UP

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Kagiso Asset Management

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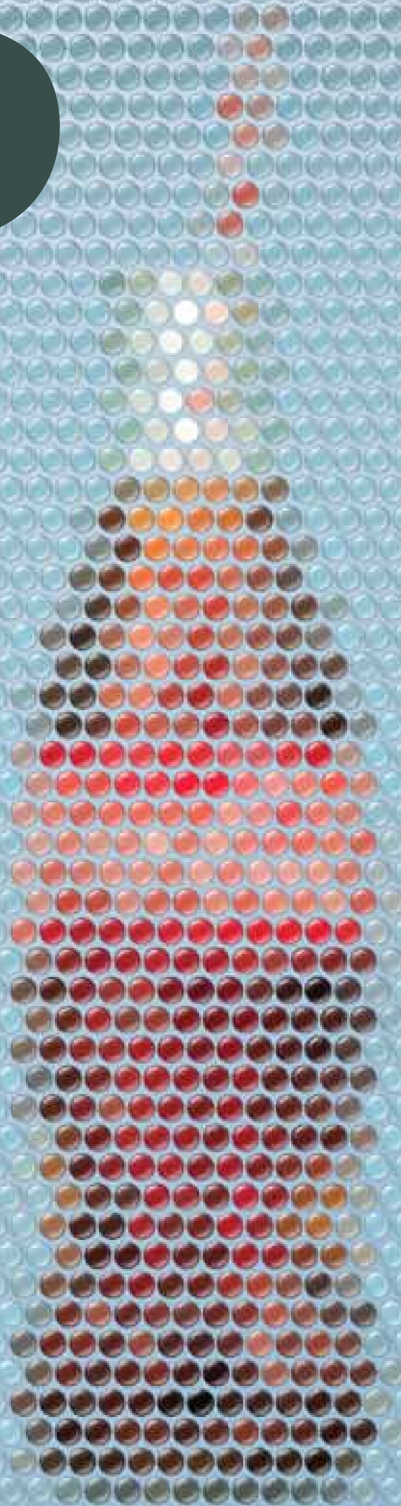

Unwrapping the packaging industry pg 1 | Tencent: China's most powerful platform pg 5

Glencore after the commodity supercycle pg 13

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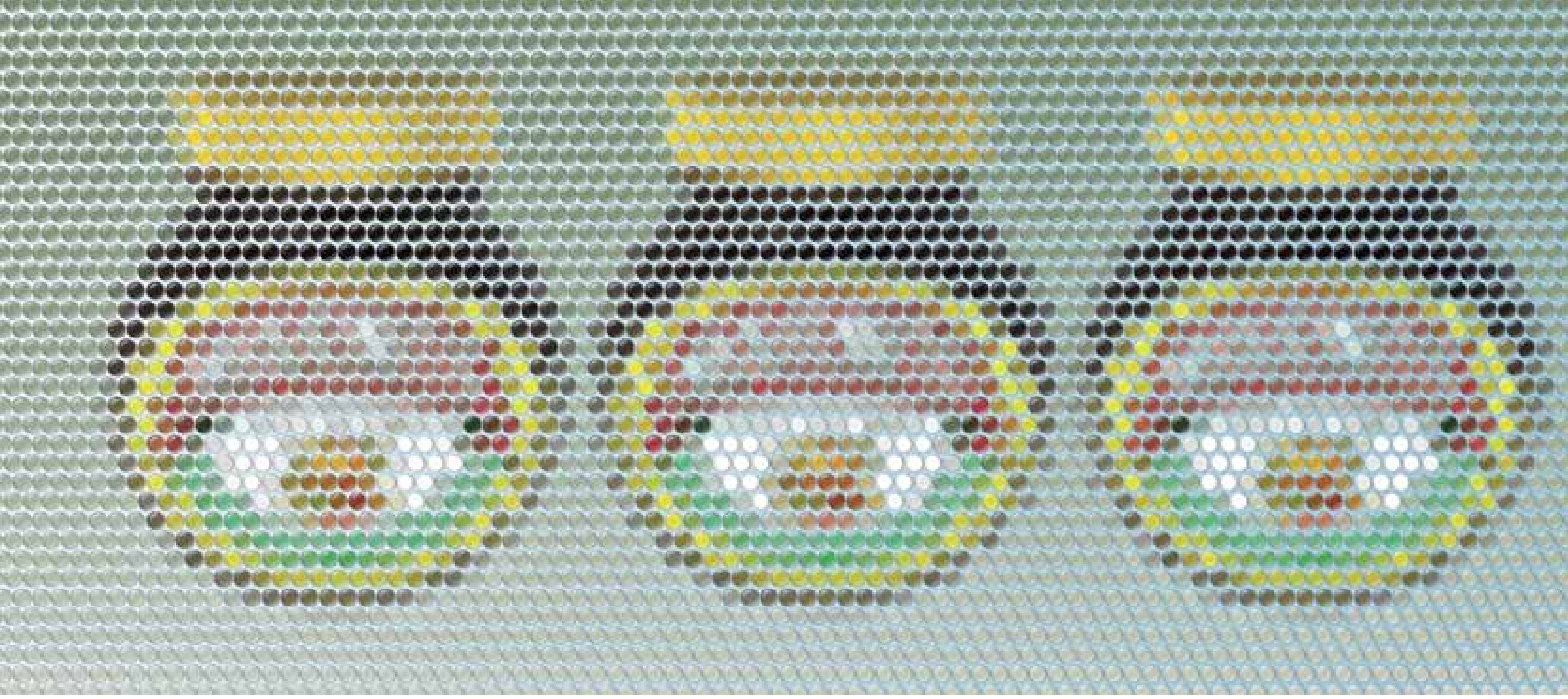


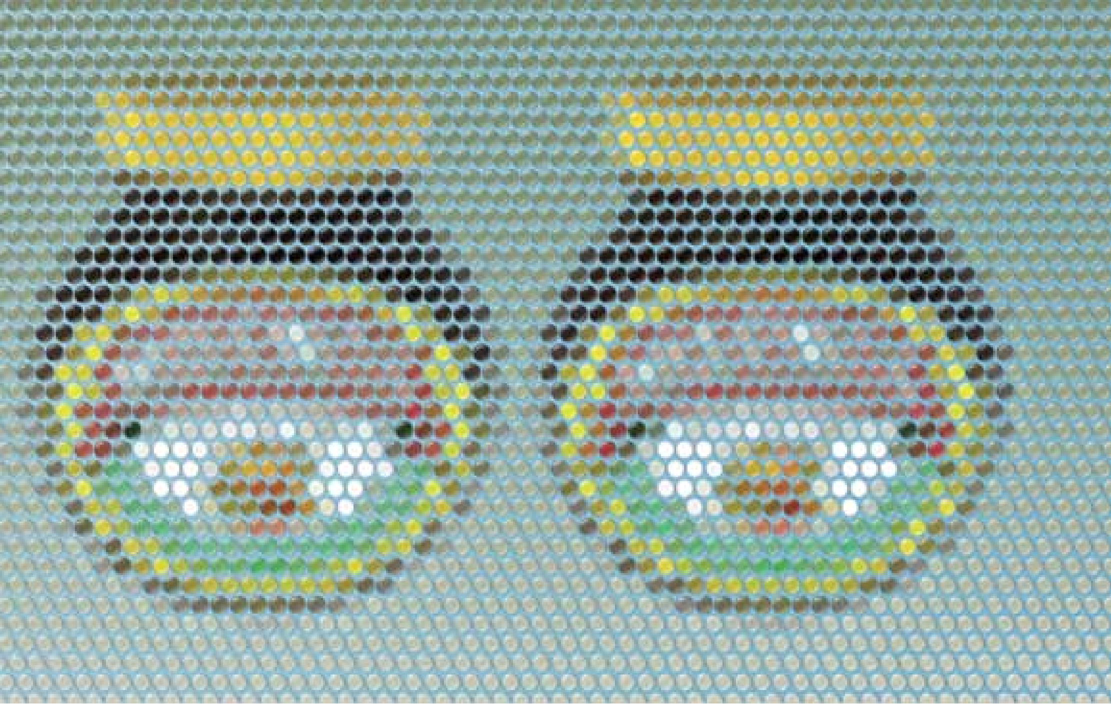
1 Unwrapping the packaging industry Lizelle van Rooyen

5 Tencent: China's most powerful platform Aslam Dalvi

9 A preferred asset class Reza Ismail

13 Glencore after the commodity supercycle Daryn Munnik

17 Performance table



Unwrapping the packaging industry

Lizelle van Rooyen - Associate Analyst

"The concept of packaging dates back to our earliest history, when people used leather pouches and stoneware to store and protect food. Since then, packaging has evolved significantly and plays a central part in our daily lives.

