

UP

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Kagiso Asset Management
Quarterly



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Adcorp is efficiently placing people

Simon Anderssen - Investment Analyst

“Adcorp is a specialist resourcing company that provides temporary and permanent labour solutions across numerous industries. With a long history and well-established brands in South Africa, the group has expanded organically into the rest of Africa and through acquisitions into Asia-Pacific and the Middle East.”

Adcorp is efficiently placing people

The group's key asset is a pool of employees that it matches to its clients' employment needs across a wide variety of skills levels, sectors and geographies. The majority of its earnings are generated by its temporary or contracting activities, where it places around 113 000 employees on any given day.

Adcorp enhances its contribution to its clients' labour management through training and development, project management and the ability to process payrolls across multiple regulatory environments. In addition, as a labour market specialist, the group is well positioned to advise corporates on global best-practice and strategies to optimise labour practices.

An uncertain legislative environment

Amendments to South Africa's labour legislation were signed into law in September 2014, following years of negotiation that created uncertainty for the sector. Collectively, these amendments seek to formalise and tighten regulation of Temporary Employment Service (TES) providers for the protection of employees, and are very similar to legislation in other regions. Specific amendments relevant to a TES provider include the 'deeming' provision (see below) and equal treatment of temporary employees.

Whereas in the past, temporary employees did not have recourse to the TES client for infringements of the employee's rights

under the Labour Relations Act, the client is now deemed to be the joint employer. This empowers an employee to hold the TES provider and/or the client jointly and severally liable.

The amendments also state that temporary employees must not be less favourably treated than full-time employees performing a similar task. In other words, if both these sets of employees perform a similar role, they should be treated equally unless there is a justifiable reason for not doing so (such as length of service, merit as well as quality and quantity of work).

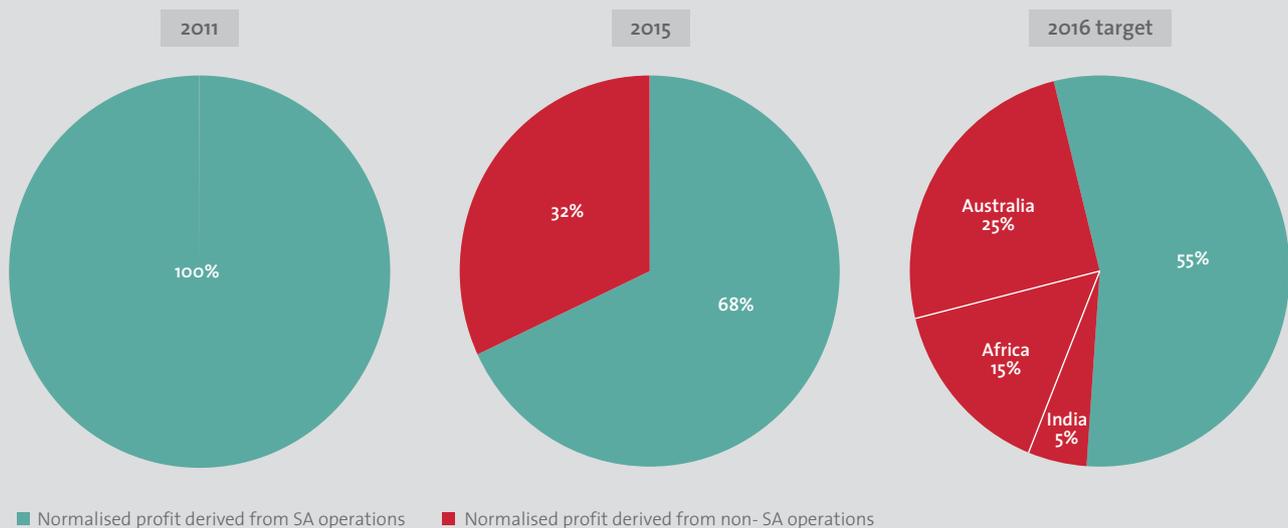
Importantly, these amendments only apply to temporary employees earning below a specified threshold (currently R205 000 pa) after three months of service. Genuine fixed term contracts to replace temporarily absent employees and seasonal employment are not covered by these amendments.

Enabling opportunity in South Africa

A fundamental attraction of temporary employment is the flexibility it gives companies to manage human capital, resulting in the use of temporary employment becoming a growing global trend.

