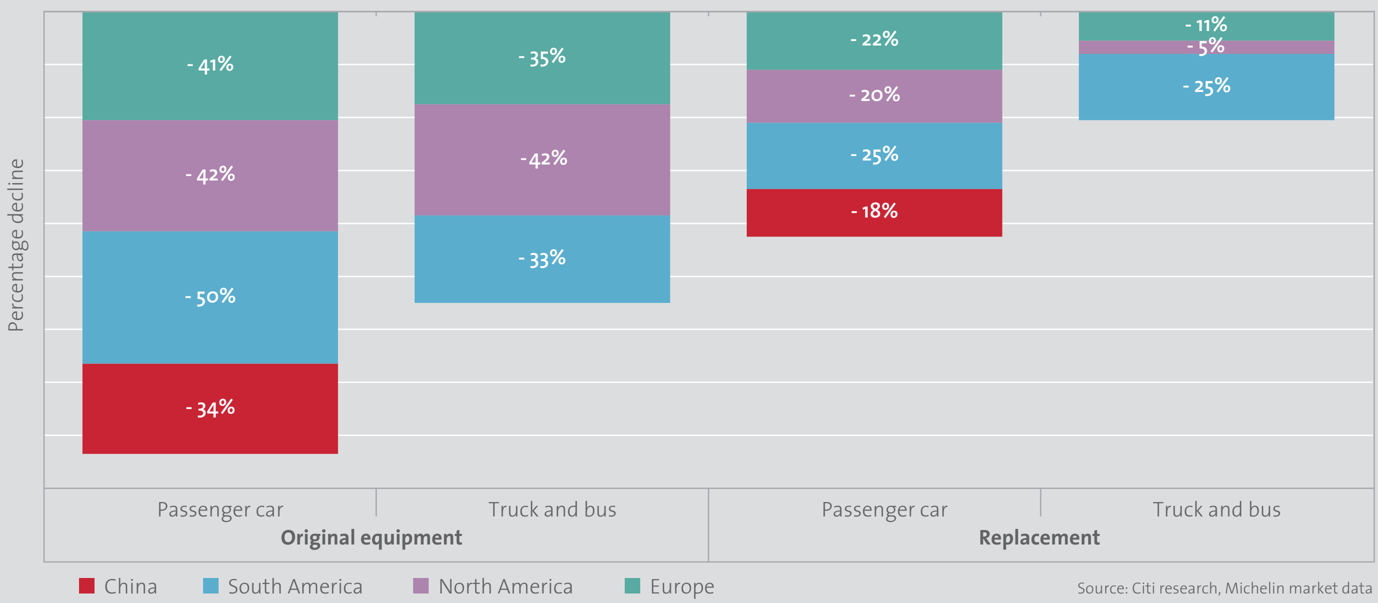
The new vehicle market has been very negatively impacted by the Covid-19 pandemic (charted below) due to declining incomes and low consumer confidence. Yet, distances driven are expected to return to pre-Covid levels quicker than new car sales (as the resumption of daily activity begins to normalise), which should result in the replacement tyre market being more resilient than the new car sales market. As Nokian has no exposure to original equipment manufacturers (OEM's) for passenger vehicles, solely servicing aftermarket tyre demand, they are seemingly better placed than other tyre manufacturers.

Patience will be rewarded

Nokian's current performance is depressed by low consumer spending and milder winters in many of their key markets. This, coupled with the margin-dilutionary expansion into the US and scepticism about recent capital expenditure, seems to have weakened investor sentiment towards the company - evidenced by the multi-year low share price now.

Nevertheless, Nokian has a well-established presence in their primary markets and the groundwork in place to enable further penetration into their growth markets. Despite this capex cycle placing the company in a net debt position for the first time in 10 years, Nokian's strategy remains to carry as little debt on the balance sheet as possible. They are backed by a history of generating solid margins and high returns. Furthermore, the appointment of a new CEO with prior experience in the North American and European markets should stand them in good stead on the growth and development front. We believe their prospects are strong. UP

Global tyre demand (year to May)