Its role goes far beyond the simple functional uses of containment, transportation and protection of goods. It has become a marketing tool and a means to connect with consumers, enhance brands and add value through convenience."

Unwrapping the packaging industry

In this article, we consider the key trends shaping the consumer packaging industry and explain how companies are adopting innovative solutions in order to stay relevant and competitive.

Market dynamics

Packaging is a diverse corporate sector with multiple consumer and industrial end-uses. The consumer market accounts for 60% of packaging produced, while industrial applications make up the balance. The pie chart below shows that the industry is largely exposed to staple goods, making it relatively immune to economic cycles.

The industry is estimated to generate US$839 billion in revenues globally and has grown at an average rate of 2.4% a year over the past five years. This is expected to accelerate to 3.5% a year over the next five years. The dynamics shaping industry growth differ in emerging versus developed markets. Emerging market growth is fuelled by new consumers and increasing consumption demand, while growth in mature consumer markets is driven by lifestyle and demographic changes.

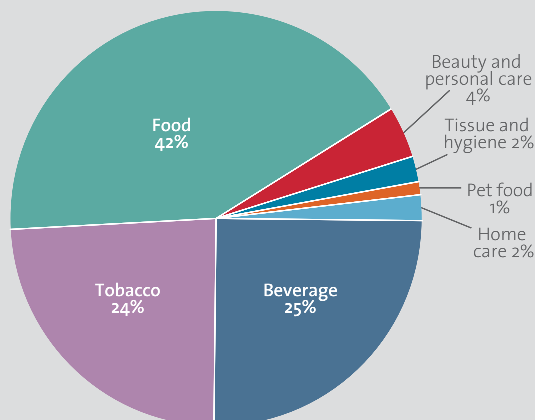
As trends towards urbanisation and rising incomes create new consumers and enhance buying power, emerging markets should experience sustained demand for packaged goods. There is a positive correlation between average income per person (GDP per capita) and packaging consumption. As a result, emerging markets still lag developed markets in the volume of packaging consumed, with significantly higher relative growth in packaging demand achieved as these economies formalise (as shown in the graphic on the opposite page).

In developed markets, growth is currently shaped by shifting lifestyle trends. The rise of online retail, for example, is stimulating the need for board packaging used to box and protect goods for delivery. A further example is the demographic shift in favour of smaller and single households which has resulted in increased demand for smaller pack sizes and single portion packs, creating more packaging per unit of product consumed.

Innovating and adapting

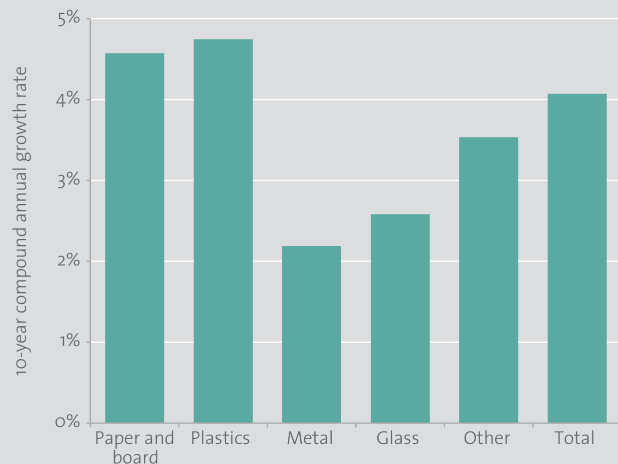
To add maximum value and differentiate offerings, packaging companies collaborate closely with fast moving consumer goods (FMCG) companies. They look for ways to extend product shelf-life, improve transport efficiencies, limit environmental impact and use improved technologies to create solutions for specific demands. An example of this problem-solving innovation is the development of the press down and twist childproof lids used for various pharmaceutical products.

Consumer market: end-uses by share of industry value



Source: Euromonitor

Total global packaging market value growth (US$)



Sources: Bloomberg, Smithers Pira

When dealing with their large, multinational FMCG company customers, packaging companies have had to focus on innovative products to ensure their profitability. These customers have significant bargaining power and exert downward pressure on prices for higher volume, but are willing to pay for interesting and unique designs that attract attention and offer cost and logistics benefits.

Four important trends that are currently reshaping the market and driving innovation are convenience, sustainability, material substitution and an emphasis on brand-building.

Convenience

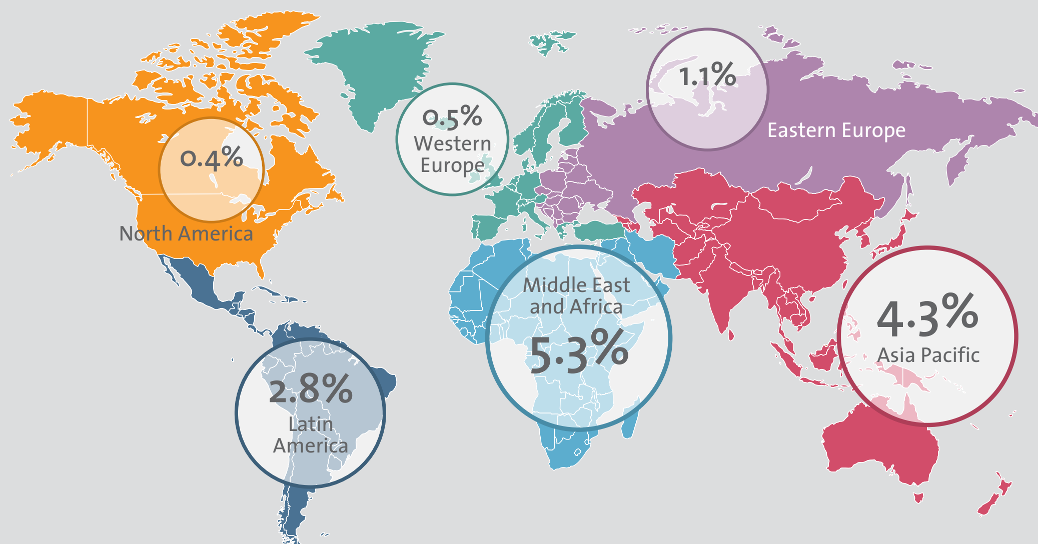
On-the-go consumer lifestyles have fuelled demand for convenience packaging that is easy to use and saves time, such as the squeezy plastic tomato sauce bottle and the pull-open tab on tinned goods. Consumers want resealable, microwaveable, portable and even self-heating packaging formats.

Sustainability

Given the potential for waste accumulation as a side-effect of the industry, there is increased focus on improving recyclability through design and material use, without compromising on quality. Of the roughly 3.5 million tonnes of packaging consumed in South Africa, 57% was collected for recycling in 2015, a trend that is set to improve. For example, last year 52% of bottles made locally from polyethylene terephthalate (PET) were recycled. This is a significant improvement from just 16% in 2005 and is targeted to increase to 70% by 2022. South African-listed plastics and paper packaging producer, Mpact, has recently invested in a PET recycling plant, which will use recycled PET material to manufacture new PET bottles. In addition to generating good returns on capital, this R350 million project will mean that 29 000 tonnes of plastic bottles will be diverted from landfills every year.

Another sustainability-oriented trend is 'lightweighting', with packaging being redesigned to reduce weight and material inputs. This generates savings across the supply chain and has environmental benefits due to the lower material use and reduced CO_2 emissions from decreased transport weight. The average weight of a 330ml steel beverage can has dropped by 60% over the last 40 years, from 50g to 20g, and the trend is similar for everything from wine bottles to yoghurt tubs. In South Africa, Nampak has converted its tinplate can lines to aluminium, in line with global trends. Aluminium cans weigh 60% less than tinplate cans, are recyclable and chill more efficiently than comparable materials.