South Africa's legislative environment is no more restrictive than many other countries and demand for temporary employment is expected to be resilient as the changing legislative environment helps formalise the industry. It is

Adcorp's changing profit profile



estimated that there are more than 3 000 TES providers operating in South Africa. Many of these are unregistered and unsophisticated. Although Adcorp is the largest, it only manages about 10% of the country's estimated one million temporary employees.

The group is, therefore, in an excellent position to consolidate this fragmented market as the administrative and compliance costs imposed by new legislation make it difficult for smaller companies to compete. Adcorp's acquisition of Kelly Group, the country's second largest TES provider, is an indication of this trend.

Its value proposition extends beyond sourcing labour and payroll management. Increasingly, large corporates are looking to various outsourcing models. Adcorp's Master Service Provider agreement, where it sources labour and manages a designated business function, is an example of this.

The customer benefits from this model because it capitalises on Adcorp's expertise in sourcing and managing relevant skills, and certain procurement efficiencies. For instance, the client is not liable for the Skills Levy on the underlying cost of employment, as it would be if it employed the skills directly. The client can also claim Preferential Procurement spend for its BEE Scorecard because Adcorp is a Level Two Contributor.

Efficiencies of scale

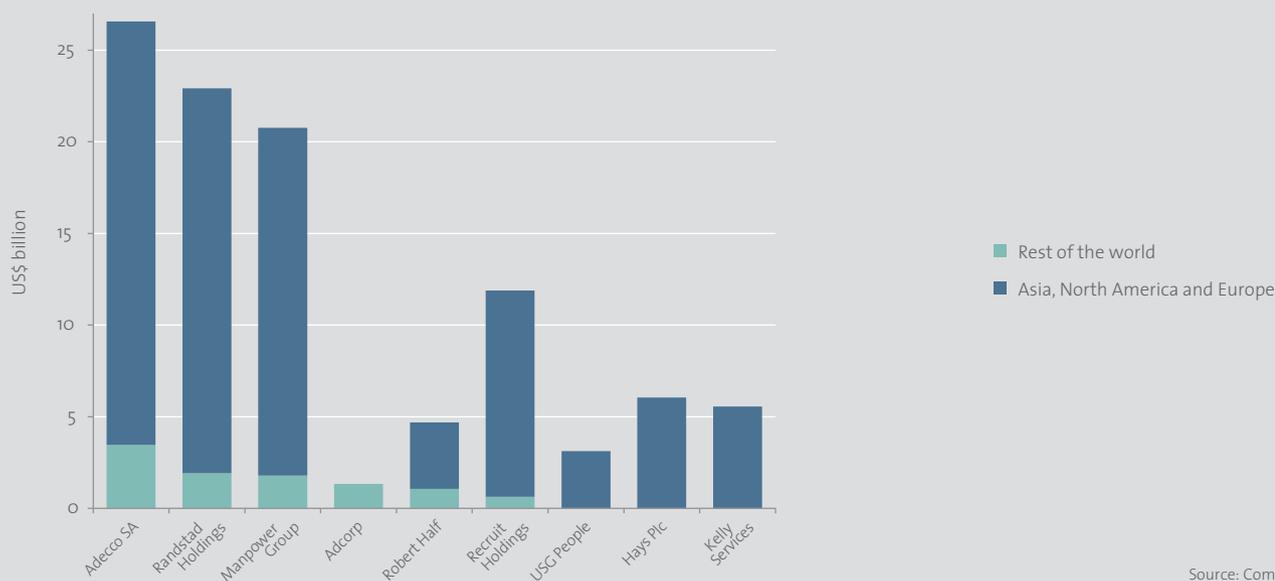
Outside of specialist niches within the temporary recruitment market, a large TES provider can usually match the demand and supply of skills more efficiently, compared to a smaller competitor for a few reasons.

Firstly, by definition, a large recruitment company has more projects and therefore more vacancies to fill. It is also more likely to attract a particular set of skills because of its wider network of consultants. As a result, a large recruitment company is more likely to be able to match the demand and supply for skills. This efficiency is particularly beneficial for mobile semi-skilled and skilled employees when demand for their services is cyclical or project dependent.

Secondly, employers often prefer to appoint a single recruitment provider that is established across multiple geographies as this creates a single point of contact and allows practices to be standardised.

