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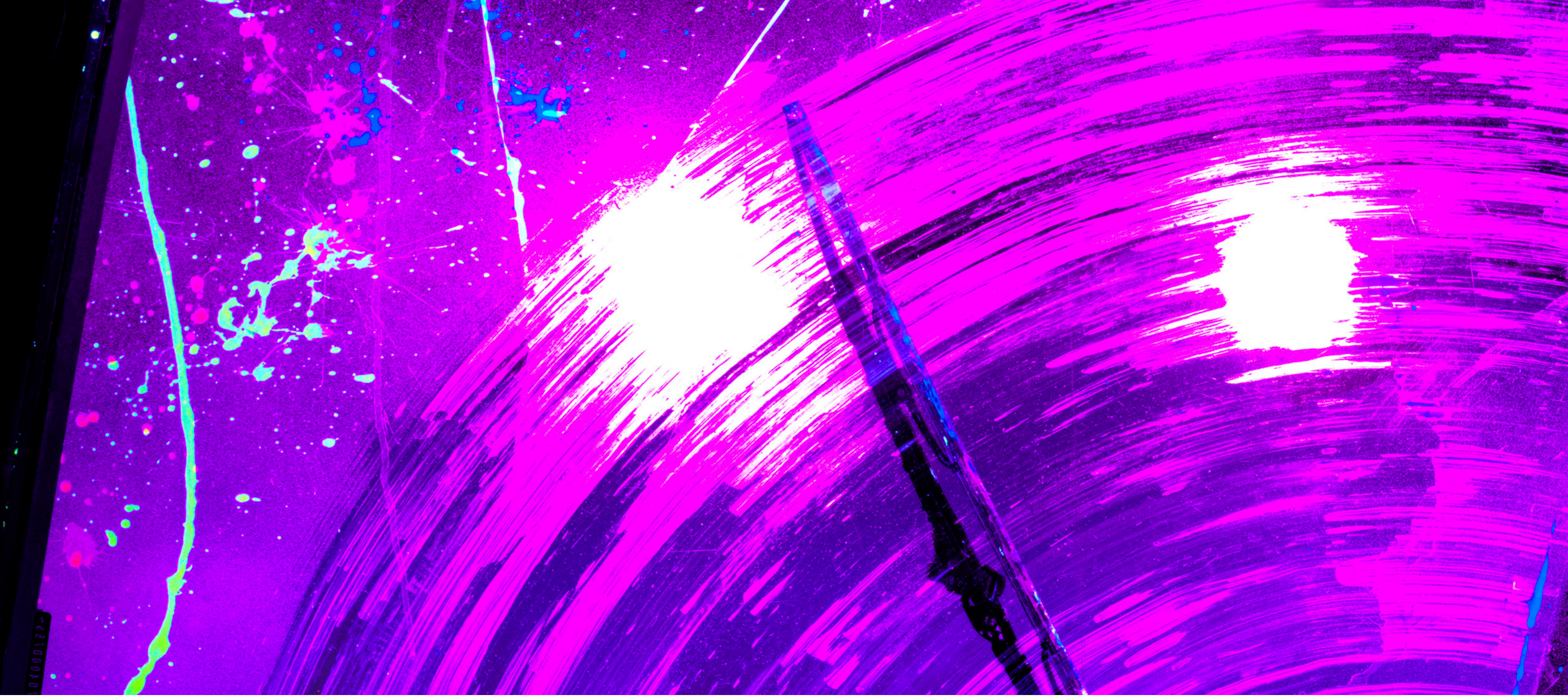
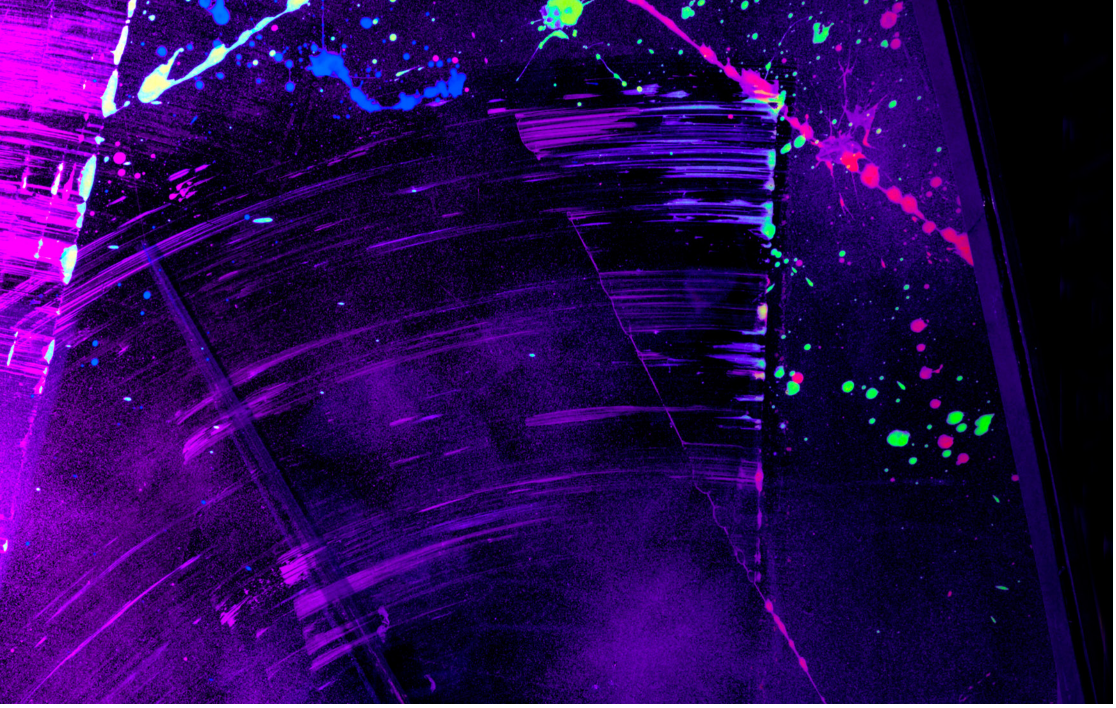


Sekisui strives for sustainable growth

Athenkosi Mjebeza - Associate Analyst

Sekisui was founded in Japan, in 1947, as a general plastics business. Their development of an 'unbreakable telephone' using thermoplastics marked the start of their success as a pioneer of plastic products. The group's growth since inception is rooted in creative technological advancements that have enabled product diversification and a deep commitment to societal enrichment. We trace Sekisui's successes that have led to their being the highest ranked Japanese company (12th overall) listed in the Global 100 Most Sustainable Corporations since 2018.

Sekisui strives for sustainable growth

Strong prospects in niche markets

Sekisui's early experimentation with injection moulding led to innovative new product development. Most notable was the Eslon PVC duct pipe, which was the first of its kind on the market - highly resistant to corrosion, chemicals and impact. Its commercial success resulted in Sekisui listing on the Tokyo Stock Exchange in the mid-1950s and, by 1958, the business had started producing an interlayer film for laminated glass, called S-LEC™, now used worldwide in the manufacturing of windscreens.