Forecast annual packaging volume growth rates (2014-2019)



Source: Euromonitor

Unwrapping the packaging industry

Material substitution

Over the last decade, plastic use has grown rapidly, stealing market share from metal and glass due to its versatility, light weight and ease of transport. This shift is evident on store shelves, where products such as peanut butter and mayonnaise are now packaged in plastic jars and more stand-up plastic pouches used for products such as soup. Its durability and malleability makes plastic easy to adapt to specific designs and requirements. Paper packaging and biodegradable plastics are expected to grow their market share in the future due to their environmentally friendly characteristics.

Brand-building

Packaging is a powerful way to market and promote products. Clever, creative packaging can boost sales and differentiate products. Recent examples include The Coca-Cola Company's 'Share a Coke' campaign[1] which used digital printing technology to create a sense of personalised engagement with consumers. The Castle Lite brand made use of thermochromic technology, which enabled a change in bottle colour when a beer is "extra cold". Simpler changes can also be used to shift brand perception and association. For example, glass packaging can be used to create a sophisticated feel and reposition a product from mainstream to premium.

More than just bubble wrap and boxes

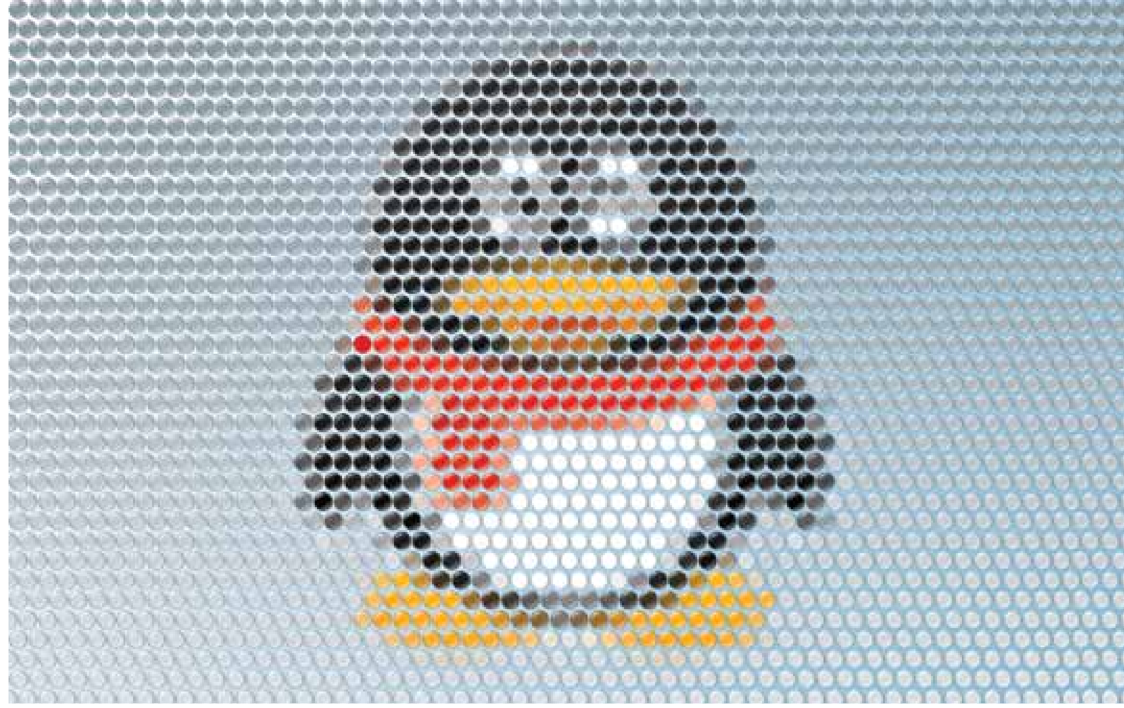
Packaging is an exciting industry that continues to offer growth. Distinctive packaging is an asset to brands and, consequently, is increasingly complex - both in design and function. Successful packaging companies have adopted a focused strategy on specific segments and niche products, resulting in specialisation and economies of scale. They have been flexible in adapting to demands and trends. Clients in our portfolios have exposure to such companies through our holdings in Mondi, WestRock and Bowler Metcalf. UP

[1] Coca-Cola branding was removed from one side of its bottles and replaced with an invitation to "Share a Coke with [one of 250 names popular in each specific market of distribution]".

The trends at a glance

Trend	Branding strategies	Internet retailing	Lightweighting	Convenience	Product substitution	Smaller households	Recycling and waste reduction
Impact on demand	Designs to differentiate products and make brands stand out from the crowd	Board packaging to protect goods for transport	Designs which decrease weight through the changes in the type and volume of material used	Resealable, microwaveable, portable, tailored to the on-the-go lifestyle	A shift from glass and metal material use in favour of plastics and paperboard	More packs, in smaller portion packages	Paperboard, returnable glass, recycling, re-use and biodegradable plastics
Examples			Then 750g Now 350g Weight 30%				PETE

Source: Kagiso Asset Management research



Tencent: China's most powerful platform

Aslam Dalvi - Associate Portfolio Manager

"Stories of disruptive, technology-innovation driven businesses which revolutionise an industry have become near cliché in recent years. Facebook, Google and Uber are but a few examples of companies that have disrupted established business models, transformed our daily lives and created a permanent shift in shareholder value in favour of these emerging leaders."

Tencent: China's most powerful platform

Invariably, early investors in successful disruptive technology companies have benefited from substantial capital appreciation over time. In South Africa, Naspers's investment in Tencent has proven to be just such a defining investment.

Naspers's Asian value

In 2001, Naspers acquired a 46.5% stake in Tencent for a modest US$32 million. It was a bold move given that the value of many information technology companies had crashed the year before, after the "dot com bubble" burst. However, the investment proved remarkably successful, and Naspers's remaining 34% stake is now worth in excess of US$80 billion. Tencent's extraordinary growth has contributed to a near 15-fold rise in the Naspers share price, from R165 in 2001, to more than R2 300 today.

Early success in China

Founded in 1998, Tencent first became known for its PC-based instant messaging service, QQ, which was launched in 1999. Early on, the company identified the opportunity to develop its messaging platform into a portal incorporating a range of services and interactive entertainment: a PC-based gaming platform (QQ Games), a social network platform (Ozone), a music platform (QQ Music) and several basic services, including e-mail and mobile messaging.

The company also quickly seized the opportunity to monetize its rich platform of services, innovating ahead of the dominant Western internet companies of the 1990s such as Yahoo, MSN and Netscape. In those early years of internet commerce, when there were few options for consumers to pay for online services, Tencent created its own virtual currency, QQ coins, to enable users to easily purchase its goods and services. This monetization model was unique and afforded Tencent an opportunity to differentiate its products, entrench its dominant position and capture a share of the Chinese consumer wallet.

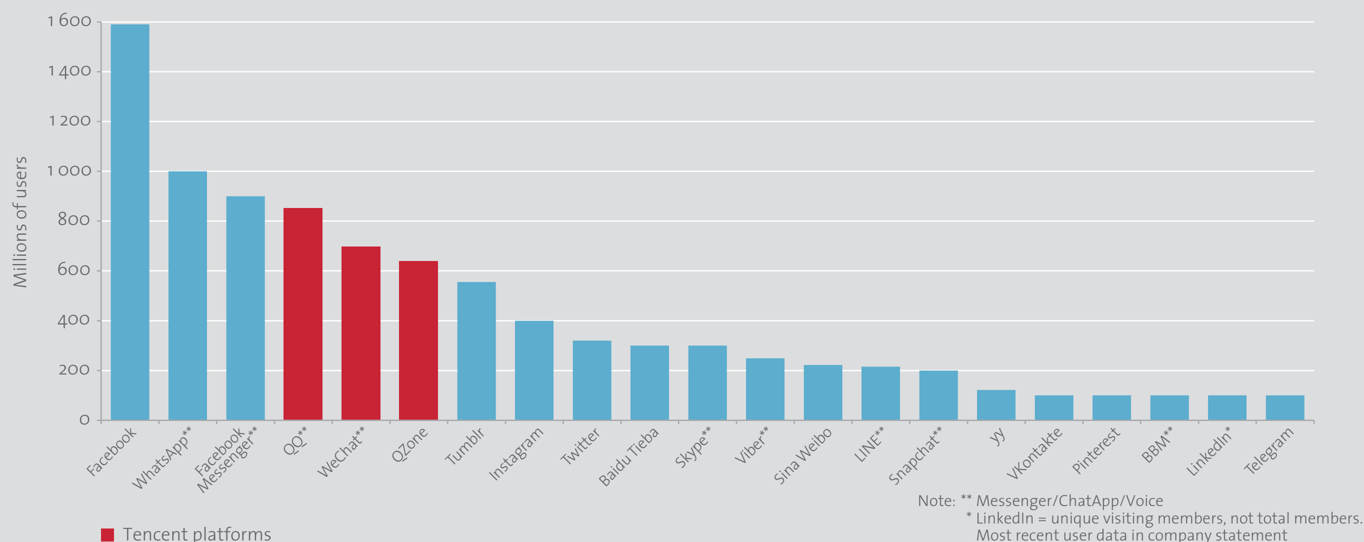
Today, the business is host to China's leading internet platforms in PC and cross-platform messaging applications, games, music and mobile news. QQ, now a household name in China, has in close to 900 million active users, second only to Facebook worldwide (see chart).

