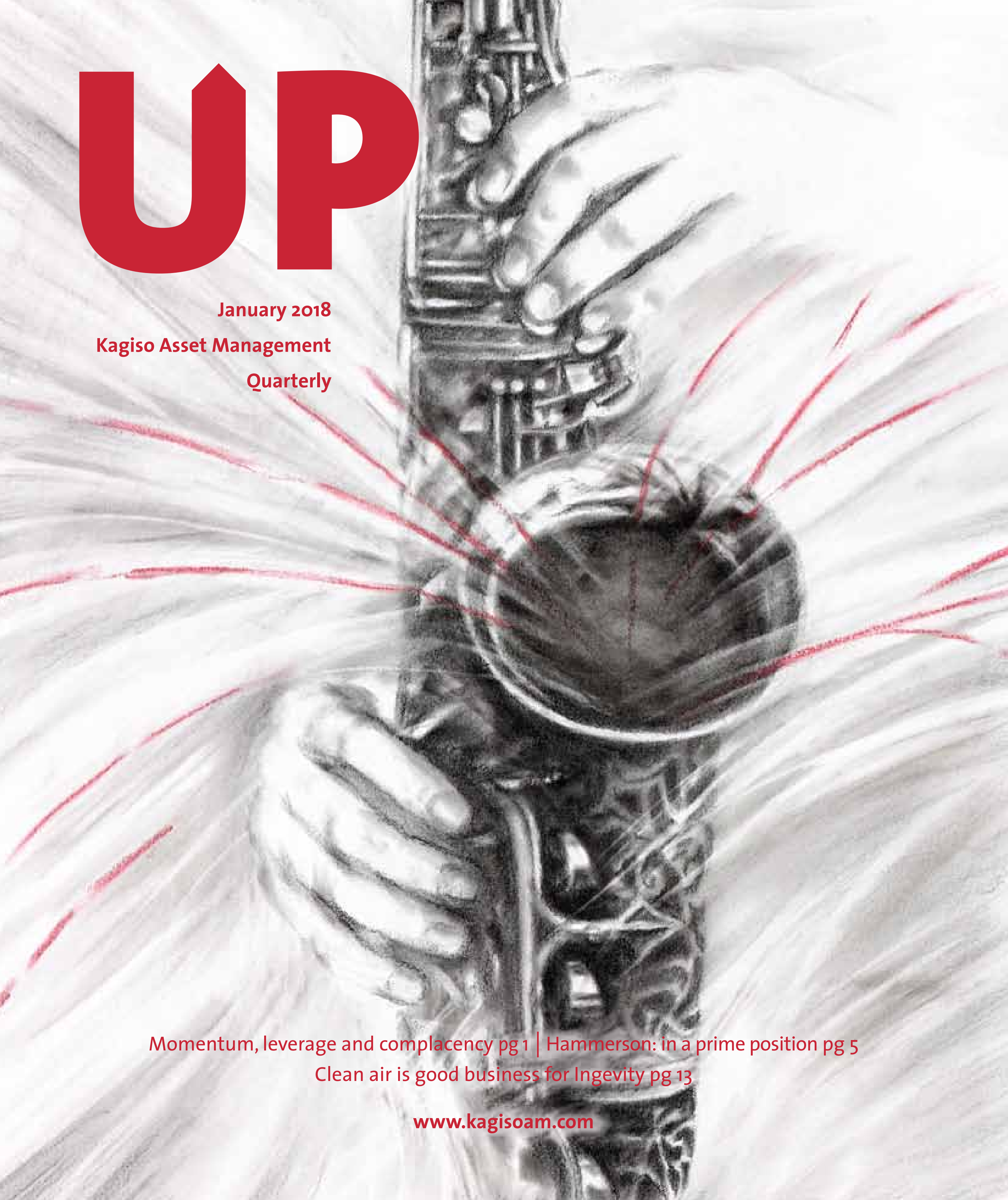
UP

January 2018

Kagiso Asset Management

Quarterly



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Momentum, leverage and complacency

Gavin Wood - Chief Investment Officer

"It is impossible to foresee the future, but winding back the clock can provide perspective on potential future scenarios that are difficult to contemplate when the world looks as rosy as it does now. In early 2018, it is instructive to look back 10 years and reflect on a remarkable decade when so much changed."

Momentum, leverage and complacency

The decade began optimistically, with relatively buoyant market conditions and very high commodity prices. This gave way to financial market collapse and a global recession. The unprecedented aggressive monetary stimulus that followed created one of the longest economic expansions on record and huge returns to investors. South Africa, from a very healthy starting position, experienced a surprising and severe economic deterioration over this decade. I set out below a few key features of this period, where we are now and what may lie ahead.

Where we were 10 years ago

2008 was a tumultuous leap year. China hosted the Summer Olympics in Beijing, Elon Musk's SpaceX launched the world's first privately developed space rocket to successfully make orbit (the Falcon 1), the Large Hadron Collider particle accelerator was inaugurated and Barack Obama was elected as the first black president of the USA.

It was a time of believing that house prices in the world's largest economy could only rise, and there was pervasive complacency that China's accelerating growth was sustainable in excess of 10% a year and that its insatiable demand for commodities would keep growing. This fuelled excessive financial leverage, a booming developed-world economy and over-investment in US housing and global mining.

In South Africa in 2008, Thabo Mbeki was president of the country, Trevor Manuel was finance minister, Tito Mboweni was SARB governor and the newly elected ANC president was Jacob Zuma. Mbeki was recalled by the ANC in September 2008 after a court ruled that corruption charges against Zuma were unlawful on procedural grounds.

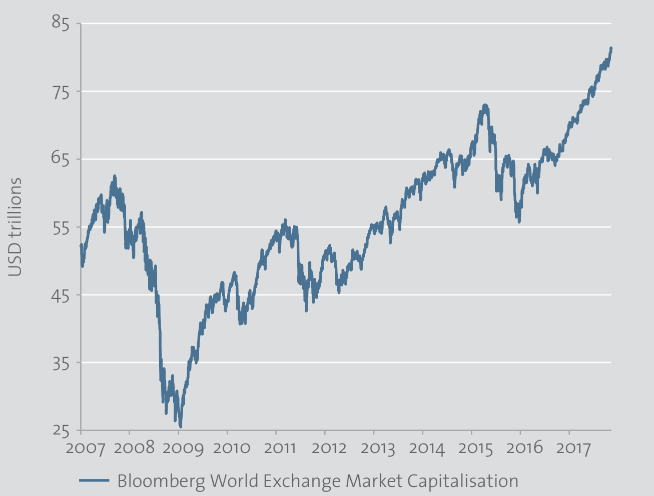
The last decade in global markets

The Global Financial Crisis, the worst period on financial markets since the Great Depression, lasted from October 2008 until March 2009. This resulted in the previously unthinkable demise of many longstanding and eminent financial institutions such as Lehman Brothers and AIG and led to huge government bailouts of other insurers and banks.

The reaction from authorities was large scale and co-ordinated. It involved fiscal stimulus and huge monetary accommodation measures. In the following years, the financial sector was far more strictly regulated, record low interest rates were maintained and huge asset purchase programs were undertaken to provide the global economy with sufficient liquidity support.