In the 1960s, Sekisui successfully created the first prototype of a housing model, which was developed into prefabricated housing. This model allows components to be manufactured in a factory before being assembled on-site. The concept of prefabricated homes has been popular in Japan - a country renowned for the unconventional practice of knocking down houses after 30 years. The early 1960s also saw Sekisui separately listing an independent homebuilding company, Sekisui House Ltd, which primarily focused on building residential homes and condominiums in a more traditional manner, using bricks and mortar.

In 2001, Sekisui restructured the business into the three main divisions that it has today (charted below):

- **High-performance plastics (HPP)** focuses on business development motivated by high value-add products that command top global market shares (eg materials used in smartphones and other LCD devices, interlayer films and polyolefin foam used for automobile interiors). A small medical product segment also operates within this division.
- The **housing** division[1] specialises in prefabricated housing.
- **Urban infrastructure and environmental products (UIEP)** dominate the supply of construction materials and pipe systems for water and sewerage in Japan.

Technological advancement affirms future growth

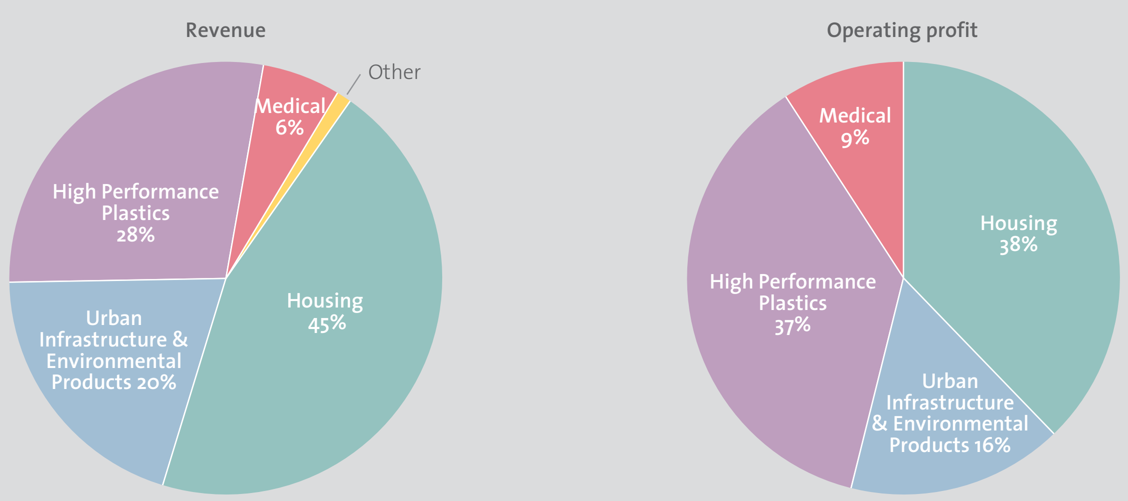
HPP is the primary income generator for Sekisui, leveraging off core strengths in extrusion, blowing and stretching technologies to launch standout products within key growth markets. With a view that plastics are indispensable to society today, the company focuses on actively exploring new ideas that are sustainable and not bound by established concepts.

S-LEC™ Film, a leading brand of interlayer films[2] for laminated glass used mainly for windscreens and in building and infrastructure, is one of Sekisui's flagship products. The global auto interlayer market is worth 1 000 to 1 600 billion Japanese yen (R150 to R250 billion) per annum. Sekisui's 43% global market share exists within an oligopoly structure, with their closest competitor at 34% and smaller players constituting the remaining 23%.

Through the adoption of patented multilayer technology, Sekisui offers a versatile range of specialist film products in

[1] Sekisui's housing division operates as Sekisui Heim and is a competitor to Sekisui House Ltd.
[2] A 0.76mm thick plastic layer is placed between two sheets of tempered glass made from poly-vinyl butyral (PVB) resin.

Revenue and operating profit split (2019)



Source: company reports

their S-LEC™ catalogue. These have improved functionality and achieve the best results for safety (shatter proofing) and UV protection - mandatory requirements for automotive glass. Multi-layer technology, nano-dispersion and wedge angle control has been integrated to create the Heads-Up Display (HUD) that projects images onto a windscreen, eliminating the driver's need to adjust their line of vision. Further applications include virtual speedometers and driver notifications, while also providing essential sound insulation and solar heat reduction. As illustrated below, S-LEC™ products include:

- **Sound Acoustic Film** enables sound insulation for wind and engine noise, and enhances penetration resistance against shattering.
- **Solar Control Film** uses fine particle distribution and other materials mixed into resins to insulate and protect drivers from infrared and ultraviolet rays.
- **Sound and Solar Film** combines the above technologies to offer varied protection.
- **HUD** is the world's first high performance interlayer film, with superior adhesion properties.

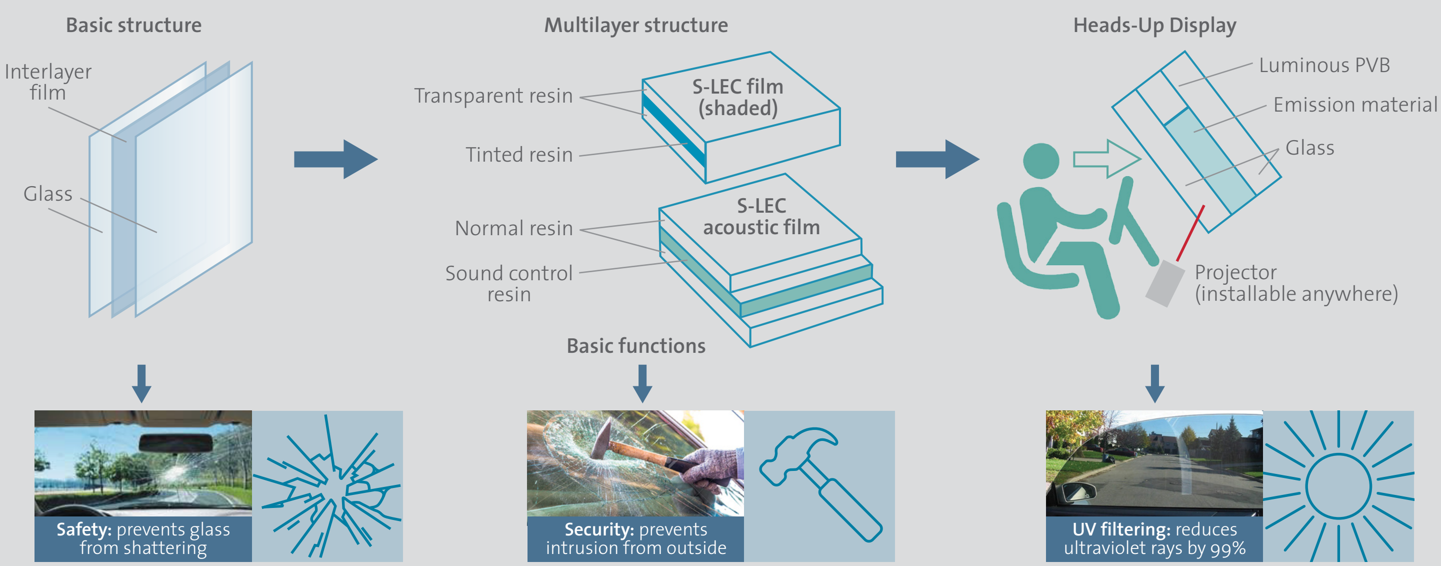
Sekisui estimates that approximately 10 million new cars (92 million were produced in 2019) will be equipped with HUD by the end of 2020. This implies that the market currently remains underpenetrated and a period of increased demand for wedge-shaped interlayer films is expected to follow. Sekisui's current 70% market share in HUD could prove significantly valuable if these levels can be sustained. Additionally, their Solar Control Film has even lower levels of penetration (presently at 5%), with strong prospects owing to heat retention. Sekisui retains a 90% market share with this product at present (charted on following page).