Strengths and advantages

Three key business strengths underpin Tencent's success: it operates in markets with long-term growth dynamics, it benefits from regulatory support from government and it has achieved significant platform scale.

Tencent's operations in the Chinese market offer it exposure to multiple long-term areas of growth, including rising consumer incomes, urbanisation and the structural market shift from

Global social networks by number of users in 2016



Note: ** Messenger/ChatApp/Voice
* LinkedIn = unique visiting members, not total members.
Most recent user data in company statement
Sources: Facebook, We Are Social, WhatsApp, Twitter, Tumblr, LinkedIn, Google

offline to online (O2o) retail, which will enable internet companies to capture an increasing share of Chinese consumer spend.

Regulatory support is derived from the Chinese government's national censorship policies that effectively exclude Tencent's global competition. Platforms including Facebook, Twitter, Instagram, Tumblr, SoundCloud, Google Hangouts and Google Play are all blocked from the market. This lack of entertainment alternatives for consumers has helped Tencent to scale quickly and become globally competitive.

The significant scale achieved on its platforms is now a further key strength for the business, enabling rapid market adoption of new products and services. The most recent example was the 2012 launch of Weixin (known as WeChat outside of China). Using its QQ platform to promote the application, Weixin grew to over 800 million daily active users in just three years (chart below) and now contributes 25% of group revenue. To the outsider it is difficult to conceive of the role Weixin plays in Chinese daily life: users can message, share images, read news, buy from e-commerce sites, order food, follow celebrities and book hotels or taxis. It is the top personal mobile gateway for online social and e-commerce needs. This is an extraordinary achievement and the platform has achieved similar successes within advertising, and, more recently, financial services and video - as seen in the chart over the page.

A successful revenue model

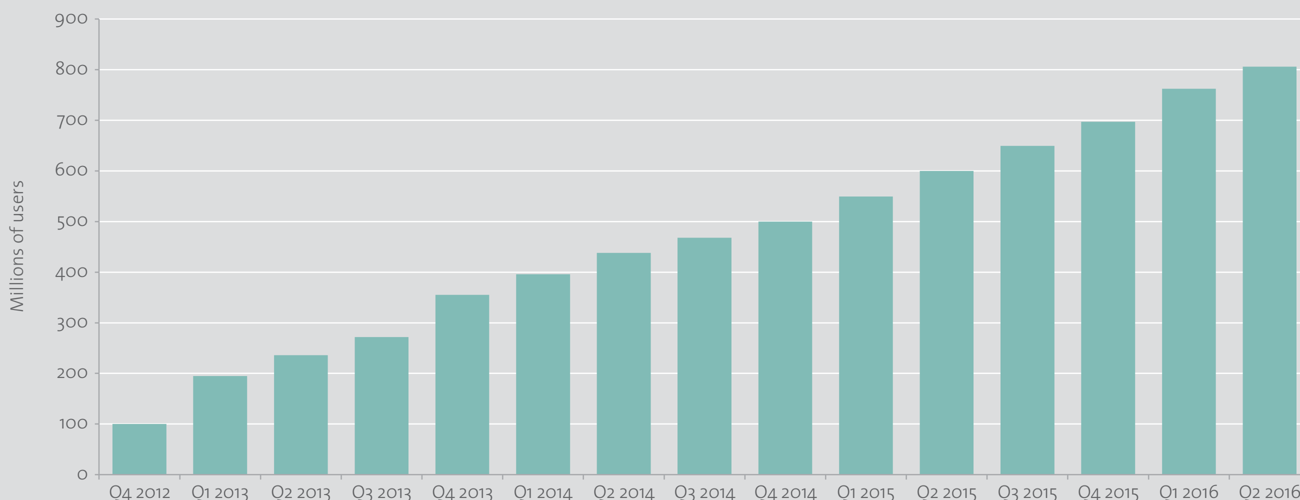
Today, Tencent generates most of its revenue from gaming, value added services (VAS) and advertising. Gaming and VAS revenue is generated from two sources: a monthly subscription-based fee and the sale of in-platform customized features or upgrades.

In the subscription-based model, widely used by many internet companies, customers pay a monthly fee to access Tencent's QQ Music, QQ Games and the QQ Video platforms. The model offers a consistent revenue stream and creates a relatively sticky base of users.

The in-platform customized features or upgrades model is more distinctive, with Tencent selling specific user-experience enhancements and upgrades within its platforms. For example, in a QQ chat session, users start out with a simple cartoon avatar, which can then be customized by changing features such as clothing, hairstyle, height and make-up - each for a small fee. On QQ Games, users can pay for 'special items' and 'boosters' within games to help further their progress, or they can purchase new gaming characters, which provide a different experience.

The extent of consumer willingness to pay for additional features is unique to China and reflects a different online

WeChat's rapid user growth



Source: company reports, Kagiso Asset Management research

Tencent: China's most powerful platform

consumer culture from that of Western markets, where customers are used to getting many customization services free or as bonus features. This spend is also indicative of the growing Chinese consumer wallet, lack of entertainment alternatives (thanks to censorship) and a growing smartphone-centric culture. Chinese consumers typically spend 30% to 40% more time on smartphones than their developed market counterparts do.

These revenue streams are likely to continue growing, considering that internet penetration is low (at 51%), and only 10% of Chinese middle-class consumption currently comprises leisure and entertainment, compared to 20% in the US.

Tencent derives over 50% of its revenue from games, with mobile advertising emerging as the next significant growth area. While Facebook derives almost all of its revenue from advertising on its platforms, Tencent's advertising revenue per user is low at only US$3 per user (versus US$15 for Facebook). This represents a further potential boost to revenue as Tencent moves further in this direction for monetisation.

Looking to the future

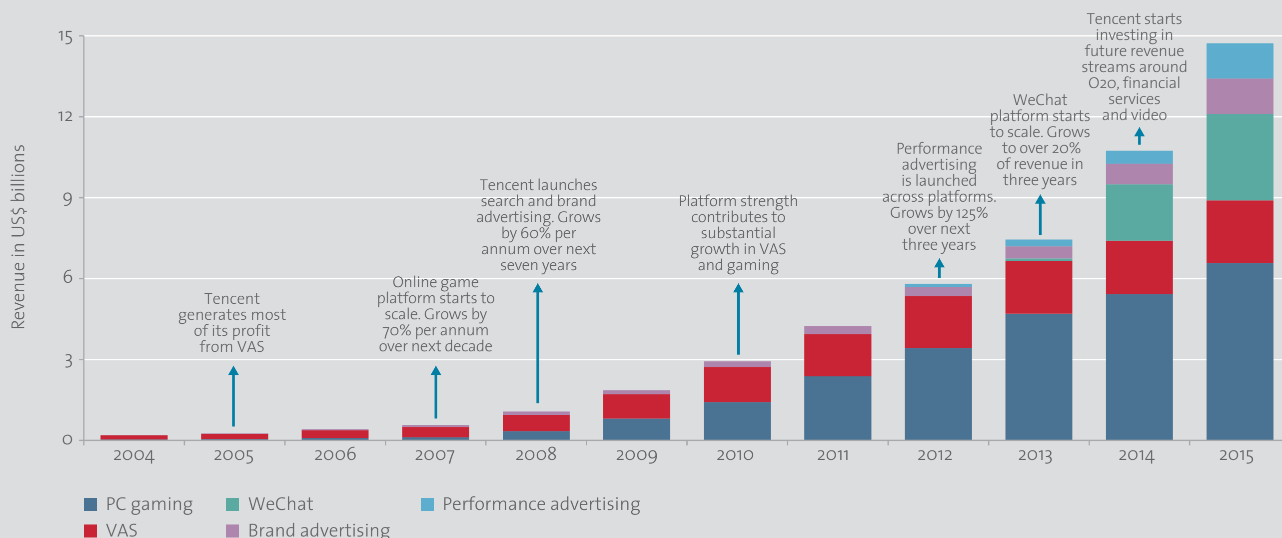
WeChat's vast ecosystem presents new growth opportunities in areas such as online to offline services (online discovery leading to offline sales), financial services, payments and video and advertising, as Tencent looks to further exploit its unrivalled access to the Chinese consumer.