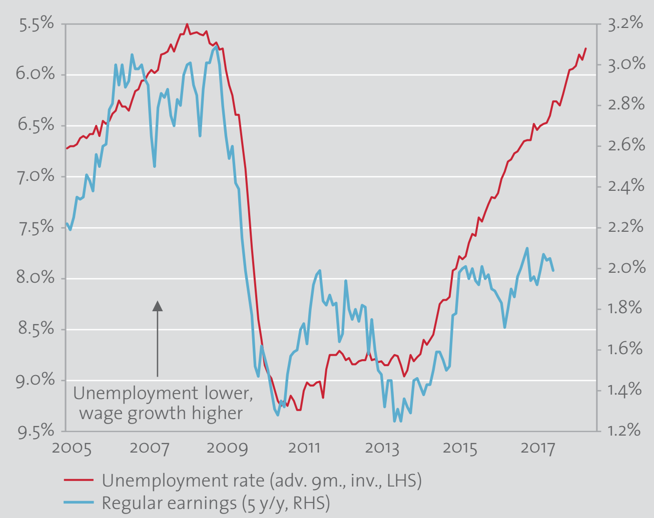
The recovery that started in 2009 has become one of the longest in history for most developed economies. However, this expansion has been weak compared to history, with industrial production yet to reach its pre-crisis peak. The plunge and

Value of world equities at all-time highs



Source: Bloomberg

Inflation pressures are building in developed economies



Source: Bloomberg, Capital Economics

subsequent long recovery in equity markets can be seen in the left graph on the previous page and the record low bond yields can be seen in a later graph.

South Africa's last decade

South Africa's dramatic economic decline since its very healthy 2008 economic position is summarised in the graph below. GDP growth rates have steadily declined from in excess of 4% a year to a rate that is one of the lowest in the world in 2017. A modest fiscal surplus has turned into a deficit that is stubbornly around 4% of GDP, and government debt has ballooned as a result. Debt to GDP has moved from below 30% to well above 50% and continues to rise.

Thankfully foreign investors have funded much of this debt increase, with their SA debt holdings moving from under 9% to over 40% of the (much larger) debt outstanding.

Although initially the SA economy was hit hard by the Global Financial Crisis, the decade of decline can largely be blamed on the severe economic mismanagement, policy uncertainty, ineffective policy implementation and corruption on the part of the SA government. In 2008, it would have been difficult to predict that such sound governance would deteriorate so far.

Complacency reigns

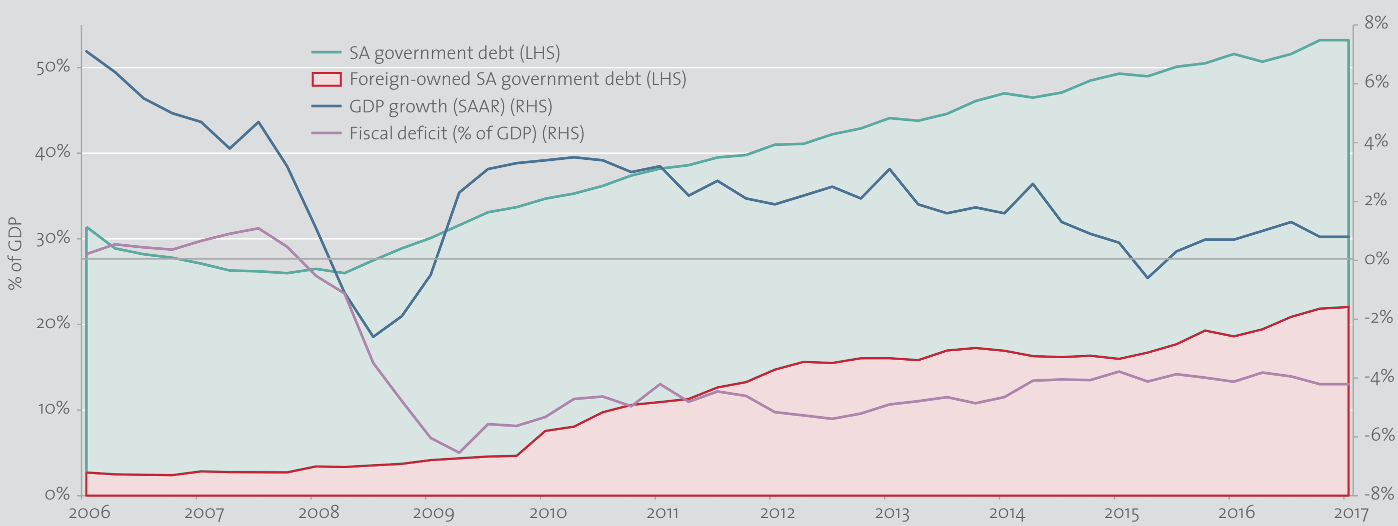
The long economic expansion is now synchronised across the world and is accelerating. General expectations are for low, and only gradually rising, inflation that is likely to keep monetary policy tightening restrained. These favourable conditions are fuelling positive business and consumer sentiment and are powerfully self-reinforcing and are building momentum. This is amplified by huge leverage in the system, which is manageable with current low interest rates.

Equity and bond market volatility is at record low levels, revealing investor complacency at a time when asset prices are very high. This low volatility is, to a degree, self-perpetuating as some market participants pursue strategies that profit from continued low volatility and others take actions that dampen volatility.

There is a large amount of capital explicitly pursuing a wide variety of (explicit and implicit) short volatility strategies that make modest, consistent gains if there is stability (common) and massive losses if volatility spikes (very uncommon).

Share buybacks, which have been a favourite pursuit of US firms, often enabled by leverage, reduce volatility by automatically buying shares on signs of weakness. Pervasive cheap credit dampens volatility as firms are able to borrow easily to smooth out any rough patches. The more than $2 trillion in assets that

South Africa's decade of economic decline



Source: Bloomberg, SARB

Momentum, leverage and complacency

has moved from active to passive funds since the Global Financial Crisis dampens volatility in that inflows follow asset price gains and thereby mute any potential price weakness.

Long bond rates have fallen materially over the last decade (graph below). This too indicates investor complacency about future rates of inflation. There is a marked difference between US long bond rates, which are pricing in inflation of around 2% a year and European (especially German) and Japanese rates, which demonstrate an absence of concern about inflation.

Looking ahead

In summary then, fundamentals are good, but asset prices are high and optimism and momentum prevails. Investor psychology can't generally be described as overly buoyant and reckless, however, which may imply that there are still good returns from financial markets to come. Monetary policy normalisation certainly lies ahead and fiscal stimulus in the US and Europe may add to late-cycle reflationary forces.

The dramatic and unexpected events and developments of the last decade should provide caution that the future may well not be so benign. In particular, unexpectedly higher inflation may catalyse a negative chain of events when central banks respond by normalising monetary policy faster than current market expectations. The right chart two pages back shows how lower unemployment rates lead wage increases, which will feed into general inflation. The wage growth trajectory looks positive.