Most of Sekisui's research and development is dedicated to technological advancements and innovation. They have also recently expanded their films manufacturing capacity, with new plants in the Netherlands and Mexico. Unfortunately, this has coincided with a period of decreased automobile production due to trade tensions and the Covid-19 pandemic, therefore, supply currently outstrips demand in this area. However, with meaningful capacity for future growth strongly evident, good returns on capital are likely and Sekisui is focusing on pushing their interlayer film products more towards the building and infrastructure industries in Japan.

Prime positioning in Japanese housing market

Sekisui's housing division specialises in three key offerings: housing (predominantly detached, prefabricated homes), renovation work (targeting customers who bought new-build homes from Sekisui) and the frontier business (managing leased apartments and building detached housing in Thailand). They have established a unique position in Japan

Multilayer structure and HUD



Source: company reports

Sekisui strives for sustainable growth

through their prefabricated Unit Construction Method - an advanced factory-built approach where 80% of the house is manufactured in the factory and the remainder is assembled on-site, within a day. Currently, competitors produce around 20% of their models in-factory and are often disrupted by skilled staff shortages that affect the more considerable, on-site side of the build.

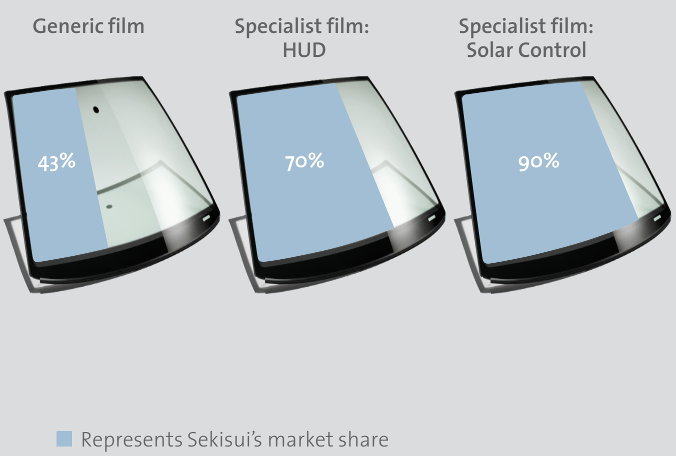
There is a great degree of flexibility in the design as they are fully customisable and:

- the structure is made up of box frame units that are stronger than standard global Earthquake Resistant Design legislation stipulations;
- the key to strengthening each frame is spot welding at the joints; and
- they are easy to renovate and have a lifespan that can exceed 60 years (a concept largely unheard of in Japan).

Disrupting the raze and rebuild culture

Post-World War II, reconstruction efforts saw an unusually high demand for housing in Japan and resulted in poor construction standards that rendered homes almost worthless after a period. This practice has continued over time, with most sources citing a 30-year lifespan cap. Consequently, the rebuild rate in Japan is exceptionally high, further intensified by the prevalence of natural disasters.

Sekisui's market share by film product



Source: company reports

The housing market in Japan has, however, experienced a contraction over the last 14 years, mainly due to the country's shrinking population. Sekisui has flagged a 5% decline in new house builds, with data indicating a struggle to return to pre-crisis (2008/09) levels - stagnating at around 800 000 new builds per year.

This has prompted consolidation among major players in the industry as seen by the merging of six of Japan's leading home building companies. They benefit from greater economies of scale in materials procurement, enabling cost savings to be partially passed on to customers.

Sekisui has set itself an ambitious target to double housing sale volumes by 2030. Management's immediate focus will be on built-for-sale houses where the market is less depressed and there is potential to harness greater volumes by targeting first time home buyers. A strong product line-up and lower end price range offers great potential to gain market share. By integrating production across all Sekisui companies in Japan and increasing automation for greater efficiency, the group is committed to reducing internal costs. Additionally, favourable payment terms (80% upfront deposit towards the total purchase price of a prefabricated house) and a quick project turnaround period, translates into strong cash generation and conversion for the business.

Attractive prospects draw investor confidence

Sekisui's exposure to interlayer film is robust following considerable capital expenditure in this area and, despite global automobile production now being in a weak state, the outlook for HUD is extremely positive. With a considerable share in this growing market, even a modest industry recovery could result in above-average group growth prospects.

Despite operating in a competitive space the housing division is highly cash generative, with low production costs. Commitment to maximising built-for-sale resources, keeping production cost ratios low and pricing down, and improving overall productivity, serves to boost the substantial potential that this segment holds - particularly relative to Japanese competitors.

This, together with Sekisui's contributions towards sustainable practices, underpins their current attractive valuation, with exciting prospects for ongoing returns on capital. UP

Y'ellow Africa - more reasons to connect

Simon Anderssen - Portfolio Manager

Mobile telecommunication firms (telcos) across sub-Saharan Africa are likely to play a more significant role in consumers' adoption of digital financial and other services in the future. This will be more the case than in developed markets because of their relationships with large groups of subscribers and established cash-collection operations. We discuss why MTN, Africa's premium telco, is particularly well positioned to benefit from this.

Y'ellow Africa - more reasons to connect

While telcos service our essential need for communication - as particularly well demonstrated during early 2020 with the provision of data to enable remote working - their financial returns track record is less compelling.

Highly capital-intensive by nature and requiring significant upfront investment in physical network infrastructure, telcos worldwide have historically struggled to generate sustainable, attractive returns on shareholder capital. The deterioration of the returns of South African listed network operators Vodacom, MTN and Telkom is clearly apparent in the left chart below. This is a consequence of industry trends, such as:

- the shift from highly profitable voice (airtime) revenue to less profitable data revenue;
- regulatory pressures to materially lower prices;
- ongoing capital expenditure to upgrade networks to carry the exponential growth in traffic; and
- company specific factors including currency movements, regulatory fines and acquisitions.

The low and declining returns on capital have generally led us to value these telcos below market prices, but looking ahead, it appears there are reasons to believe this may be changing.

Gatekeepers for the connected consumer

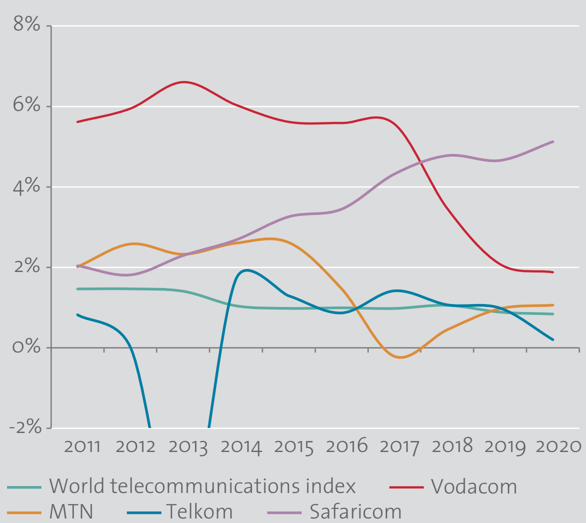
Smartphones have enabled an explosion of service and distribution opportunities and there are many global examples of digital tools enabling large numbers of consumers to access valuable new services. Two examples with relevance to South African investors are: WeChat offered by Chinese technology conglomerate Tencent and mobile money service, Mpesa, offered by Safaricom in Kenya (in which Vodacom holds a significant stake).