Aggressive moves into international markets are a further area for future growth. Following its recent acquisition of Finnish game-maker Supercell, Tencent is now the world's top-grossing mobile games publisher. The acquisition gives it access to international gamers and should mark the first in a series of inroads into the international gaming market.

Worth the expense

Valuing Tencent is a challenge, given its many growth opportunities and the rapidly evolving digital landscape. Naspers has been a core holding in our funds for many years and our clients have participated in its meteoric rise in price. While Tencent appears expensive, we argue that focusing only on the earnings power of its current profit generating activities undervalues the attractive platforms it has created. We estimate that the eventual revenue pool across planned growth areas (advertising, video and payments) is substantially larger than its current base. Therefore, a deeper understanding of the business and its strengths leads us to believe that our clients will continue to benefit from our holding in Naspers. UP

Revenue growth of Tencent's platforms



Source: company reports, Kagiso Asset Management research

A preferred asset class

Reza Ismail - Associate Analyst

> Preference shares straddle the line between ordinary shares and bonds. Relative to ordinary shareholders, preference shareholders have a 'preferential' claim on the cash flows of a firm, in the form of a fixed or floating rate dividend. Like bondholders, however, preference shareholders are not entitled to voting rights as ordinary shareholders are.

A preferred asset class

Preference shares carry a lower risk than ordinary shares, as their owners must receive dividends before ordinary shareholders are paid dividends and therefore rank ahead of ordinary shareholders in the event of a liquidation.

In return for this preferential status, investors sacrifice the potential for capital appreciation, with pricing usually staying close to the original issuing value.

Types of preference share

Preference share issuances can take various common forms, subject to the needs of the issuing entity. They may be issued as cumulative, in which case any unpaid dividends would accrue and remain payable. Some are also issued as participating, in which case they entitle investors to a share of the company's profits, in addition to a preference dividend at a fixed rate. When a preference share has a predetermined maturity date, it is often referred to as being redeemable.

In South Africa, non-cumulative, non-participating and non-redeemable floating rate preference shares have dominated issuances and will therefore be the focus of the article.

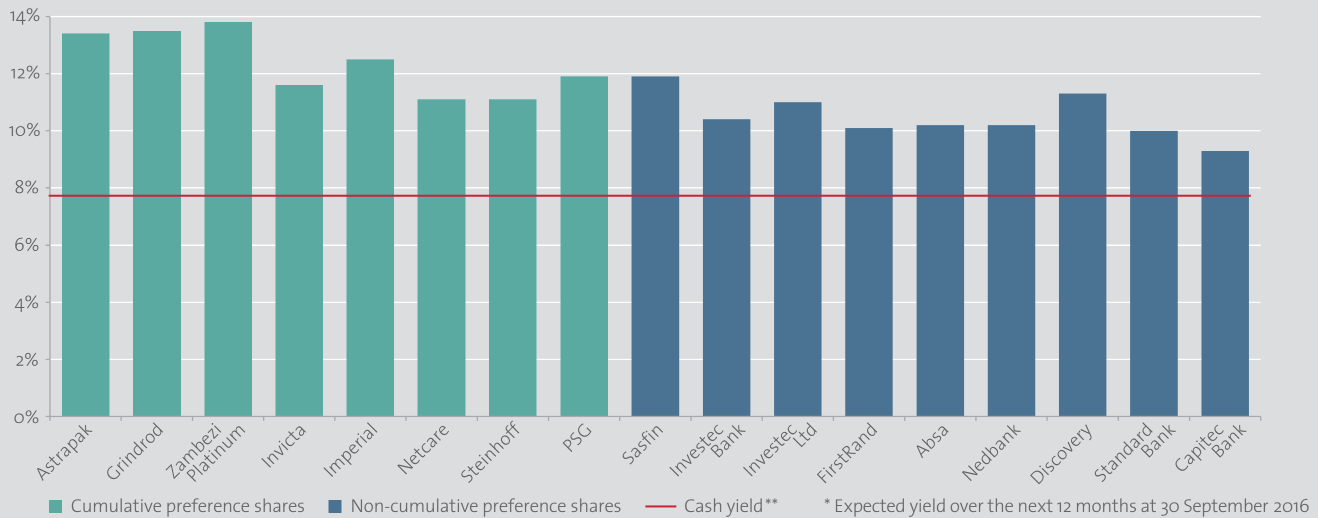
Weighing up the risks and rewards

Since 2002, most preference shares issued in South Africa were from the banking sector and have been prime-linked; meaning that they distribute dividends based on a reference rate, which is a fixed percentage of the prime rate.

These banking issuances appealed to tax-sensitive investors, as the dividends received were tax exempt. In 2013, South Africa introduced a 15% dividend tax rate, 5% higher than the Secondary Tax on Companies which had previously applied. This negatively affected the after-tax yield for preference shares and, consequently decreased their popularity. This resulted in capital losses for some early investors who bought preference shares during the initial price peak. However, the after-tax yields still compare favourably to the yields earned in the money market, which attract tax up to 40% (once the annual interest exemption has been exceeded).

Because of their hybrid nature, preference share performance might be expected to most closely resemble that of high-yielding bonds or floating-rate notes. However, for the eight-year period from August 2008 to July 2016, the cumulative pre-tax return on preference shares was below that of cash, with higher variability of total return. The key difference between a preference share and a floating rate note, as we mentioned, is that unlike a pure debt instrument, the preference dividend is not contractual in any specific year. Rather, preference shares pay a dividend only when there is income available, which increases the total return variability.

SA preference shares: prospective yields*



* Expected yield over the next 12 months at 30 September 2016
** Three-month JIBAR
Source: Kagiso Asset Management research

Because preference shares are issued by companies, investors need to be compensated for the associated credit risk. Investors should also be wary of the relative illiquidity of the asset class.

The choice preferred by SA's banks

Globally, the first-ever preference share issuance was in 1836, by the State of Maryland's public works office, to raise capital for the US railroad transportation industry. There have been two fundamental shifts in the issuance pattern of preference shares worldwide since the mid-1980s. Currently, the major issuers of preference shares are financial institutions (primarily banks) and insurance companies, and almost all carry a floating rate dividend. Before the mid-1980s, public utilities were the primary issuers and almost all paid a fixed rate dividend.

In South Africa, the history of preference share issuance is comparatively short. The first non-redeemable, prime-linked preference shares were issued by Nedbank in November 2002. The listing price was R10. As at 30 September 2016, almost 14 years later, the closing price was around R8.95 – illustrating the limited capital increase expected from the asset class.