These benefits of scale can result in above average profitability if a TES provider is able to leverage its administrative and operational platform by growing the number of employees it places at a faster rate than its operating costs.

Revenue by geography (latest financial year)



Adcorp is efficiently placing people

Over the last few years, Adcorp has been investing in its technology infrastructure and operational capabilities to consolidate most of its back office functions. We expect the resultant cost efficiencies to be a key contributor to profits going forward. Positive signs of scale efficiencies from greater volumes on their existing platforms are already evident in the group's successful integration of Kelly.

Growing beyond South Africa

Since 2011, Adcorp has actively expanded beyond South Africa following the group's organic growth into the rest of Africa to service large multinationals in resource-rich regions. These areas are characterised by an intense shortage of specialist skills for mining or infrastructure projects.

Adcorp's first international acquisition in 2012 was Paxus, a leading provider of information technology contracting and recruitment services in Australia. The group has since acquired Labour Solutions Australia, a TES provider active across the agriculture, mining and construction sectors in Australia, and DARE, a specialist in engineering and technical contractors in the Australian oil and gas industries.

These acquisitions have fundamentally altered Adcorp's revenue and profit composition. The chart on the previous page (left) highlights the shift in profits over the last five years from being fully dependent on South Africa in 2011, to a third of profits generated from non-South African operations in 2015. Management has set a target of 45% in 2016.

An underappreciated geographical mix

As shown in the chart on the previous page (right), the world's six largest listed recruitment companies earn between 77% and 95% of their revenue from developed, northern hemisphere countries in North America, Europe and Asia.

Comparing the absolute size of revenue from across this region to revenues earned from operations in other regions highlights that Adcorp has built one of the largest recruitment businesses outside of Asia, North America and Europe. We believe it has therefore become an attractive potential acquisition target for the larger developed market players. This is because the group's geographical exposure, particularly its operations in Africa, positively complements many of these large recruitment firms.

Many of these large firms' organic growth options are limited as they operate in saturated markets and, in some European markets, face demographic headwinds from a declining working age population. New markets therefore represent attractive growth opportunities.

In addition, many multinational companies face similar challenges and are themselves expanding into new territories. Africa, in particular, represents significant growth opportunities for many fast-moving consumer goods, construction and resource companies. Consequently, Adcorp's ability to source crucial and scarce skills for these multinationals in Africa, and its reach into other under-represented regions, means it is well positioned to benefit from growth into these regions. The company's alliance with the world's third largest recruitment firm, Randstad Holdings, is an indication of this strategic value.

A resilient model with value to clients

Our funds are invested in Adcorp because we believe the group's South African business is resilient, its internationalisation strategy will grow strongly into the future and the strategic value of its unique geographical exposure is underappreciated. **UP**



Premium opportunities in UK motor insurance

Justin Floor - Investment Analyst

While nobody likes paying for insurance, which is often regarded as a reluctant purchase, investing in insurance companies could be a far more pleasant experience.

The business proposition behind insurance is straightforward: sell policies, collect premiums, pool the risk, pay claims and pay expenses. Anything that's left is termed an underwriting profit. Earn an investment return on cash balances and maybe add some additional service fees. If price discipline is maintained successfully over time and risks and costs are well managed, you have a recipe for a successful, cash-generative business.

Premium opportunities in UK motor insurance

Warren Buffet's famed GEICO auto insurance company in the US and our local insurance giant, Santam (and more recently Outsurance), are examples of successful and established insurance businesses, which have provided generous returns to shareholders over time and through many cycles.

In our hunt for compelling bottom-up investment opportunities for our clients, we have turned to one of the more established insurance markets: UK motor.

History

The UK insurance market has a long and illustrious history, firmly rooted in the tradition of Edward Lloyd's coffee house on Tower Street, where merchants and business would meet and exchange maritime news.

These interactions led to arrangements where the risk of losing a valuable ship and cargo was shared, and was subsequently formalised into the Lloyd's of London insurance syndicates, which still operate today. The Great Fire of London in 1666 also awakened an acute awareness of the necessity and social benefits of an insurance industry in times of catastrophic loss, leading to the start of the industry's first property insurers.