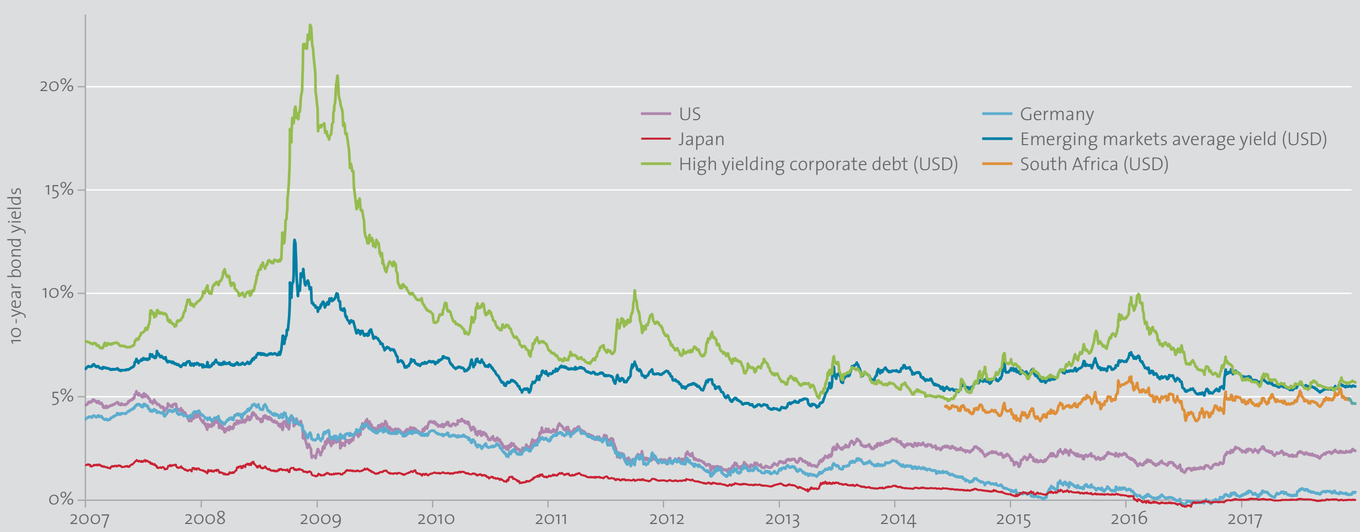
If interest rates and yields rise and asset prices fall, we may see debt issuer credit concerns and destabilising reactions from low volatility beneficiaries and the market participants (both active and passive) that believe the last decade was normal. Global debt stands at about 330% of annual economic output, up from 225% in 2008.[1]

Another potential risk is a material, unexpected slowdown in China's economic growth, which has been a large contributor to the last decade's expansion. The effects would be magnified by the high levels of debt China has built up over the period, especially within their state owned companies. China aims to tackle inequality, high debt levels, overcapacity and pollution, which is likely to weigh on their growth outlook.

In South Africa, the positive developments since the dramatic December ANC elective conference lead one to believe that the coming decade will see a much more positive economic trajectory than the last decade. The economy is very weak and beset by enormous structural problems, however, and so the progress will not be quick or easy. UP

[1] Bank for International Settlements

Long bond yields are low



Source: Bloomberg, Kagiso Asset Management

Hammerson: in a prime position

Rahgib Davids - Associate Analyst

"Hammerson is a retail-focussed real estate investment trust (REIT) listed on both the London Stock Exchange and the JSE Securities Exchange. Headquartered in London, the business owns and operates prime shopping centres in the UK and diverse retail assets across Europe."

Hammerson: in a prime position

Hammerson's diverse portfolio

The UK portfolio consists of prime shopping centres in densely populated metropolitan areas, and convenience-led retail parks located in outer-city suburbs. In Europe, it owns a few prime shopping centres in selected metropolitan areas in France and has exposure to high growth assets such as prime retail properties in Ireland, one of the fastest growing economies in Europe, and premium outlet villages.

Premium outlet villages are located near major European cities with a wealthy catchment area and large tourist customer base. This is where premium fashion brands such as Gucci, Tom Ford and G-Star sell excess, out of season stock at material discounts to inner-city in-store prices. These villages are some of the most productive retail spaces in Europe, producing double the amount of sales per square foot than that of shopping centres in Europe.

Despite having such a diversified portfolio, market concerns seem to be primarily focussed on the UK retail portfolio exposure, which comprises 57% of assets. These concerns centre on weak consumer confidence following the Brexit vote and fears about the impact of the move to online retailing.

The online threat

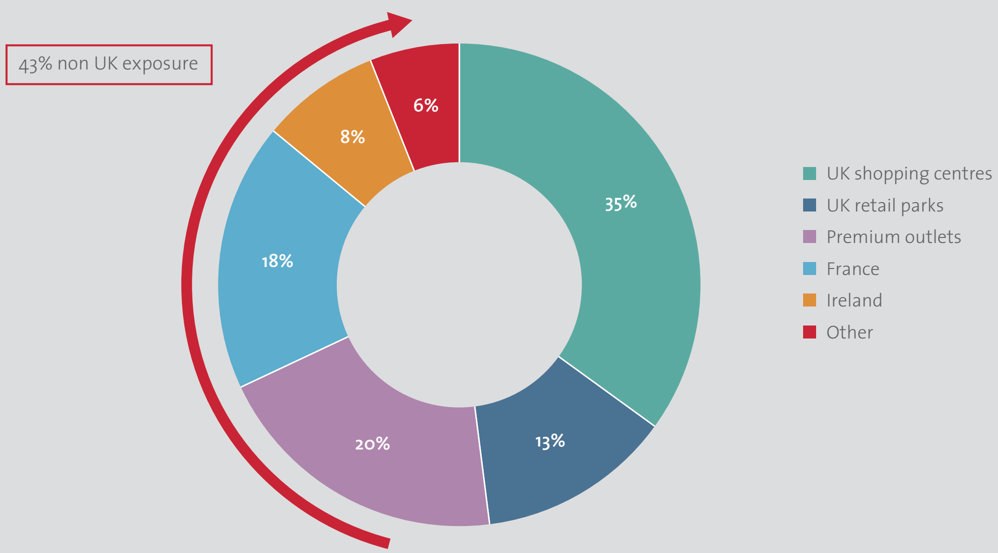
Increasing US online retail penetration has resulted in multiple major department store closures in 2017 - including well-known stores such as Macy's, Sears and Kohls - raising concerns for similar closures in the UK and other European markets.

We believe that fears of a repeat of the US experience in the UK are overdone. At 15% of total retail sales, the UK already has one of the highest online sales penetration rates in the world - nearly double that of the global average (8%) and higher than that of the US. This means that the UK is further along in weathering the threat of the move to online shopping than other markets. Additionally, the UK market is fundamentally different to that of the US. The UK has less retail space per capita, decreasing its risk of needing to downscale capacity. Also, UK shopping centres have a much higher space allocation for food, beverage and entertainment offerings which attract customers to activities other than shopping. See the charts opposite that elaborate on these issues.

Hammerson's results are not rewarded

Significant share price weakness (graph overleaf) amid these market concerns has seen Hammerson's share price fall to 30% less than the current net asset value (market value of assets less liabilities) despite its consistent operational track record, strong management expertise and geographically diversified portfolio. We believe this market reaction is overdone. It implies that investors expect a significant drop in demand for retail

Hammerson's £11 billion portfolio



Source: company reports, Kagiso Asset Management research space resulting in reduced future rental income and, consequently, a substantial devaluation of its property portfolio.

Hammerson's historic leasing performance tells a different story, however. The business has consistently renewed leases at rentals above comparable market levels, demonstrating strong demand for space despite the growth of online retail and declines in both footfall and store sales. This may be due to how retailers are using premium stores, as set out below.

The multi-channel retail evolution

Retailers are adopting an increasingly multi-channel approach, which combines both online and physical strategies. Physical stores are becoming part of a broader sales and communication strategy rather than merely the means to reach customers. Along with in-store sales, store productivity measures now include:

- In-store originated sales, where a customer sees an item in the store and buys it online.
- The 'halo effect', where a physical store presence provides strong brand awareness leading to more online sales.
- Click and collect kiosks - a convenience service where customers can collect and return online merchandise from a kiosk, at times outside of normal operating hours and without the hassle of waiting in long queues.