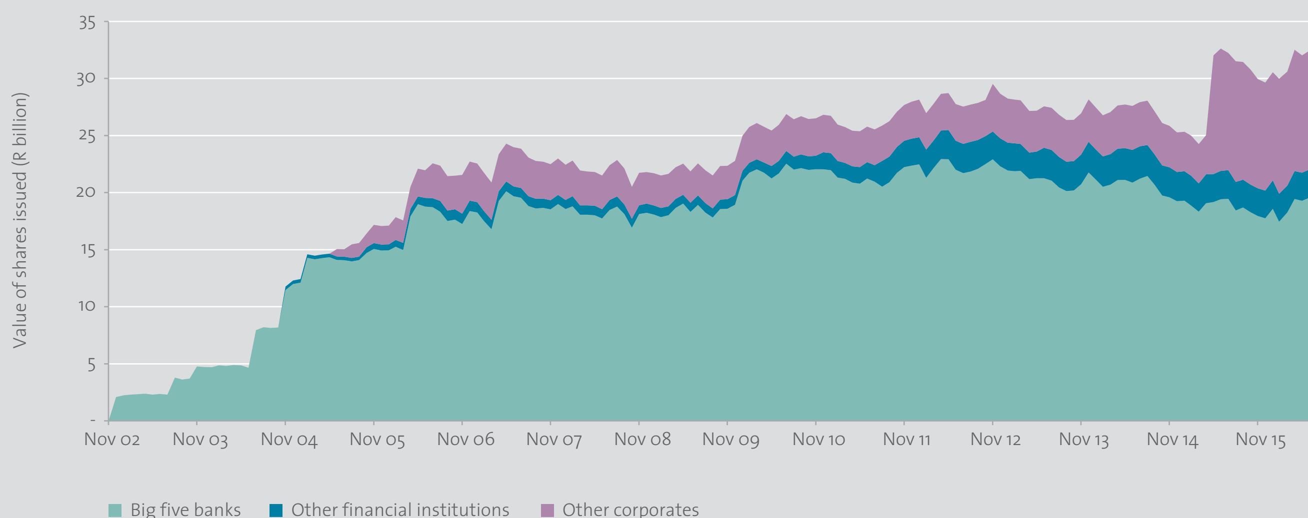
Since then, preference shares have remained a popular capital raising instrument for the local banking sector in particular. At the end of July 2016, the total capitalisation of the preference share market was R32 billion, comprising six issuances from large banks, four from other financial services companies and another seven from corporations (chart below).

After maintaining a steady issuance pattern between 2005 and 2015, total corporate sector issuance increased sharply in 2015 with the listing of the Zambezi Platinum preference share on the main board of the JSE Securities Exchange. Zambezi Platinum is a Broad Based Black Economic Empowerment vehicle for Northam Platinum.

The key attraction for all corporate preference share issuers is that the shares enable a lower debt to equity ratio than would be the case with traditional debt. They also allow a degree of payment flexibility that bonds do not offer.

For banks specifically, an additional advantage of preference share issuance was that - in the past - these instruments could be included as 'Tier 1 capital' under bank regulations. This meant that, alongside ordinary shareholder equity, issued preference shares could be used to meet the regulatory requirements for the high quality capital needed to support a bank's liabilities. They were (and remain) typically cheaper to service than common equity, and afforded banks access to a wider funding base.

Market capitalisation of SA preference shares



Source: I-Net, Kagiso Asset Management research

A preferred asset class

However, due to changes introduced in the new Basel III framework for banks (in force in South Africa since 2013), the degree to which these shares count as Tier 1 capital for banks has been gradually phased out, and will be completely eliminated by 2022. This means that an increasing proportion of preference share funding will no longer count as cheap Tier 1 capital and the banks will have to assess their funding costs relative to equivalent ranking debt funding. Based on our calculations, preferences shares will become an increasingly expensive form of funding for banks.

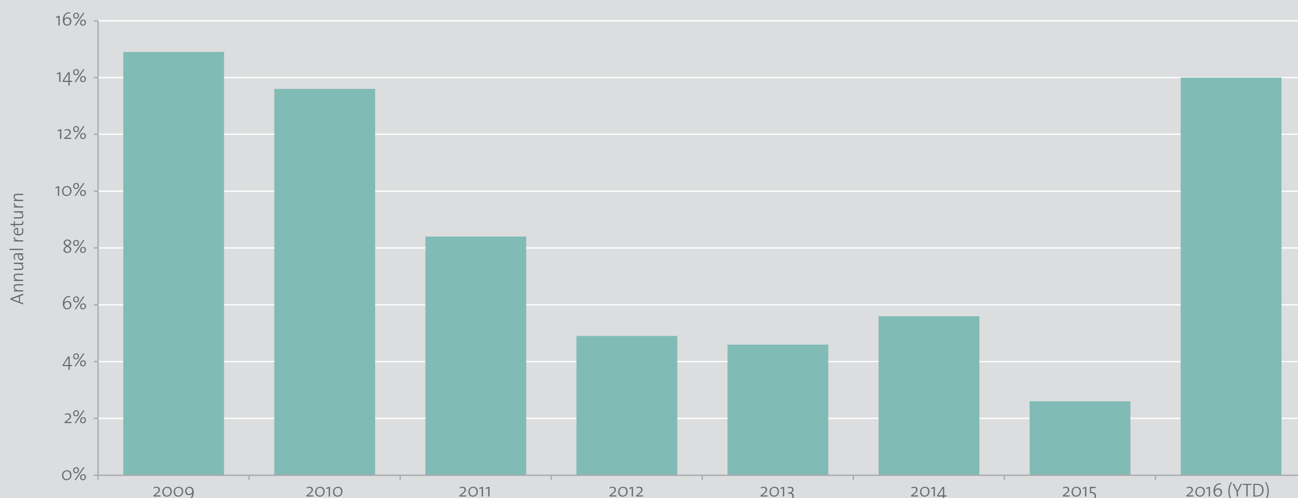
In response, local banks have started to buy back their preference shares. Some of the larger buy-back programmes have recently been executed by Capitec and Investec, and it is likely that others will follow suit. As a result of poor performance in recent years, bank preference shares have typically traded below par. Now, with the increased demand as a result of buy-back programmes, prices have risen again, creating an opportunity for capital gain (chart below).

A performance enhancer in 2016

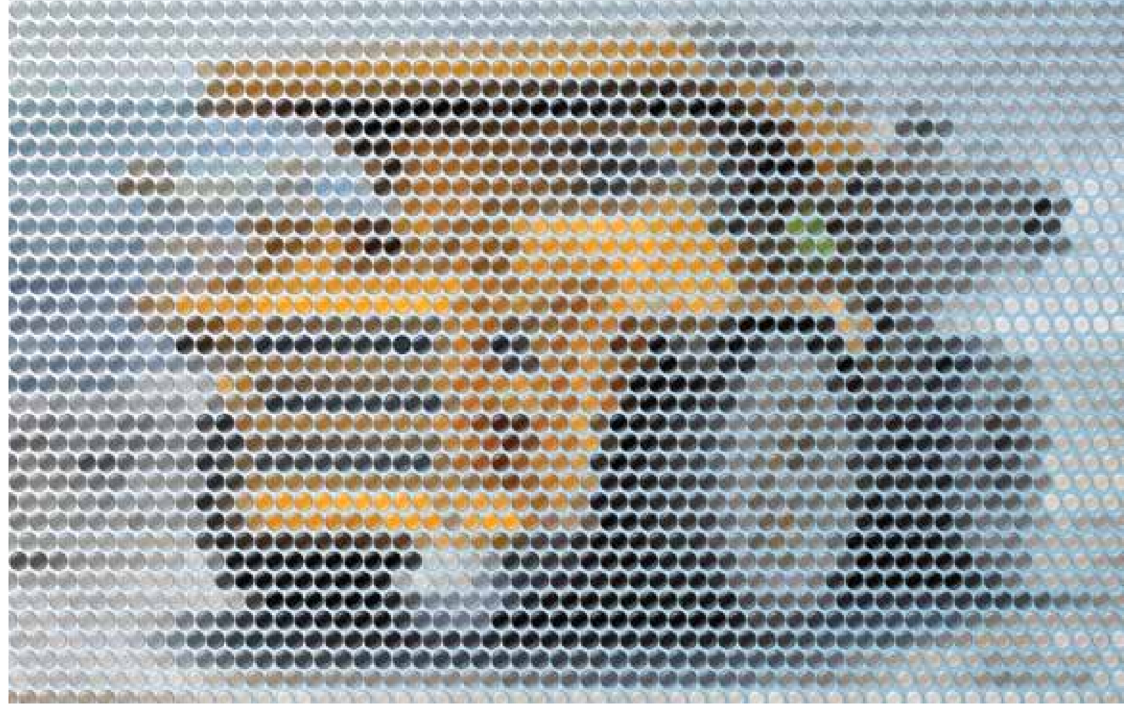
Following the changes in tax regulation and events such as the 2014 collapse of African Bank Investments, which starkly reminded investors of the credit risks for preference shares, the asset class lost popularity and prices fell. The preference share market was the worst performing South African asset class of 2014, creating an attractive entry point for diligent investors who were prepared to revisit the investment case. In the wake of the African Bank collapse, we took the opportunity to gain exposure to the market, which has proven to be a justified investment.