Although to date there is no single model for success, winners establish a large customer base for a narrow set of services (instant messaging for WeChat, money transfers at Mpesa) and then use this network to offer additional services that enable further monetisation opportunities. A growing list of examples includes lending products, media content (music or video streaming), games, transport services, ecommerce and government services.

The right chart below shows that sub-Saharan Africa typically has far lower penetration rates for many of these product categories compared to other developing or developed markets - contextualising the opportunity across the continent.

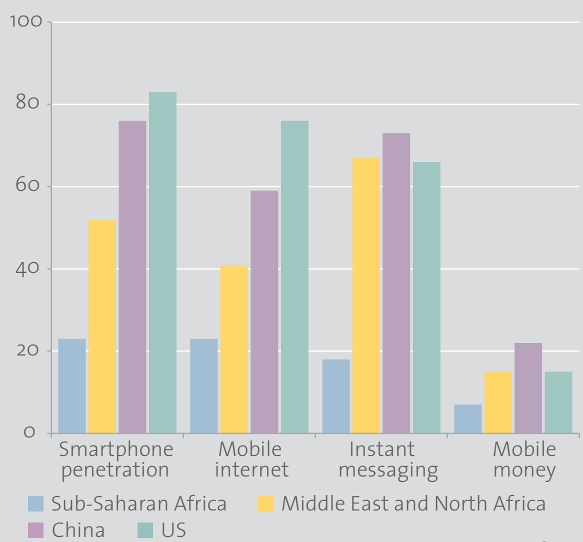
The returns for successfully capturing large markets are significant, as evident in the notably high public and private market valuations placed on companies throughout the world that have been successful in offering valuable online services

Returns on equity



Source: Factset

Penetration rates of internet and digital services



Source: MTN

to large customer groups. Rich valuations anticipate high profitability and massive growth potential. Safaricom provides evidence of this with its high market rating and increasing returns on equity (left chart on previous page).

In palm position

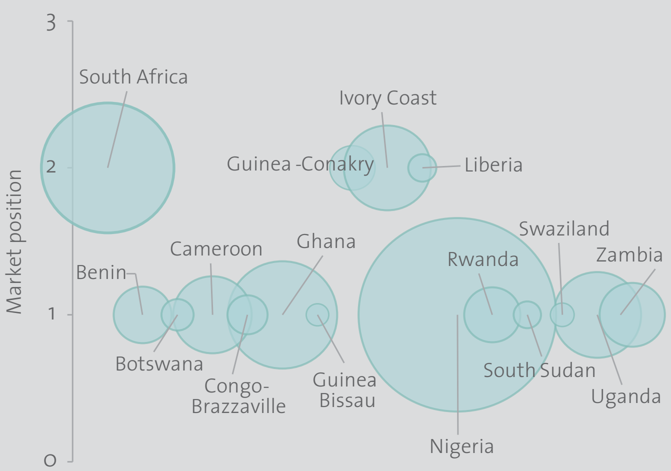
We believe MTN is strongly positioned to successfully capitalise on the financial and digital services opportunities across the African continent, for a number of reasons:

- it has a large subscriber base;
- it has an established cash collection infrastructure; and
- it displays competency in making services affordable to low-income customers.

MTN is one of the largest mobile operators in Africa, with dominant positions in many of its markets. The chart below indicates their subscriber base and market positioning across the 15 African countries in which they operate. For the purposes of this discussion we exclude South Africa, where the market for digital and financial services is well established, and the Middle East operations, due to the group's recent decision to exit these markets over the medium term.

MTN currently has 150 million customers across the continent, with a large number concentrated in Nigeria. Outside of Nigeria, the aggregate remains substantial and a considerable

MTN's market position and subscriber base by country



Bubble size denotes number of subscribers

Source: MTN

number of customers have a device in the palm of their hand through which they engage MTN daily. The resulting positive effect is that the value of the network grows as more people join. With the enormous pan-African customer base, the value potential is momentous, especially when contemplating additional services (money transfers or merchant payments) being made available to this network.

Perhaps the most compelling argument for MTN's success in digital and financial services is its established cash collection infrastructure. This distributes airtime vouchers (largely informally) in African markets with low banking penetration. Developed over many years, this infrastructure entails hundreds of thousands of agents across each country who collect small denominations of cash in exchange for airtime vouchers. In addition to other commercial activities, this offers many of these agents critical short-term funding and is, therefore, an important component of their business. Collectively, this network of agents and the trusted MTN brand are an enormous barrier for other competitors to overcome in these markets.

Despite the challenges of introducing new services in markets where incomes are low and traditional pricing strategies (monthly subscriptions) are unaffordable, MTN has been actively engaged in improving the affordability of its existing voice and data communication services. For data products, this manifests in small denomination bundles that are valid for short time periods at varying data limits (eg R2 for 15MB of data if used within an hour of purchase). The company, therefore, has a deep understanding of affordability levels for different customer groups and has established competencies in structuring products across smaller time and quantity dimensions. The same approach has been applied to other services, such as MusicTime (music streaming service), where access can be purchased for a specific number of minutes, valid for a certain number of days. In South Africa, users can pay R5 for 120 minutes of cumulative listening time plus the data to stream the music - to be used within seven days of purchase.

Encouraging signs

The success of MTN's strategy is already evident in a number of their markets, such as in Ghana and Uganda. These stand out as markets where mobile money revenues already contribute a meaningful portion of the overall MTN revenue of the country and are growing rapidly. Company disclosure prevents a full comparison of mobile money across the countries in which they operate, but it is apparent that mobile money users make up more than a third of the total subscribers in the 13 countries where it has been rolled out thus far.

The chart below compares the average revenue earned by MTN for each mobile money subscriber across its largest markets and as a group across Africa, compared with a similar metric for Mpesa in Kenya. Although there are nuances in the numbers that restrict comparisons between the two companies, it is clear that MTN earns far less per mobile money user and that the opportunity to increase the number of users, relative to mobile subscribers, is sizeable. This suggests a growing business within MTN that has plenty of opportunity for expansion. Despite its relative immaturity, this segment already generates 65% more operational cash flow per rand of revenue than the traditional, capital-intensive mobile business.