Stores are increasingly designed for more than purely merchandise sales, becoming showrooms for brand image and customer experience. This shift has drawn new tenants to shopping centres - car brands such as VW, Tesla, Mercedez Benz and Volvo have all opened stores in Hammerson centres. They are sometimes willing to pay more than comparable market rental levels to secure space to showcase their latest models and in-car technology.

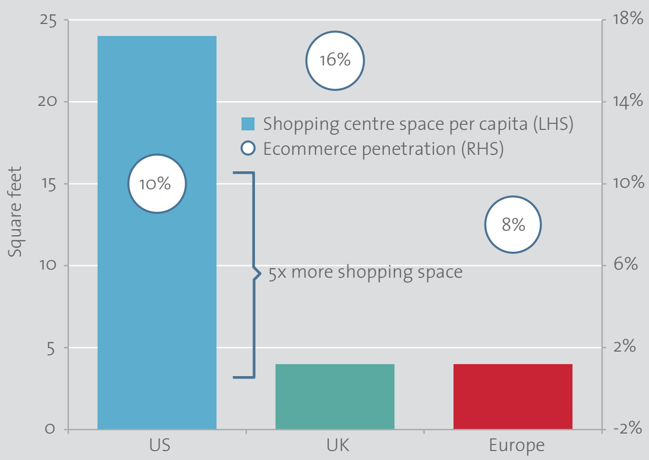
Retailers have also become more strategic in rationalising store space, choosing to keep physical stores mainly in prime destination shopping centres where footfall and dwell time are strongest. Therefore, while retailers require less total space, there is higher demand for prime, high profile space.

These dynamics result in a retail polarisation: prime, customer experience-led shopping centres thrive, while second tier shopping centres become less desirable. Prime malls are therefore best positioned to cope with - and even benefit from - these changes in the sector.

Hammerson's premium strategy

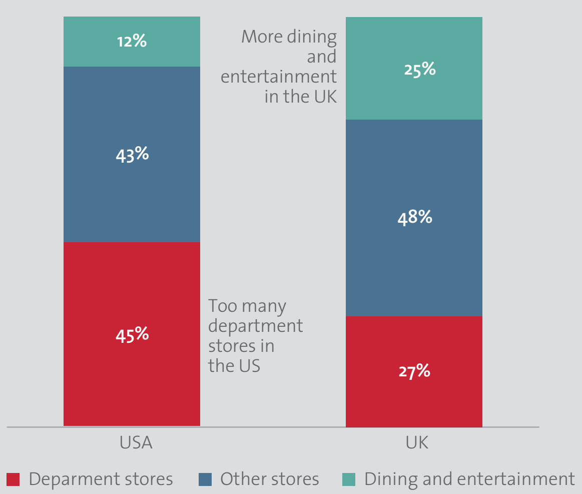
Hammerson invests significantly to ensure its shopping centres remain desirable and keep customers coming back. Its

Shopping centre space vs online retail penetration



Source: company reports, Kagiso Asset Management research

Split in shopping centre space by retail category



Source: company reports

Hammerson: in a prime position

investment efforts have focussed on:

- **Dining and entertainment:** Adding a wide range of restaurants and coffee shops, cinemas and kids' activities and hosting various music, dance and art events.
- **Improving look and feel by focussing on:** modern interior and exterior aesthetic designs, plentiful seating space, free Wi-Fi, lots of parking, access to public transport and convenience offerings such as hands free shopping concierge services and click and collect kiosks.
- **Tech innovation:** Hammerson has developed two successful phone apps to enhance the shopping experience:
  Find Similar; an app that allows customers to search for desired garments in Hammerson shopping centres by uploading a photo or image.
  Plus App; an app that offers customers tailored discounts at retailers in Hammerson shopping centres. With over 300 000 users, this is one of the most downloaded retail apps in the UK.

Investment opportunity

We believe that the current market price ignores key attributes which make Hammerson a good investment opportunity.

- Its UK shopping centres are prime assets with a solid performance track record.
- Its portfolio offers significant diversity, with 43% of its assets outside of the UK, including exposure to high growth markets such as Ireland and premium outlet villages.
- Shareholders have received strong dividend growth (7% per annum over the last five years), which seems likely to continue.

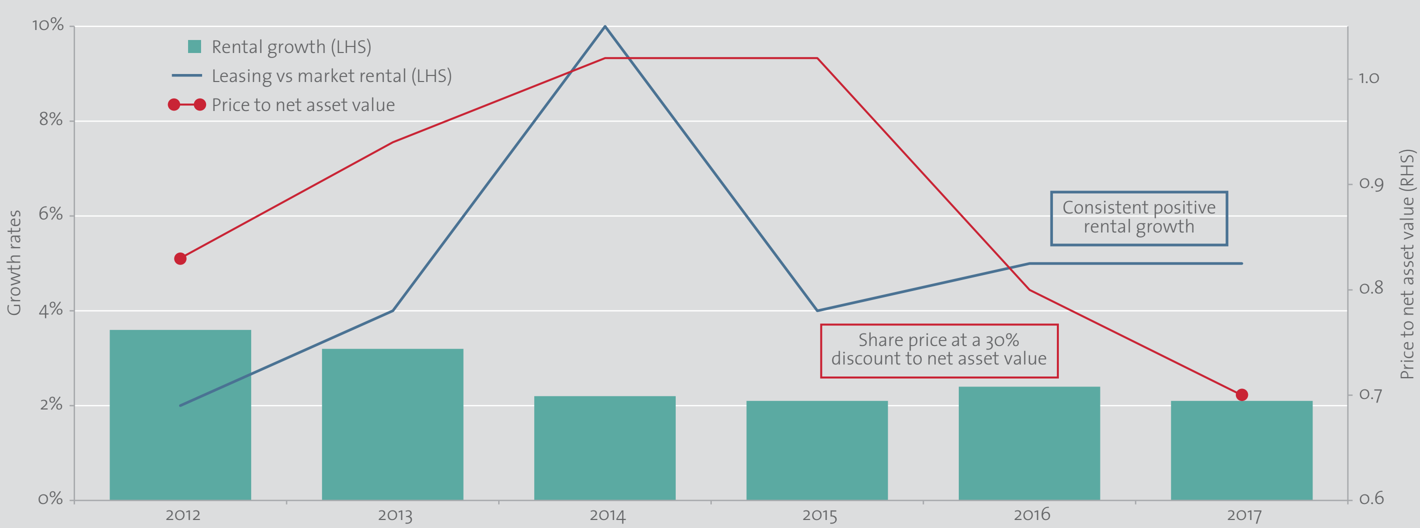
Another reason to back Hammerson's prospects is the recently announced proposed acquisition of rival UK shopping centre owner, Intu. The deal is attractively priced and will be settled in Hammerson shares. Potential deal benefits include:

- Superior Hammerson management capabilities should extract better rental growth from underperforming Intu UK shopping centres.
- Operational cost savings through head office cost reduction and stream-lining supply chain management.
- Financial cost savings from Hammerson refinancing Intu debt at lower interest rates.