Preference shares have been a strong performer in our multi-asset portfolios for the 2016 year to date and we look forward to a continued differentiated source of return over the months to come. UP

Performance of SA preference shares



Sources: I-Net, Kagiso Asset Management research



Glencore after the commodity supercycle

Daryn Munnik - Associate Analyst

"Glencore is the world's third-largest diversified mining company by market capitalization. It was listed on the JSE Securities Exchange (JSE) in November 2013, with its primary listing on the London Stock Exchange. Since its JSE debut, the share price has been on a roller coaster ride, returning -1.7% in 2014, -61% in 2015 and +59% for the year to August 2016."

Glencore after the commodity supercycle

Due to the rules of the JSE at the time of its listing, Glencore was not included in the FTSE/JSE Shareholder Weighted (SWIX) Index. However, following a June 2016 change in the JSE's rules, it will now form part of the SWIX – a development that has resulted in renewed investor interest in the company.

Company overview

Glencore is a vertically integrated commodity producer, meaning that it mines, processes and markets the commodities that it trades. In addition, its marketing division sells and distributes commodities produced by third parties. This differentiates the company from its competitors, few of which have a substantial marketing business or market commodities from third parties.

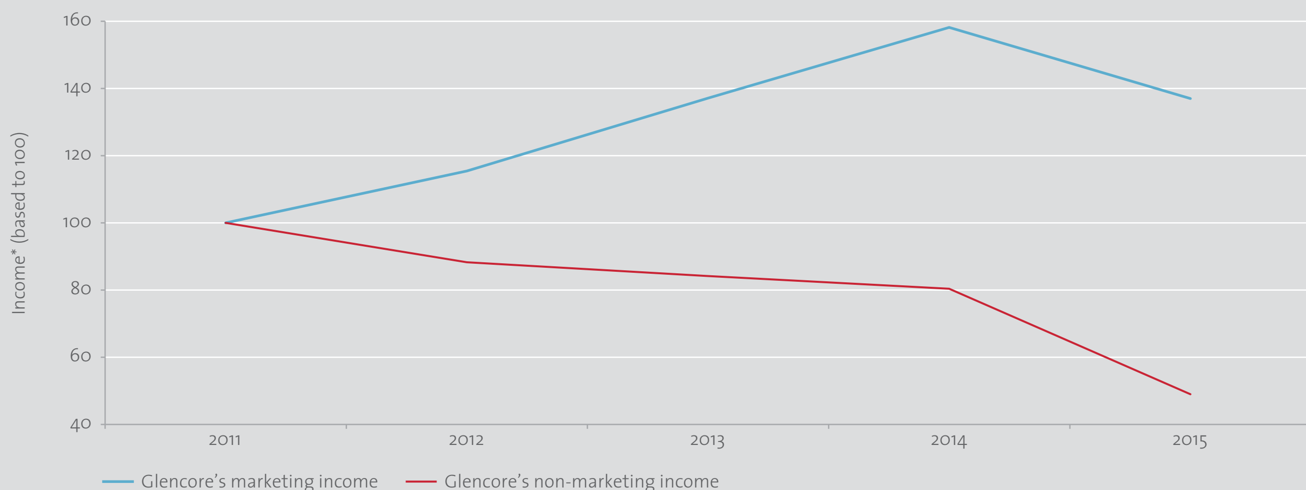
The company is active in over 50 countries and produces and markets approximately 90 different commodity types. It is the world's largest producer of zinc and seaborne thermal coal, and the third-largest copper producer. Copper is used in consumer appliances such as fridges and air conditioners as well as in buildings (electrical wiring and plumbing). It is also an important component in electricity supply grids. Zinc is predominantly used as a coating to galvanise steel, a process which gives steel its non-corrosive properties. Thermal coal is used to generate electricity and to make cement.

The bulk of Glencore's profits are derived from the production and sale of copper, coal and zinc, and from its marketing division. This division connects commodity buyers and sellers, and earns a margin on the value of sales for commodities produced by third parties. It has expertise, infrastructure and transportation assets that enable the financing, sourcing, storage and delivery of products from mines to customers. Given the fixed margin it makes on the sale of all commodities produced by third parties, these sales are generally profitable. This is a valuable attribute during strained periods in the commodity cycle, when many mining companies generate meagre returns (see graph).

Approximately one-third of Glencore is owned by management and staff, another notable way in which the company differentiates itself. By comparison, management ownership in companies such as BHP Billiton and Rio Tinto (the world's largest and second-largest miners by market capitalisation) is less than 1%.

In May 2013, not long before its JSE listing, Glencore completed a merger with Xstrata, a London- and Swiss-listed mining company. At the time, the enlarged company was valued at US$71 billion. Glencore had a pre-existing 35% shareholding and close ties through marketing agreements with Xstrata.

Glencore's resilient marketing income



* Income defined as earnings before interest, taxes, depreciation and amortisation

Sources: company data, Kagiso Asset Management research

Increased debt and lower commodity prices

In retrospect, the merger with Xstrata was ill-timed as it coincided with the elevated prices of the commodity price cycle. As a result, it overvalued Xstrata's assets based on high expectations for commodity prices, and substantially increased Glencore's gross and net debt levels (see chart). Gross debt (which excludes cash on the balance sheet) increased from US$35 billion in 2012 to US$55 billion by 2013 and peaked at US$58 billion at the company's June 2014 results.

As the graph over the page shows, commodity prices fell short of expectation after the merger, with flat to weak growth in 2014 and a substantial decline in 2015. For Glencore, these lower commodity prices resulted in the merged company not having sufficient profit to pay off the increased level of debt.

Share price collapse

As these debt servicing concerns rose, the Glencore share price collapsed, dropping by 64% in the space of the four-month period to the end of September 2015.

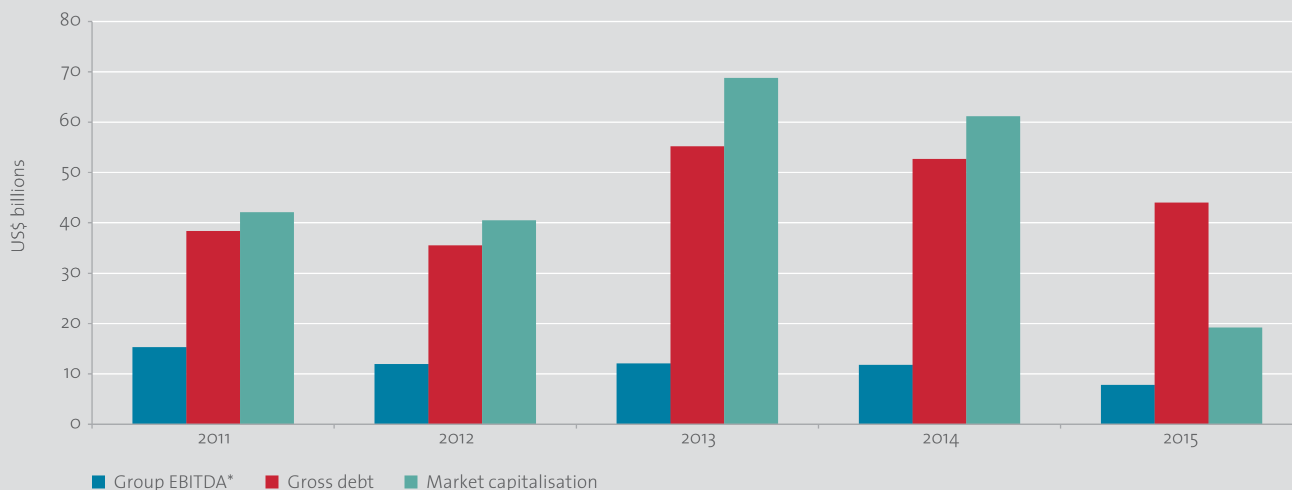
Lower commodity prices resulted in decreased profitability for most mining companies and management teams were forced to intervene to bolster balance sheets and improve cash flows.