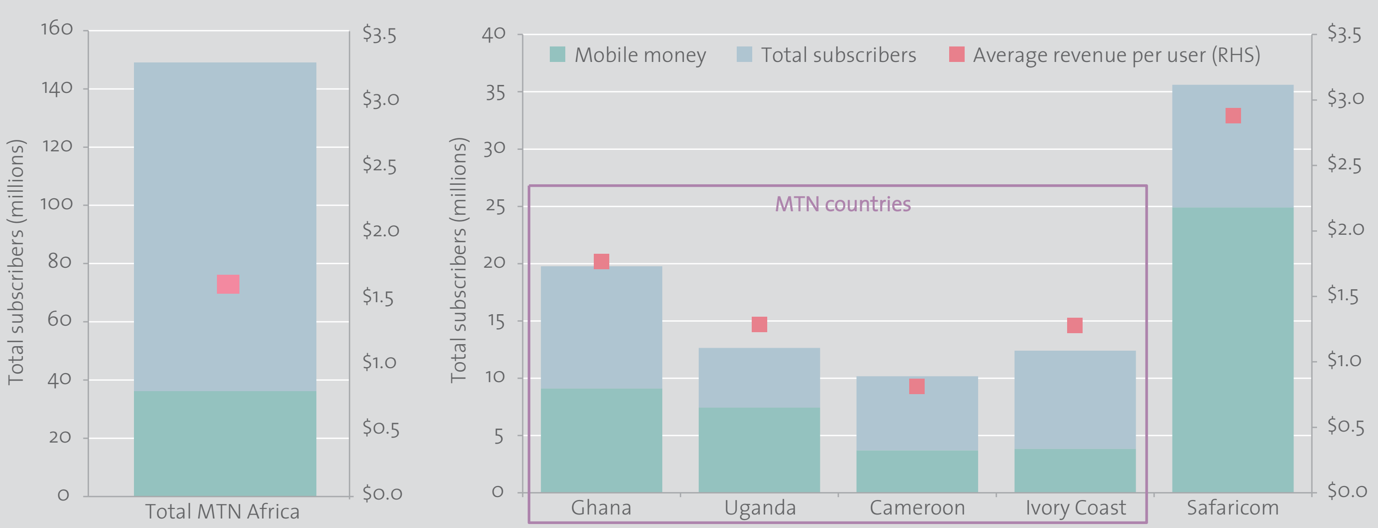
Nigeria is MTN's largest market, with immense potential for the operator to take a leading position in digital financial and other services. The Nigerian government recognises the significance of financial inclusion for economic growth and social development, putting forward regulations that will enable companies, including MTN, to offer financial services that up until now have been exclusively available to banks. The awarding of such licencing to MTN and other operators has taken longer than expected. However, the likelihood of receiving a licence is high given MTN's share in the mobile market.

Positive asymmetry

While we have purposefully not focused on MTN's traditional mobile operations in this discussion, the value we derive for the future expected cash flows from these services offers reasonable upside compared to the current share price.

The possibility of MTN establishing itself as a leading financial and digital services provider across the continent over the next decade is much harder to value. However, successful operators in other markets have been very profitable and we argue that MTN has important advantages that significantly improve its chances of success. The optionality, or potential future value that these prospects represent, is incremental to the compelling valuation for the traditional mobile business and adds substantially to MTN's attractive investment case at its current market price. UP

Mobile money in Africa



Source: MTN, Safaricom and company reports


Afrox: geared for expansion

Gracious Mashila - Associate Analyst

"African Oxygen Limited, better known as Afrox, is a leading supplier of atmospheric gasses, liquid petroleum gas (LPG) and gas equipment in South Africa. It is currently controlled by the global industrial gases and engineering company, The Linde Group, who provide Afrox with technological, research and developmental support."

Afrox: geared for expansion

Following a change of management in 2015, Afrox adopted a new strategy that focuses on resetting the cost base and shifting capital spend towards building capacity for its growth markets. Management has executed this strategy well - delivering a 14% per annum growth in earnings over the last five years. The company has excellent financial metrics with high margins, good cash conversion and consistently high returns on capital. We believe Afrox also has many underappreciated fundamental strengths and material near-term growth opportunities, which we will unpack in more detail.

Bases covered in gas and gear

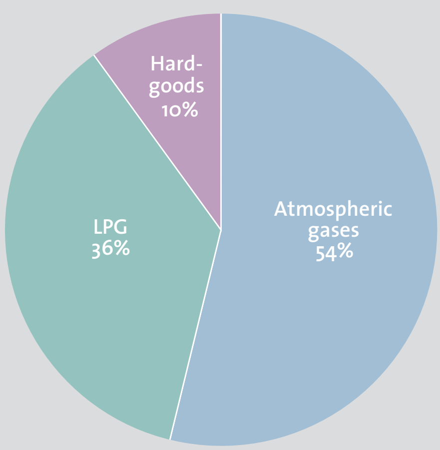
As charted below, Afrox is structured into three main divisions, with atmospheric gases delivering the highest profit contribution. The business is well diversified across markets, selling products into consumer markets (primarily for heating and cooking), manufacturing industries (iron and steel, automotive and industrial ceramics) and niche speciality sectors (including food preservation, water treatment and healthcare).

Atmospheric gas is a mixture of individual gases found in the air around us, each with its own unique properties. This division supplies gas to key customers through custom-built air separation units (ASUs) that separate atmospheric air into its primary components, typically nitrogen and oxygen (and also argon and other rare inert gases). Tonnage customers, such as large oil and steel companies, require very high volumes of gas that is delivered by a dedicated onsite ASU, whereas smaller customers are serviced through filling sites, gas outlets and other tailored, industry-specific product package options.

LPG is extracted from heated crude oil during natural gas processing and oil refining before being pressurised and stored in liquid form in cylinders and tanks. While many of us are familiar with its uses in the home, it is used widely in business and industry, agriculture, transport (Autogas), power generation, healthcare and hospitality. Afrox is the leading reseller of LPG to large industrial and hospitality customers, and the retail market.

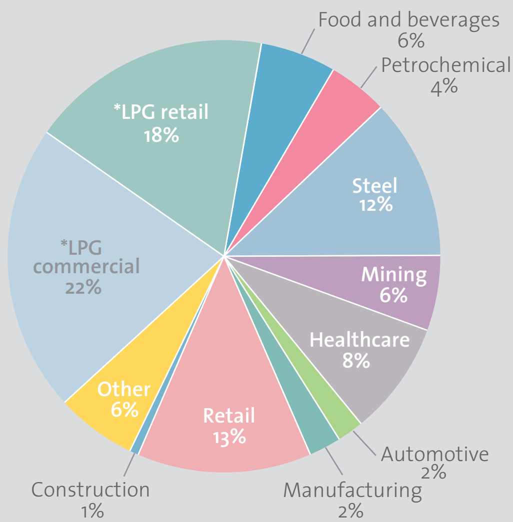
Hardgoods, including gas equipment and welding products, are sold through Afrox's regional sales infrastructure and exported throughout sub-Saharan Africa. These goods are typically commoditised and competition is high - limiting Afrox's pricing power.

Operating profit per segment (2019)



Source: company reports

Revenue by industry (2019)



*LPG revenues are estimated using volume information provided by the company

Source: company reports

Atmospheric gases a hidden gem

Afrox's largest division is also the economic gem in the portfolio, given its sizeable competitive moat, defensive earnings profile and pricing power.