Rewarding outlook

The Hammerson investment case is very compelling for the patient investor. In time, the negative market sentiment should change as economic conditions improve and Hammerson should emerge bigger and better than before. While waiting, investors receive an attractive dividend yield of 5%, and dividend growth expected to exceed historical guidance of 7% to 8%, boosted by the potential upside from the Intu deal. We believe Hammerson will be a rewarding source of long-term returns for our clients. UP

Hammerson's performance versus price to net asset value



Source: company reports, Kagiso Asset Management research, Bloomberg


Seeing value in Brait through the noise

Simon Anderssen - Associate Portfolio Manager

> "As recently as July 2016, shareholders in Brait valued the company at more than R80 billion. A short 18 months later and its market value has been slashed by over 70% to slightly more than R20 billion (see graph over page). We believe this is a reflection of both extreme optimism then, and extreme pessimism now."

Seeing value in Brait through the noise

It is true that a large holding in Brait's portfolio, UK ladies apparel retailer New Look, is experiencing extremely challenging trading conditions and that the investment may have little or no value for Brait shareholders. However, the remaining investments have good operating histories and sound prospects. We believe that at the current market price, the value of the remaining assets is being unfairly tarnished by New Look's poor performance.

Founded in the early 1990s, Brait grew into a successful South African private equity manager. In 2011, it restructured into an investment holding company that introduced management and well-respected external business people as direct shareholders in the company, thereby creating substantial direct alignment between the interests of management and shareholders.

The new structure allowed Brait to raise a pool of 'permanent' capital to invest with a long-term horizon. It acquired interests in SA's leading value clothing retailer, Pepkor, and in Premier Foods. Shortly after, it acquired a share in Iceland Foods in the UK. After realising significant value by selling Pepkor to Steinhoff in 2015, Brait acquired controlling interests in Virgin Active and New Look.

Upbeat about Virgin Active

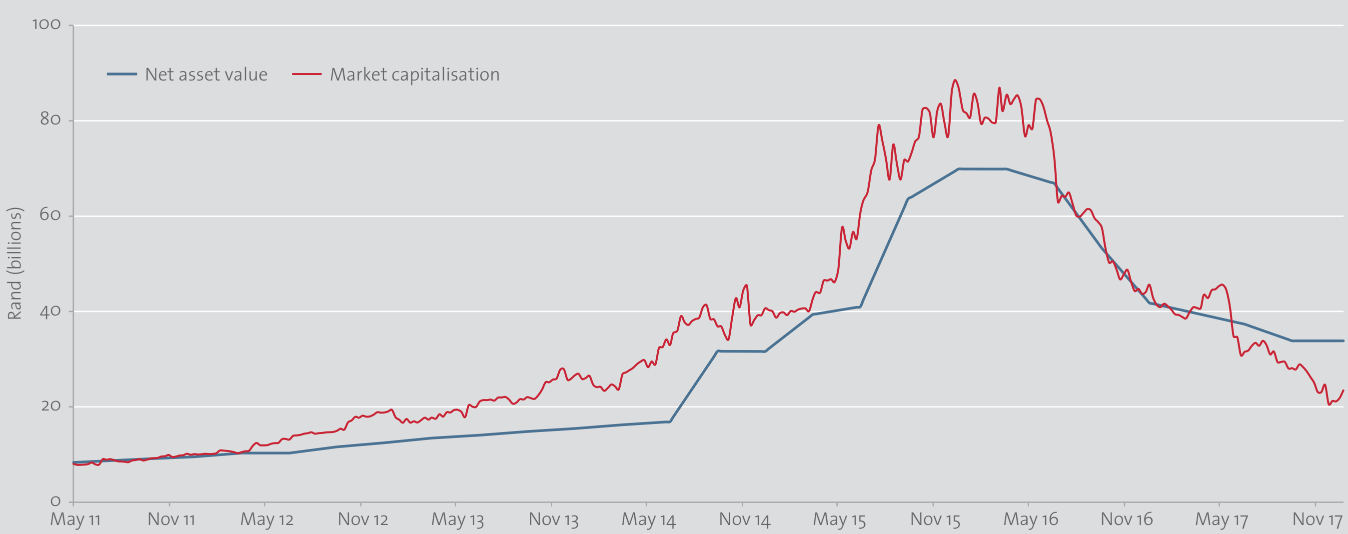
Virgin Active is Brait's largest investment to date and is familiar to South Africans as a leading health club operator. What is perhaps underappreciated is the group's international operations, which span developed and emerging markets across four continents, with operations tailored to meet differing market preferences.

In SA, the multiple format model caters to more than 700 000 members and generates very attractive returns on investment. The group's 45 UK clubs contribute a similar share of revenue, despite having a much smaller membership base (180 000). These clubs cater to the premium market and offer a highly personalised customer experience.

The group also operates 34 premium clubs in Italy where, unlike SA's early bird approach to exercise, peak times start much later in the day. Another difference - playing to the country's appreciation for design and personal-grooming - is the lavish changing rooms. Larger than in any other market, they offer an extensive spa complete with hydro massage pools, relaxation areas and 'emotional showers' where soothing lighting and audio immerse you in the sounds of the rain forest.

The group anticipates most of its future growth will come from its Asian operations, where strong demographic trends and under-penetrated markets offer attractive growth opportunities. It currently operates nine clubs across Bangkok (Thailand) and Singapore. These are positioned as premium health clubs and the Virgin brand is a recognised differentiator. Members in these markets participate in group exercise classes (such as

Brait's market value compared to published net asset value



Source: Factset, company reports

spinning or aerobics) more regularly than in any other region, and often visit clubs as much for socialising as for exercise.

Virgin Active has delivered robust earnings growth in recent years. We believe it is well positioned to capitalise on enduring demand for healthier lifestyles and that it will continue to optimise its club portfolio in larger markets and grow its estate in the East.

Active shareholders

Brait's investment model is designed for active involvement in strategy at investee companies. This enables Brait to act decisively when challenges arise - as demonstrated in recent years with the turnarounds achieved at both Premier Foods and Iceland Foods.

Premier Foods is a leading SA food producer with iconic brands including Iwisa No. 1 maize meal, Snowflake flour and Blue Ribbon bread. After taking an initial interest in Premier in 2011, Brait strengthened the management team and supported a R3 billion capital investment programme. This enabled Premier to upgrade and expand its mills and bakeries to achieve better quality, invest in new products that extended its brands into adjacent categories, and acquire complementary businesses that provide diversification or scale advantages.

These changes have led to significant growth in market share (see chart below) and a six-fold increase in trading profits over the last seven years. We believe Premier will continue to benefit from its investment programme and is well positioned to navigate the challenging consumer environment over the coming years.

Iceland Foods is a value-orientated UK food retailer specialising in frozen foods, which contribute a third of its sales. Traditional branded groceries contribute the remainder.

After Brait initially acquired an opportunistic minority interest in 2012, Iceland Foods experienced a very challenging trading period. Low-cost discount food retailers gained market share and food deflation swept the market. Its earnings declined 35% between 2013 and 2015.