Glencore's management proposed a number of interventions to lower the value of outstanding debt on the balance sheet, including an equity capital raise of US$2.5 billion, the suspension of its dividend, the sale of assets (including a 49% stake in their agricultural division) and reductions in capital expenditure. Most of these interventions have now been implemented and gross debt levels had declined to US$38.2 billion by 30 June 2016 - an improvement from the 2014 levels but still high in comparison to the company's asset value and profitability levels.

The China effect

In the decade up to 2014, global commodity demand was shaped in particular by the fast developing and commodity-hungry Chinese economy. After decades of rapid industrialisation and economic expansion, the Chinese economic growth rate is slowing and the economy is transitioning, becoming increasingly consumer-driven. This shift has brought a slowdown in infrastructure investment and an accompanying decline in the rate of demand growth for most commodities. This decline, at a time of increased levels of supply, has been the key contributor to the fall in global commodity prices.

The last five years for Glencore



* Earnings before interest, taxes, depreciation and amortisation

Sources: company statements, Bloomberg, Kagiso Asset Management research

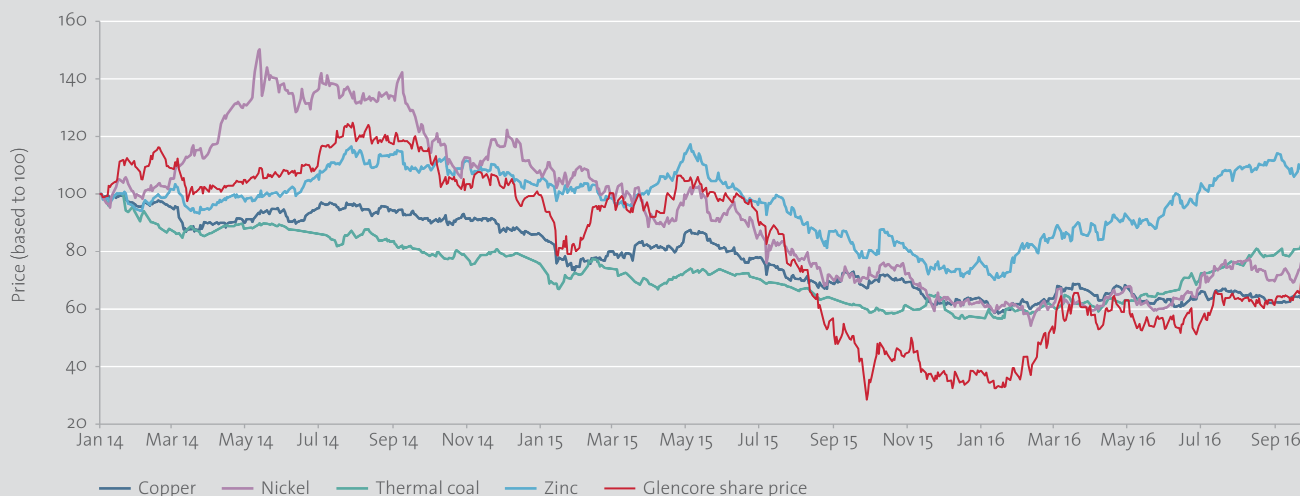
Glencore after the commodity supercycle

Our view is that, in the long term, China will continue to experience a moderation in GDP growth and growth in demand for commodities will slow. As China shifts from an investment-driven economy to a consumer-driven one, we expect the demand for commodities required for consumer products to outstrip the demand for commodities used predominantly for infrastructural development. Continued weak Chinese demand growth will keep many commodity prices under pressure and Glencore is not well-positioned for this scenario, given its high debt levels.

Outlook

Glencore's business has a differentiated model, which positions it uniquely versus its diversified mining competitors. However, due to its high debt levels relative to its competitors and our subdued outlook for commodity prices, we favour other mining companies. These include African Rainbow Minerals and Royal Bafokeng Platinum Holdings, which have stronger balance sheets and a greater ability to generate cash in a lower commodity price environment. UP

Glencore and its major commodities



Sources: I-Net, Bloomberg, Kagiso Asset Management research

Kagiso Asset Management Funds

Performance to 30 September 2016	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	15.9%	6.5%	12.4%	12.6%	18.5%	Apr-04	1.51%	0.41%
SA Equity General funds mean	6.4%	7.5%	13.0%	10.4%	14.9%			
Outperformance	9.5%	-1.0%	-0.6%	2.2%	3.6%			
Balanced Fund	15.5%	7.4%	11.2%	-	10.2%	May-11	1.55%	0.45%
SA Multi Asset High Equity funds mean	6.8%	8.2%	11.6%		10.5%			
Outperformance	8.7%	-0.8%	-0.4%		-0.3%			
Protector Fund	10.5%	6.8%	7.8%	7.7%	10.3%	Dec-02	1.83%	0.37%
CPI + 5%[5]	10.4%	10.3%	10.4%	11.1%	10.7%			
Outperformance	0.1%	-3.5%	-2.6%	-3.4%	-0.4%			
Stable Fund	15.4%	8.7%	9.1%	-	9.1%	May-11	1.57%	0.56%
Return on large deposits*	6.1%	5.6%	5.5%		5.5%			
Outperformance	9.3%	3.1%	3.6%		3.6%			
Institutional funds[6]								
Managed Equity Fund	14.7%	5.8%	12.8%	12.7%	12.8%	Sep-06		
FTSE/JSE SWIX All Share Index	9.0%	10.9%	16.8%	13.3%	13.5%			
Outperformance	5.7%	-5.1%	-4.0%	-0.6%	-0.7%			
Core Equity Fund	9.7%	6.8%	14.2%	12.8%	17.0%	Nov-04		
FTSE/JSE SWIX All Share Index	9.0%	10.9%	16.8%	13.3%	17.4%			
Outperformance	0.7%	-4.1%	-2.6%	-0.5%	-0.4%			
Domestic Balanced Fund[7]	11.2%	7.1%	9.5%	-	9.0%	May-07		
Peer median[8]	8.2%	9.8%	12.4%		10.3%			
Outperformance	3.0%	-2.7%	-2.9%		-1.3%			
Global Balanced Fund[9]	11.8%	9.4%	-	-	11.2%	Jul-13		
Peer median[10]	9.2%	11.7%			12.6%			
Outperformance	2.6%	-2.3%			-1.4%			
Sharia unit trust funds[4]								
Islamic Equity Fund	18.3%	6.1%	10.2%	-	12.4%	Jul-09	1.39%	0.25%
SA Equity General funds mean	6.4%	7.5%	13.0%		13.6%			
Outperformance	11.9%	-1.4%	-2.8%		-1.2%			
Islamic Balanced Fund	13.0%	6.0%	9.0%	-	7.3%	May-11	1.52%	0.15%
SA Multi Asset High Equity funds mean	6.8%	8.2%	11.6%		10.5%			
Outperformance	6.2%	-2.2%	-2.6%		-3.2%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	8.2%	-4.7%	8.2%	-4.7%	8.2%	-4.7%	10.9%	-9.0%	11.9%	-9.0%
Balanced Fund	5.5%	-2.8%	5.5%	-4.2%	6.2%	-4.2%	-	-	6.2%	-4.2%
Protector Fund	3.4%	-3.0%	3.4%	-4.2%	4.8%	-4.2%	7.9%	-5.3%	9.5%	-5.3%
Stable Fund	3.8%	-2.8%	3.8%	-3.5%	4.0%	-3.5%	-	-	4.0%	-3.5%
Islamic Equity Fund	7.3%	-4.0%	7.3%	-4.6%	8.1%	-4.9%	-	-	8.1%	-4.9%
Islamic Balanced Fund	4.6%	-3.0%	4.6%	-3.0%	8.2%	-5.4%	-	-	8.2%	-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 30 September 2016; [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 September 2016; [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] CPI for September is an estimate; [6] Source: Kagiso Asset Management; gross of management fees; [7] Domestic Balanced Fund and benchmark returns to 31 August 2016; [8] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [9] Global Balanced Fund and benchmark returns to 31 August 2016; [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).

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