Source: Citi research, Michelin market data

Kagiso Asset Management Funds

Performance to 30 June 2020	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	-5.8%	2.7%	3.5%	8.8%	14.7%	Apr-04	2.24%	0.53%
SA Equity General funds mean	-7.4%	0.3%	0.3%	7.7%	11.2%			
Outperformance	1.6%	2.4%	3.2%	1.1%	3.5%			
Global Equity Feeder Fund	-	-	-	-	-1.0%	Nov-19		
Global Equity general funds mean					12.8%			
Outperformance					-13.8%			
Balanced Fund	-3.0%	3.6%	4.8%	-	7.6%	May-11	1.58%	0.47%
SA Multi Asset High Equity funds mean	0.5%	3.6%	3.5%		7.4%			
Outperformance	-3.5%	0.0%	1.3%		0.2%			
Protector Fund	-3.3%	3.3%	4.8%	6.6%	9.0%	Dec-02	1.58%	0.32%
CPI + 4%	6.1%	7.9%	9.0%	9.7%	10.2%			
Outperformance	-9.4%	-4.6%	-4.2%	-3.1%	-1.2%			
Stable Fund	-7.4%	2.8%	4.7%	-	6.6%	May-11	1.52%	0.43%
Total return of CPI + 2% pa	4.1%	5.9%	6.0%		5.7%			
Outperformance	-11.5%	-3.1%	-1.3%		0.9%			
Institutional funds[5]								
Managed Equity Fund (SWIX)	-5.8%	3.2%	3.0%	9.3%	10.0%	Sep-06		
FTSE/JSE SWIX All Share Index	-7.5%	1.5%	1.8%	10.5%	10.0%			
Outperformance	1.7%	1.7%	1.2%	-1.2%	0.0%			
Managed Equity Fund (Capped SWIX)	-9.0%	1.3%	-	-	2.4%	Jan-17		
FTSE/JSE Capped SWIX Index	-10.8%	-0.8%			-0.3%			
Outperformance	1.8%	2.1%			2.7%			
Domestic Balanced Fund	-6.3%	3.2%	4.0%	7.7%	7.3%	May-07		
Peer median[6]	-5.2%	1.8%	3.0%	8.9%	7.9%			
Outperformance	-1.1%	1.4%	1.0%	-1.2%	-0.6%			
Global Balanced Fund	-1.6%	5.2%	6.2%	-	7.9%	Jul-13		
Peer median[7]	1.4%	4.7%	5.0%		7.9%			
Outperformance	-3.0%	0.5%	1.2%		0.0%			
Bond Fund	1.3%	8.2%	-	-	7.9%	Aug-15		
BESA All Bond Index	2.8%	8.1%			7.4%			
Outperformance	-1.5%	0.1%			0.5%			
Money Market Fund	8.0%	8.4%	8.4%	7.2%	7.9%	Jan-04		
Alexander Forbes STeFI Composite Index	6.9%	7.2%	7.2%	6.5%	7.3%			
Outperformance	1.1%	1.2%	1.2%	0.7%	0.6%			
Sharia unit trust funds[4]								
Islamic Equity Fund	-6.4%	3.3%	4.7%	8.2%	9.3%	Jul-09	1.50%	0.24%
SA Equity General funds mean	-7.4%	0.3%	0.3%	7.7%	8.7%			
Outperformance	1.0%	3.0%	4.4%	0.5%	0.6%			
Islamic Global Equity Feeder Fund	13.8%	-	-	-	14.4%	Jan-19		
Global Equity General funds mean	16.6%				21.7%			
Outperformance	-2.8%				-7.3%			
Islamic Balanced Fund	0.0%	4.4%	4.8%	-	6.0%	May-11	1.51%	0.17%
SA Multi Asset High Equity funds mean	0.5%	3.6%	3.5%		7.4%			
Outperformance	-0.5%	0.8%	1.3%		-1.4%			
Islamic High Yield Fund	4.1%	-	-	-	5.0%	Mar-19		
Short-term Fixed Interest Index (STeFI)	6.9%				7.0%			
Outperformance	-2.8%				-2.0%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%
Balanced Fund	6.9%	-15.7%	6.9%	-15.7%	6.9%	-15.7%	-	-	6.9%	-15.7%
Protector Fund	5.1%	-13.9%	5.1%	-13.9%	5.1%	-13.9%	5.1%	-13.9%	9.5%	-13.9%
Stable Fund	4.0%	-11.4%	4.0%	-11.4%	4.0%	-11.4%	-	-	4.0%	-11.4%
Islamic Equity Fund	8.2%	-14.3%	8.2%	-14.3%	8.2%	-14.3%	8.2%	-14.3%	8.2%	-14.3%
Islamic Balanced Fund	7.5%	-9.3%	7.5%	-9.3%	7.5%	-9.3%	-	-	8.2%	-9.3%

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 30 June 2020; [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 30 June 2020; [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.