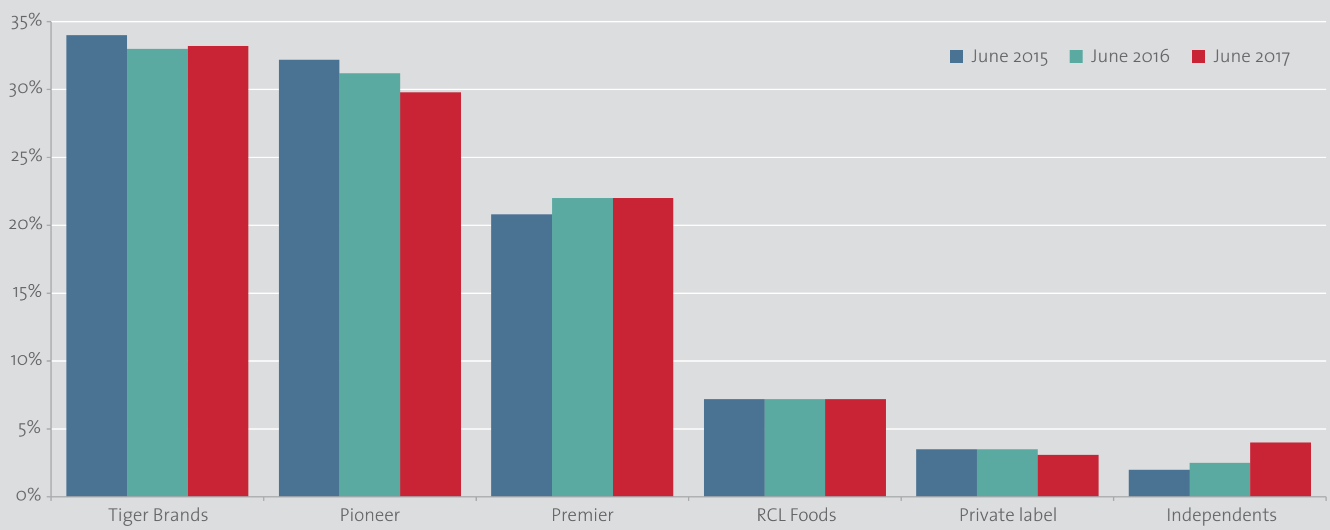
Brait increased its shareholding to 60%, strengthened management and invested in the business. Specifically, it invested in innovative new products, a promotional campaign, a significant store refurbishment plan and a new operating format that trades in parallel to the original model.

These interventions have again shown excellent results in what continues to be a very challenging market, with Iceland growing revenue ahead of the market (see graph overleaf) and a recovery in earnings.

Why all the fuss about New Look?

In 2015, Brait acquired a controlling interest in New Look at a valuation of £1.9 billion. The majority of New Look's sales come

Total SA market share of food sales (June 2015 - 2017)



Sources: BofA Merrill Lynch Global Research estimates, Nielsen

Seeing value in Brait through the noise

from the UK where it is the second-largest ladies apparel retailer, with a specific focus on value fashion.

Buoyed by strong operating performance and high valuation multiples for similar companies, Brait revised its own valuation of the business up to a peak of £3 billion in March 2016. This optimism changed rapidly, however, as the operating environment in the UK toughened.

New Look's trading performance began to falter around the time that the UK voted to leave the European Union in 2016. Already under pressure from growing competition by online retailers, New Look was caught off-guard by the Brexit vote and the slow-down in consumer spending that followed. The sharp depreciation of the pound compounded the slowdown in sales, and profitability has declined precipitously.

However, New Look's true Achilles heel is its gearing. By September 2017, the group owed more than £1.2 billion to debt holders, compared to annual cash earnings before interest and tax of only £90 million. This is an unsustainable position and, without a substantial and rapid improvement in profitability, it is unlikely that Brait will realise any value for its shareholding in New Look.

In Brait's most recent assessment of value for its investments, the carrying value for New Look was slashed to zero. This represents a substantial loss and has been an important factor in the decline in Brait's share price.

In response, Brait has acted as it has in the past to address underperforming investments - by strengthening management and supporting an investment programme.

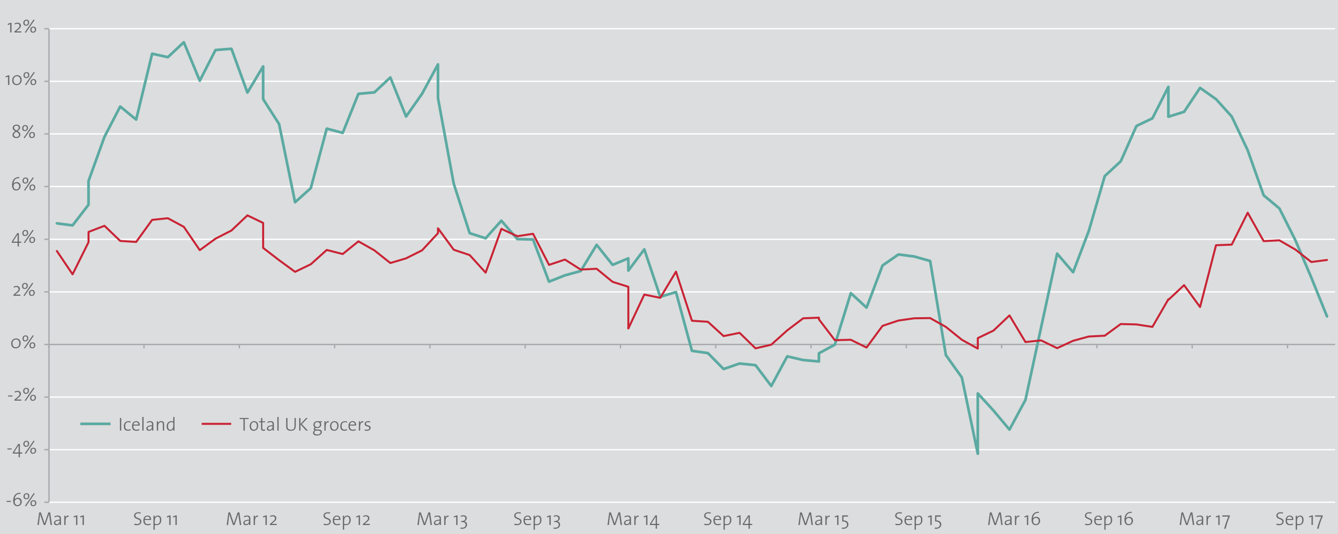
A new management team is in place and the business has secured liquidity that provides the flexibility for it to attempt a turnaround. Any recovery will only be evident toward the end of 2018 due to the design and procurement lead times common in apparel retail. Until then, it is likely that New Look will have to invest in marketing and reduce product prices, and that results will deteriorate further.