Tonnage customers typically have a large ASU plant onsite dedicated to producing gases. The plant is often owned and operated by Afrox and built with capacity in excess of the anchor client's gas requirements. In the case of an ASU not being onsite, gas would be supplied to the client via a pipeline. Supply contracts are long term in nature (15 to 20 years), with an agreed guaranteed minimum off take. Alternatively, a 'take-or-pay' contract option ensures a suitable return on capital over the life of the plant, with initial pricing structured to compensate Afrox for the capital commitment and ongoing fixed costs in real terms.

Excess gas is supplied to other industrial customers within a few kilometres of the ASU - gas can only be transported profitably within a small radius due to high transport costs resulting from logistical challenges associated with getting gas to customers. Proximity to end users, therefore offers an enormous competitive advantage and gas suppliers consequently tend to have strongholds at a regional level. The high initial capital cost of ASUs and natural transportation barriers to competition help deliver the robust returns commonly earned by gas companies.

Utilisation rates at some existing ASUs is currently low at around 60%, reflecting the weak manufacturing sector conditions in South Africa. However, this capacity presents an opportunity to improve earnings if the local economy improves and utilisation rates rise again. Given the capital-intensive nature of an ASU, these plants have a high fixed cost base and therefore any improvement in sales will largely translate into additional pure profits for the division.

Furthermore, significant industry consolidation over the last few years has resulted in greater market concentration and lower competitive intensity across the gas market. This has further strengthened Afrox's position and pricing power.

Capacity boost alters LPG market dynamics

LPG is cleaner and safer compared to other energy sources (particularly coal, paraffin and candles) and while demand from industrial clients has been under pressure recently, we have seen significant growth in the consumer market, which remains an attractive long-term opportunity.

Richards Bay storage facility

Source: Engineeringnews.co.za

Afrox: geared for expansion

Historically, the South African LPG market has been under supplied as local refineries have not produced enough LPG to satisfy local demand. There has been little incentive to increase local production as LPG sales are less than 1% of total refinery sales and it is more profitable to use the components of LPG in the production of higher value chemicals. This structural impediment to supply increasing has resulted in consumer LPG usage being very low compared to the rest of the continent.

In recent years, Afrox has been forced to source LPG from outside of South Africa to bolster supply and, in 2015, signed an agreement with Petredec (a leading global trader) for the import of LPG into the country. Petredec subsequently partnered with Bidvest to build a new LPG storage terminal at the Richards Bay port (graphic on previous page). Bidvest is committed to investing over R1 billion for the development of this terminal, which will be the largest in Africa, with 24-hour road and rail access facilities. Operations are set to commence towards the end of 2020 and the facility will offer four 5 650 tonne tanks, providing the capacity to increase current domestic LPG supply by over 50%.

This increased storage capacity will structurally alter the supply dynamic of the local market, allowing Afrox to grow its LPG revenue substantially. The new terminal will also enable the use of large gas carrier ships when importing LPG instead of the smaller, more expensive carriers currently used. We estimate that this will result in a 20 to 40% reduction in the landed cost per tonne of LPG. This cost reduction should materially boost the profitability of Afrox's LPG business and allow for price reductions to boost consumer demand.

Reset and grow

Afrox has delivered a robust growth in earnings over the last five years, in part due to the realisation of around R1 billion of cumulative cost savings. With the cost base now reset, management's focus has shifted to capitalising on material near-term growth opportunities, particularly around LPG. Furthermore, any improvements in the South African manufacturing sector will benefit ASU utilisation, resulting in a significant increase in earnings over the medium term.

With the company trading at a low rating - a deep discount to global competitors despite its excellent financial performance, numerous fundamental strengths and clear growth opportunities - Afrox represents a very attractive investment opportunity. The Linde Group is very aware of these attractions and has recently made an offer for all Afrox shares it does not currently own. Our clients will be benefitting from this value unlocking transaction. UP

A fertile future for potash

Mandi Dungwa - Portfolio Manager

"Potash is the name for the group of minerals that provide potassium to plants for stimulating growth. Essentially a potassium-rich salt, potash is used as a fertiliser. It is extracted from deep underground deposits that formed millions of years ago as the sea evaporated from inland seabeds, leaving layers of common salts behind. It plays a vital role in improving the quality and yield of modern agricultural production."

A fertile future for potash

With a growing global population and increasing income levels in developing economies, the demand for potash is intensifying. Sustainable increases in crop yields across a limited amount of arable land will require the increased use of potash fertilisers as a critical element in soil replenishment.

Origins, prevalence and the absence of mineralisation

The word potassium is derived from 'potash', which is made up of a naturally occurring mix of potassium chloride (KCl) and sodium chloride (NaCl - ie table salt).

Global potash resources are inconsistent and unevenly distributed, with deposits differentiated by the presence of several micro-nutrients. Most underground deposits require shaft extraction to depths of up to 1.4 km. The largest deposits are found in Saskatchewan, Canada, also currently the largest source of global annual potash production (at 32%). The next largest suppliers are Russia and Belarus, accounting for 17% of production apiece.

Australia, along with much of Africa, reportedly lacks potash deposits due to the absence of mineralisation in these regions. This is ascribed to one of four factors:

- **The age of the basin rocks** - potash is less likely to be preserved in Precambrian[1] and early Phanerozoic[2] rock sequences.

[1] Covers the period that occurred 4.5 billion to 542 million years ago.
[2] Geological eon during which abundant animal life existed and diverse hard-shelled animals first appeared.

- **The degree of metamorphism**[3] - potash deposits are less likely to be preserved during metamorphism, which occurred primarily due to heat, pressure and the introduction of chemically active fluids.
- **A wet climate** - may have inhibited conditions necessary for the initial deposition of potash or destroyed near surface deposits.
- **Lack of potash exploration** - many known deposits were discovered by chance while exploring for petroleum.

Nutrient balance optimises growth

Over 90% of harvested potash is used for fertiliser, with the remainder used in industrial processes such as aluminium recycling, metal electroplating, oil well drilling and medicine.

Fertilisers are made by combining specific nutrients for plant absorption to ensure optimal growth - categorised into macro-nutrients (needed in large quantities) and micro-nutrients.

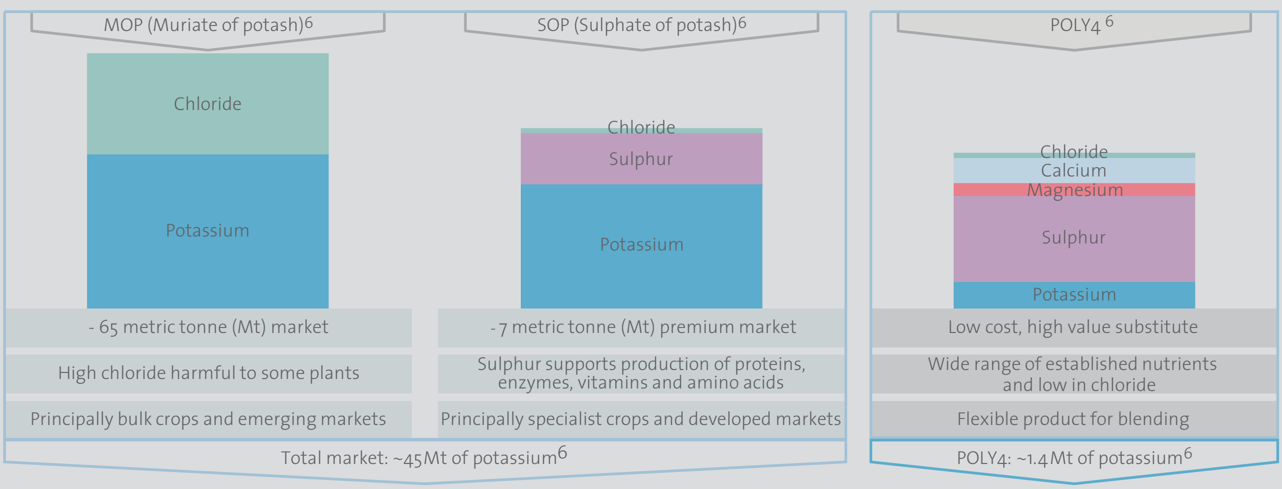
Macro-nutrients include nitrogen, phosphorous and potassium (often referred to as N-P-K), and sulphur, magnesium and calcium. The key benefits of N-P-K usage are:

- Nitrogen increases plant yield by promoting protein formation that is essential for growth and development in plants.

[3] The change of minerals or geologic texture in pre-existing rocks, without them changing state ie melting into liquid magma.

Multi-nutrient fertilisers

Current main potassium fertiliser sources



Source: Anglo American

- Phosphorous plays a key role in photosynthesis and is crucial for healthy root development.
- High levels of potassium in the soil help crops withstand stressful conditions (extreme temperatures, disease and pests). In the case of soil deficiencies, potassium is added to boost crop yields and improve overall plant health (preventing wilting, strengthening roots and stems, and assisting with nutrient transferral). Potassium also activates enzymes to ensure plants absorb water efficiently.

There are various micro-nutrients, such as copper, chloride, manganese, zinc and boron, that support plant growth but are not needed in large quantities. High concentrations of chloride can prove toxic to certain plants, therefore low chloride fertiliser is particularly useful for high value commodities like tea and coffee.

MOP, SOP and Poly4

The chart on the previous page illustrates the various potassium-bearing fertilisers available. The most common is muriate of potash (MOP), which constitutes more than 85% of the market. MOP is predominantly used on bulk crops, such as maize, that can withstand high levels of chloride.

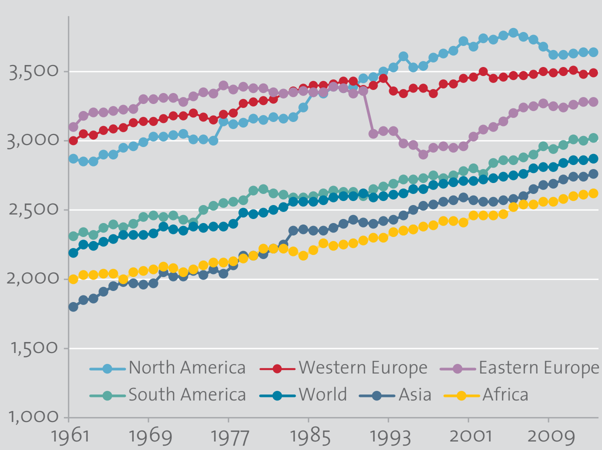
Sulphate of potash (SOP) is considered premium quality given that it contains less potassium than MOP, is low in chloride and contains sulphur (an additional macro-nutrient). SOP improves crop yields and quality, building plants' resilience to drought, disease and pests. It is used on high value crops, such as tea, coffee and fruits.

Poly4 is the trademarked name for Anglo American's polyhalite product, which is a multi-nutrient, low chloride fertiliser. Unlike SOP, which is chemically produced in a metallurgical processing facility, polyhalite occurs naturally and has a higher calcium content than other potash deposits. Poly4 is a higher value SOP substitute containing four of the six essential macro-nutrients required for plant growth, with added micro-nutrients. Importantly, it is associated with far lower carbon emissions than other fertilisers.

Polyhalites currently make up a small portion of the potash market share (around 2.5%) and are only mined in England. They formed during the evaporation of prehistoric seas around 260 million years ago, where hot and dry conditions caused the sea to evaporate before it could be replenished, leaving behind potash minerals. This is known as 'The Great Dying', a Permian-Triassic[4] mass extinction that wiped out nearly 90% of the species on the planet - including 96% of ocean dwellers and 70% of terrestrial animals.

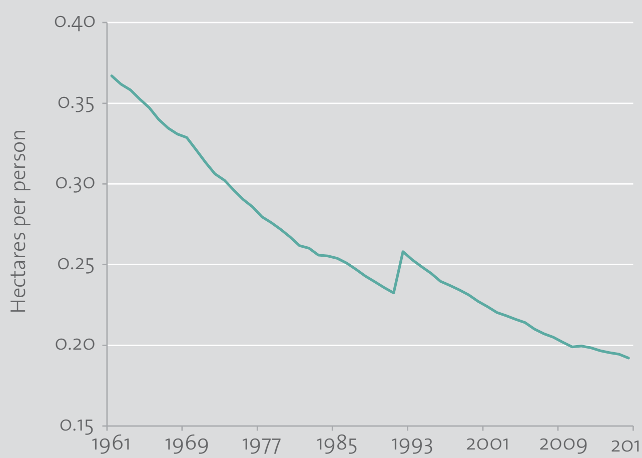
[4] An extinction event during the period of the Palaeozoic era.

Daily supply of calories (1961 to 2013*)



* Caloric supply is measured in kilocalories per person per day
Source: UN Food and Agriculture Organization (FAO), OurWorldData.org/food-supply
Note: Data measures the food available for consumption at the household level but does not account for any food wasted or not eaten

World arable land per person



Source: World Bank

A fertile future for potash

Fertilise to feed a burgeoning population

The global demand for potash is linked to the rising demand for food. As populations grow, the calorie intake needs per capita increase, whereas the availability of arable land remains finite (charted on the previous page). By improving agricultural yields and supporting soil replenishment, fertilisers can help address this imbalance.