Not paying for the risk

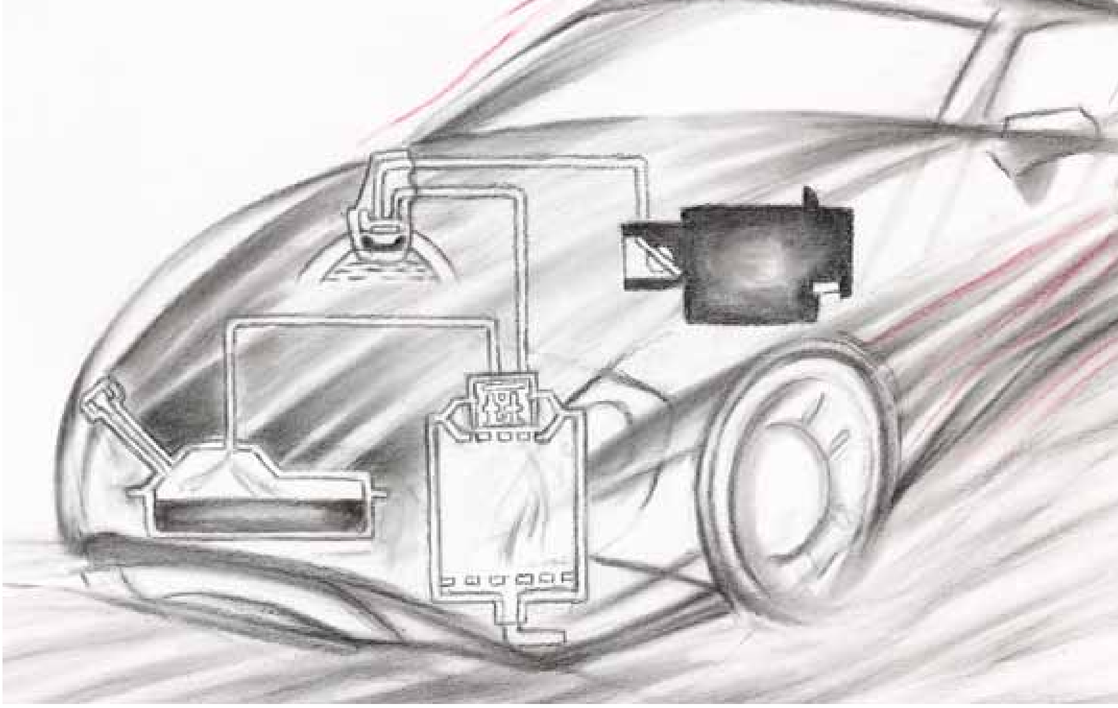
We don't know whether New Look's earnings can recover sufficiently for it to represent any value for shareholders. However, at current market values, we don't believe investors are paying for this asset. This means investors avoid the risk that the business fails, but retain the potential benefit if it succeeds.

Our clients were not shareholders in Brait when the market value represented extreme optimism for the company's assets. Now we believe the share price has over-reacted and undervalues the company's remaining, high-quality assets. As such, we hold Brait shares in our clients' funds. UP

UK grocery store sales growth



Source: Kantar, Citi



Clean air is good business for Ingevity

Daryn Munnik - Associate Analyst

Ingevity is a US-listed specialist chemicals and carbon materials manufacturer. Originally formed as a division of paper and packaging manufacturer MeadWestvaco (now WestRock), the company uses co-products from the paper-making process to produce its diverse portfolio of products. As a result, the most important raw material for its products is sourced from renewable resources - trees.

Clean air is good business for Ingevity

Ingevity's chemical and carbon products are used in applications as varied as asphalt paving, oil exploration and extraction, lubricants, agrochemicals, and vapour emissions control systems in cars and trucks. Unbundled as an independent company in 2016, the business has two divisions: Performance Chemicals and Performance Materials.

Performance Chemicals

Ingevity's Performance Chemicals division develops and manufactures a range of chemical products derived primarily from pine-based crude tall oil (named after the Swedish word for pine oil, *tallolja*) - a co-product of the kraft pulping process used by many paper mills. This viscous resin is left over after the cellulose wood fibre is converted to paper.

Supplying customers around the globe from its manufacturing operations in the United States, the division refines crude tall oil to produce chemicals and additives for use in various industrial markets:

- Pavement technologies: a range of products and technologies used in the construction and maintenance of roads. In particular, its chemical additives enable the application of asphalt at lower temperatures, extending the period in which road construction and repair is possible into winter months.
- Oilfield technologies: chemical additives used in the exploration and extraction of oil via both conventional and fracking methods. With applications such as fluid-loss control and corrosion control on key equipment and pipes, its products are beneficial in reducing the cost of producing a barrel of oil.
- Industrial specialities: this includes products such as adhesives, inks, agrochemicals and lubricants.

As a result of depressed oil prices since 2014, reduced demand for oilfield technology products has put pressure on the division. However, cost-saving initiatives and lower input costs have meant that its financial performance has exceeded expectations. Oil prices have increased over the last six months and are close to our long-term price forecasts. We expect that the higher prices will be beneficial to the division's earnings expectations. In addition, Ingevity has announced its intention to acquire a competitor's pine chemical business which will add scale and synergies to its existing Performance Chemicals operations.

Performance Materials

The Performance Materials division is the leading global manufacturer of highly engineered, sawdust-based activated carbon, used in the petroleum vapour emission control

Carbon canister vapour emissions control system

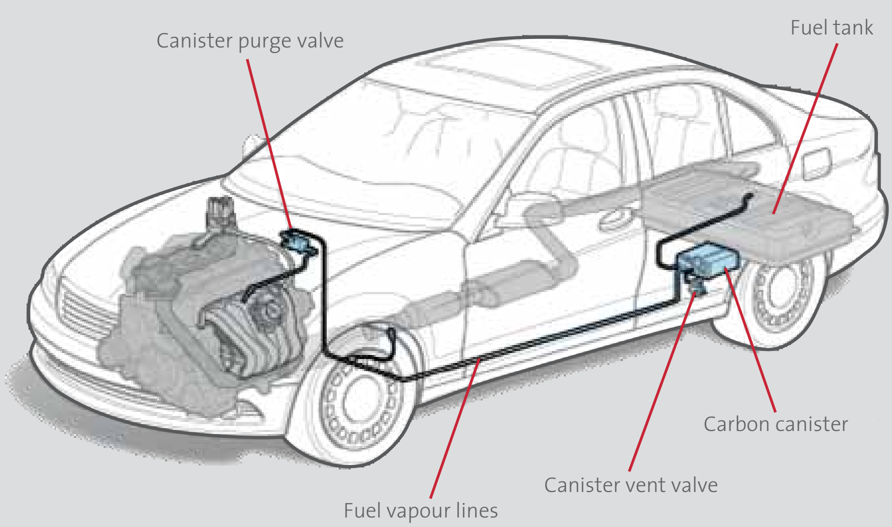


Image courtesy of ClearMechanic.com

systems of automobiles. The division also produces a range of activated carbon products for food, water, beverage and chemical purification.

Customers are served globally from manufacturing operations in the United States and China. The division contributes approximately a third of group sales, however, it contributes more than 50% of profits. Ingevity is the largest supplier of activated carbon for vapour emission control systems (15 times larger than the next largest competitor based on sales revenue). This results in economies of scale, enabling global reach.

Produced from hardwood sawdust using chemical catalysts (typically phosphoric acid or zinc chloride), activated carbon is a highly porous material that is very effective at capturing and storing petroleum vapour emissions.

When petroleum evaporates and these vapours combine with nitrogen oxide in the air, in the presence of sunlight, "ground level ozone" and smog is created. Ground level ozone can cause a variety of respiratory health problems and has harmful effects for vegetation and ecosystems. These petroleum vapours are released from vehicles throughout the day:

- While a vehicle is parked, especially during warmer daytime temperatures, the fuel evaporates and vapours are released from the fuel tank.
- As "running loss", due to the evaporation and expansion of vapours in the fuel tank from increased temperatures as a result of operation of the vehicle.
- "Hot soak" emissions which happens during the first hour that a vehicle is parked after operation.
- During refuelling.

Ingevity produces two components used in vehicle vapour emission control systems to reduce the release of these vapours: a carbon canister and a device known as a honeycomb scrubber.

The carbon canister, in simple terms, is a canister of activated carbon that acts like a sponge, absorbing and storing petroleum vapour. Once the vehicle is started, the stored vapour is fed back to fuel the engine, something like condensation being fed back into an irrigation system. The larger the canister, the greater its capacity for storage before needing to purge its contents - and therefore the greater the percentage of emissions that can be captured throughout an average day. Some more sophisticated systems also include an on-board refuelling vapour recovery

Percentage of new car sales to be compliant under incoming regulation

Region	2018	2019	2020	2021	2022	Estimated implied compound annual growth rate for Ingevity (2017 - 2022)
US & Canada	60%	60%	80%	80%	100%	20%
China				100%	100%	>20%
Europe			100%	100%	100%	10%

Source: Ingevity, Kagiso Asset Management system, able to capture vapours during the refuelling process, and a three-litre carbon canister (enough capacity to capture 98% of emissions from parking and running loss throughout the day and night).

To capture the last vapours and ensure maximum efficiency (a regulatory requirement in some regions), an additional device can be added - the honeycomb scrubber. This is made from the same activated carbon material, but moulded into a honeycomb structure that increases its capture and storage efficiency. The device is highly specialised, enabling premium pricing and making it very profitable for Ingevity.

As a result of increasingly stringent environmental regulation, vehicle manufacturers in certain markets are required to increase the size of these canisters in vehicles to meet new emission control requirements. This is expected to be a significant tailwind for Ingevity's sales growth in future.

Regulatory tailwinds

The most stringent regulations to be implemented are in the US and Canada, where, by 2022, vapour emissions from all new automobiles produced in the region must be at near zero levels. These regulations are being phased in, with a greater percentage of cars manufactured each year required to comply.

To meet these stringent requirements, vehicles will need to be fitted with the honeycomb scrubber in addition to a large-capacity canister. This is expected to support a significant growth in sales volumes for Ingevity (see table on previous page).

Stricter regulation is also in the pipeline in China and Europe. Chinese regulations should be implemented nationally by mid-2020 and earlier adoption may occur in some regions and municipalities. Though not yet as stringent as the North American regulations, the Chinese regulations will require that canister sizes increase by two to three times the country's current requirement, supporting high-value sales growth for Ingevity in the market.

The new European standards are expected to be implemented in the last quarter of 2019. The regulations are anticipated to be less stringent than China's and will likely require an increase in canister capacity of between 30% to 70% of current requirements.

The increased regulations could see Ingevity's revenue from carbon materials increase by 10% per year between 2017 and 2022, doubling the division's revenue within five to seven years. Increasing demand for its higher margin honeycomb scrubber is also expected to increase its profitability.

These vapour capture devices are critical for automobile manufacturers' environmental compliance, and their cost is minimal relative to the total vehicle production cost. Through its proprietary technology, trade secrets and manufacturing know-how, Ingevity has unmatched capability to manufacture the high performance activated carbon products required for these devices. In addition, as the products are so important for compliance, vehicle manufacturers may be less likely to change their supplier to a new and untested producer.

Outlook

As a result of its unique history in the paper industry, Ingevity is a distinctive chemicals company and has found a valuable niche. The outlook for both its divisions is positive, with the incoming regulatory changes across various key markets highly favourable for Ingevity and significantly supportive of the company's future profitability. Clients in our portfolios with global exposure have benefitted from our holding in this quality, growing business. UP

Kagiso Asset Management Funds

Performance to 31 December 2017	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	15.3%	6.5%	10.2%	9.9%	17.6%	Apr-04	1.72%	0.42%
SA Equity General funds mean	12.6%	5.5%	9.1%	8.5%	14.2%			
Outperformance	2.7%	1.0%	1.1%	1.4%	3.4%			
Balanced Fund	13.6%	6.7%	9.6%	-	9.9%	May-11	1.52%	0.43%
SA Multi Asset High Equity funds mean	10.0%	6.3%	9.2%		9.8%			
Outperformance	3.6%	0.4%	0.4%		0.1%			
Protector Fund	10.5%	6.1%	7.7%	6.7%	10.0%	Dec-02	1.60%	0.31%
CPI + 5%[5]	9.3%	10.4%	10.4%	10.9%	10.6%			
Outperformance	1.2%	-4.3%	-2.7%	-4.2%	-0.6%			
Stable Fund	7.1%	6.5%	8.4%	-	8.3%	May-11	1.54%	0.45%
Return on large deposits*	6.4%	6.1%	5.7%		5.6%			
Outperformance	0.7%	0.4%	2.7%		2.7%			
Institutional funds[6]								
Managed Equity Fund (SWIX)	16.2%	5.5%	9.7%	10.2%	12.4%	Sep-06		
FTSE/JSE SWIX All Share Index	21.2%	9.4%	12.8%	11.7%	13.5%			
Outperformance	-5.0%	-3.9%	-3.1%	-1.5%	-1.1%			
Managed Equity Fund (Capped SWIX)	13.6%	-	-	-	13.6%	Jan-17		
FTSE/JSE Capped SWIX Index	16.5%				16.5%			
Outperformance	-2.9%				-2.9%			
Domestic Balanced Fund[7]	15.5%	5.9%	8.0%	-	8.9%	May-07		
Peer median[8]	10.9%	7.4%	9.8%		10.1%			
Outperformance	4.6%	-1.5%	-1.8%		-1.2%			
Global Balanced Fund[9]	14.8%	7.8%	-	-	10.5%	Jul-13		
Peer median[10]	11.1%	7.7%			10.8%			
Outperformance	3.7%	0.1%			-0.3%			
Sharia unit trust funds[4]								
Islamic Equity Fund	11.1%	6.6%	9.3%	-	12.1%	Jul-09	1.45%	0.19%
SA Equity General funds mean	12.6%	5.5%	9.1%		12.8%			
Outperformance	-1.5%	1.1%	0.2%		-0.7%			
Islamic Balanced Fund	9.1%	5.5%	8.4%	-	7.4%	May-11	1.47%	0.14%
SA Multi Asset High Equity funds mean	10.0%	6.3%	9.2%		9.8%			
Outperformance	-0.9%	-0.8%	-0.8%		-2.4%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	*6.6%*	*-2.4%*	*8.2%*	*-4.7%*	*8.2%*	*-4.7%*	*10.9%*	*-9.0%*	*11.9%*	*-9.0%*
Balanced Fund	*4.8%*	*-1.5%*	*5.5%*	*-4.2%*	*6.2%*	*-4.2%*	-	-	*6.2%*	*-4.2%*
Protector Fund	*2.5%*	*-1.7%*	*3.4%*	*-4.2%*	*4.8%*	*-4.2%*	*7.9%*	*-5.3%*	*9.5%*	*-5.3%*
Stable Fund	*2.1%*	*-0.7%*	*3.8%*	*-3.5%*	*4.0%*	*-3.5%*	-	-	*4.0%*	*-3.5%*
Islamic Equity Fund	*5.3%*	*-2.6%*	*7.3%*	*-4.6%*	*8.1%*	*-4.9%*	-	-	*8.1%*	*-4.9%*
Islamic Balanced Fund	*4.0%*	*-2.0%*	*4.6%*	*-3.0%*	*8.2%*	*-5.4%*	-	-	*9.1%*	*-5.4%*

[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 December 2017; [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 December 2017; [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] CPI for December is an estimate; [6] Source: Kagiso Asset Management; gross of management fees; [7] Domestic Balanced Fund benchmark returns are an estimate for December; [8] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [9] Global Balanced Fund benchmark returns are an estimate for December; [10] 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).

KAGISO
Asset Management

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