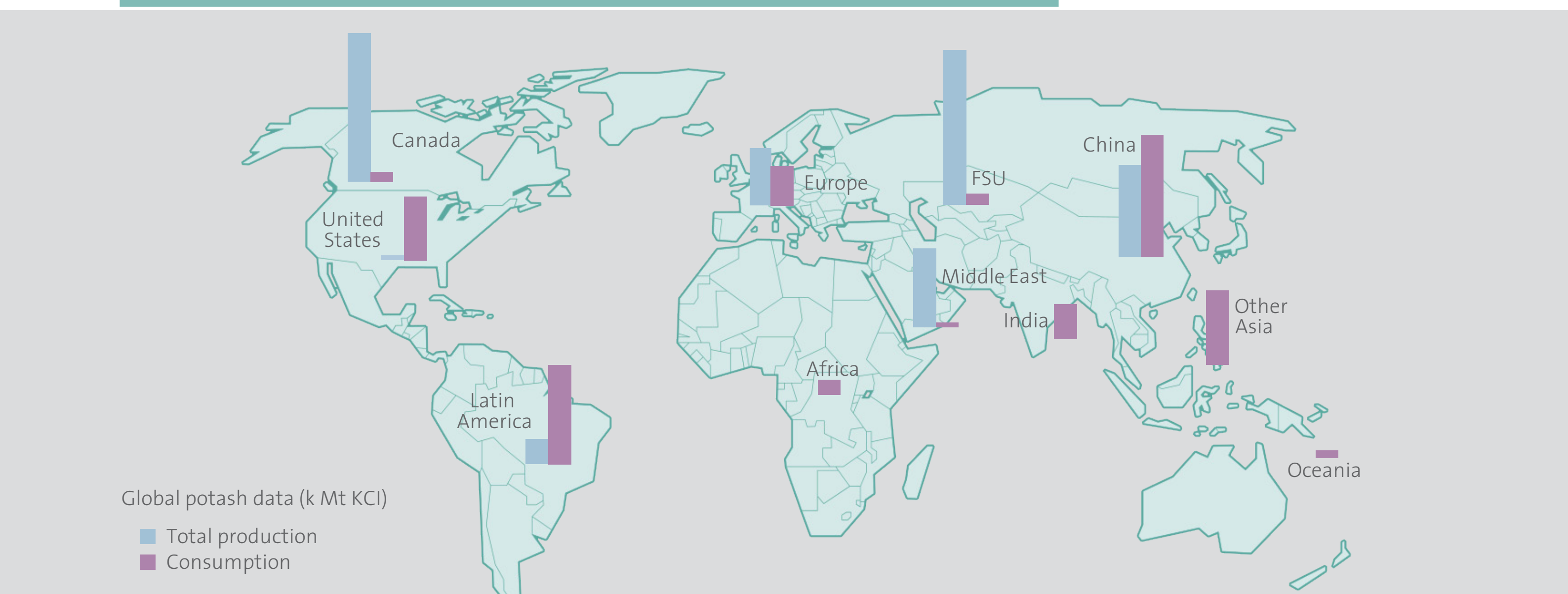
According to the United Nations, the global population is expected to grow by 33% between 2015 and 2050, with the middle class growing by 53% between 2020 and 2030. The OECD estimates that agricultural production needs to increase by 60% between 2010 and 2050 to meet the resulting rising food demand. An escalation of this scale would exacerbate existing imbalances and cause a surge in fertiliser demand.

While fertilisers are currently more commonly used in developed countries, high economic growth in developing countries underpins the rise in food demand, particularly protein-rich diets. This will result in increased grain production for animal feed and an incrementally greater demand for fertiliser.

Fertiliser and potash prices are linked to agricultural commodity prices. As shown in the chart below, the potash market is currently oversupplied and we expect this dynamic to persist over the next three to five years as developing country food demand accelerates.

We believe the long-term outlook for potassium-based fertilisers is robust and our clients have some exposure to this commodity. Firstly via Anglo American, which has recently acquired a Poly4 production project (Woodsmith Mine in the United Kingdom). Secondly via Omnia, which is South Africa's leading fertiliser producer and is well positioned for agricultural growth in Africa.

Global MOP demand-supply overview - production and consumption by region



Source: BofA Merrill Lynch global research

Kagiso Asset Management Funds

Performance to 30 September 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	-2.6%	2.4%	6.1%	8.2%	14.7%	Apr-04	2.18%	0.53%
SA Equity General funds mean	-2.7%	-1.2%	1.3%	6.7%	11.1%			
Outperformance	0.1%	3.6%	4.8%	1.5%	3.6%			
Global Equity Feeder Fund	-	-	-	-	-2.9%	Nov-19		
Global Equity general funds mean					16.9%			
Outperformance					-19.8%			
Balanced Fund	-2.6%	2.7%	6.4%	-	7.6%	May-11	1.59%	0.45%
SA Multi Asset High Equity funds mean	1.9%	2.4%	4.0%		7.4%			
Outperformance	-4.5%	0.3%	2.4%		0.2%			
Protector Fund	-4.1%	2.8%	5.7%	5.9%	8.9%	Dec-02	1.59%	0.36%
CPI + 4%	6.9%	8.1%	9.1%	9.8%	10.2%			
Outperformance	-11.0%	-5.3%	-3.4%	-3.9%	-1.3%			
Stable Fund	-10.0%	1.9%	5.1%	-	6.3%	May-11	1.52%	0.45%
Total return of CPI + 2% pa	5.0%	6.0%	6.1%		5.7%			
Outperformance	-15.0%	-4.1%	-1.0%		0.6%			
Institutional funds[5]								
Managed Equity Fund (SWIX)*	-5.3%	1.9%	5.1%	8.0%	9.9%	Sep-06		
FTSE/JSE SWIX All Share Index	-5.0%	-1.6%	2.1%	8.7%	9.6%			
Outperformance	-0.3%	3.5%	3.0%	-0.7%	0.3%			
Domestic Balanced Fund[6]	-3.6%	3.2%	6.5%	7.1%	7.5%	May-07		
Peer median	-4.1%	0.0%	3.3%	7.7%	7.7%			
Outperformance	0.5%	3.2%	3.2%	-0.6%	-0.2%			
Global Balanced Fund[7]	-1.6%	4.2%	7.6%	-	7.9%	Jul-13		
Peer median	1.7%	3.2%	5.2%		7.7%			
Outperformance	-3.3%	1.0%	2.4%		0.2%			
Bond Fund	1.4%	7.3%	-	-	7.7%	Aug-15		
BESA All Bond Index	3.6%	7.3%			7.3%			
Outperformance	-2.2%	0.0%			0.4%			
Money Market Fund	7.4%	8.1%	8.3%	7.1%	7.9%	Jan-04		
Alexander Forbes STeFI Composite Index	6.2%	6.9%	7.1%	6.4%	7.3%			
Outperformance	1.2%	1.2%	1.2%	0.7%	0.6%			
Sharia unit trust funds[4]								
Islamic Equity Fund	-1.9%	2.2%	7.0%	7.6%	9.5%	Jul-09	1.52%	0.24%
SA Equity General funds mean	-2.7%	-1.2%	1.3%	6.7%	8.6%			
Outperformance	0.8%	3.4%	5.7%	0.9%	0.9%			
Islamic Global Equity Feeder Fund	9.5%	-	-	-	12.6%	Jan-19		
Global Equity General funds mean	19.9%				24.7%			
Outperformance	-10.4%				-12.1%			
Islamic Balanced Fund	2.3%	3.3%	6.3%	-	6.2%	May-11	1.52%	0.18%
SA Multi Asset High Equity funds mean	1.9%	2.4%	4.0%		7.4%			
Outperformance	0.4%	0.9%	2.3%		-1.2%			
Islamic High Yield Fund	4.9%	-	-	-	5.0%	Mar-19		
Short-term Fixed Interest Index (STeFI)	6.2%				6.6%			
Outperformance	-1.3%				-1.6%			

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.

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

Kagiso Asset Management (Pty) Limited is a licensed financial services provider (FSP No. 784).
Reg No. 1998/015218/07.

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 September 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 September 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. * Our two Managed Equity composites have been amalgamated with immediate effect. The history of Managed Equity (SWIX) has been maintained and the benchmark changed to Capped SWIX with effect from 1 July 2019. In future, therefore, we have just one Managed Equity composite with a Capped SWIX benchmark. This change has been implemented after consultation with our GIPS auditors, and therefore our composites will continue to be GIPS verified going forward.