UK motor market dynamics are in flux

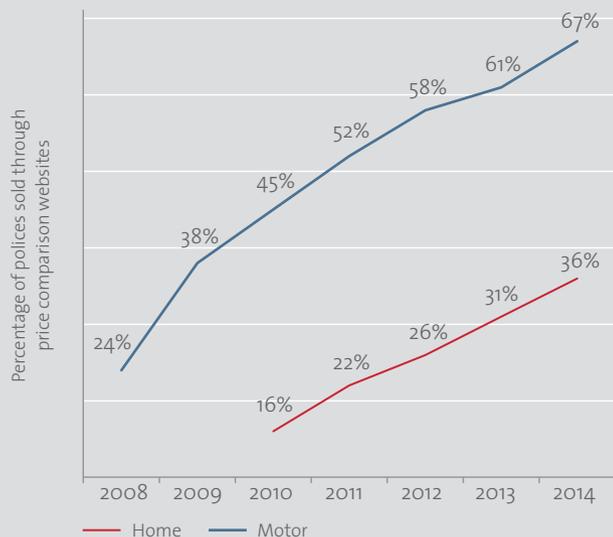
The UK insurance industry is the largest in Europe and the third largest in the world. Of the 26.4 million households in the UK in 2012, 19.6 million (74%) had motor insurance and the average household reluctantly spends just over £600 on this each year. A key part of the landscape in recent years has been the increasing importance of price comparison websites in the distribution mix (see left chart below).

This market is not an easy one as it is highly saturated, very competitive and barriers to entry are low - making it difficult for the industry overall to maintain high margins. In addition, investment returns are depressed (with low interest rates currently prevailing) and the sector is subjected to regulatory challenges such as competition scrutiny and the Solvency 2 capital regime.¹

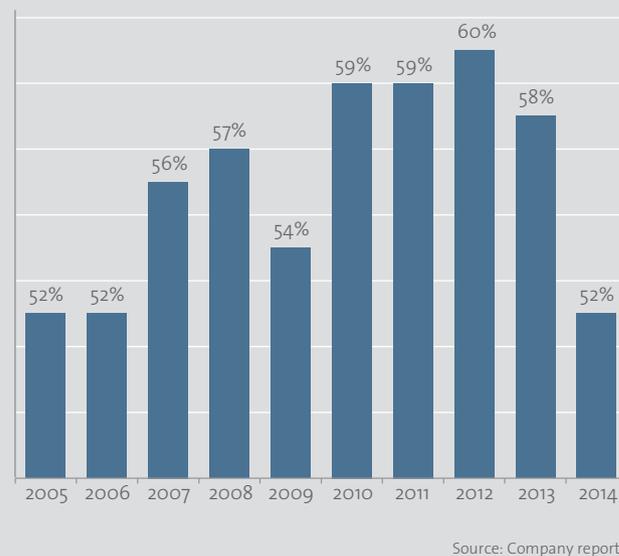
Premiums have fallen substantially over the last few years (see chart on opposite page), due to a combination of competitive pressure and falling claims (assisted by regulatory reforms making it harder to claim for personal injuries). Provisions (built up in prior years) have been released at an elevated rate, which has supported profitability and delayed

¹ Solvency 2 is an EU programme, to be implemented in all 28 member states, introducing a new, EU-wide capital regulatory regime for insurance companies.

Price comparison websites gain importance



Admiral Group's high return on equity



the inevitable inflection point in the cycle when premiums increase again to restore profitability. For the industry at large, these provisions are dwindling fast.

The industry has had such a tough time over the past while that it last reported an underwriting profit, in aggregate, as far back as 1993.

Looking ahead, we see an environment of rising claims (for one thing the low petrol price has incentivised more driving again, making more accidents likely) and the industry will need to increase premiums to stay in business.

As the premium cycle starts its upswing phase, a large portion of the incremental industry profit is likely to accrue to those insurers that have remained disciplined in the tough times. They have done this by focussing on profitable business rather than pursuing market share, while simultaneously maintaining an efficient cost base.

The benefits of a direct to customer model

Traditionally, insurance is sold through intermediaries such as insurance brokers. However, with the advent of direct distribution via the telephone and, more recently, the internet, we have seen the emergence of companies who sell directly to consumers.

Insurance companies with a direct-to-consumer strategy differ from traditional intermediated companies in that they spend on direct marketing efforts (eg TV campaigns) instead of broker commissions. Typically, well-run direct insurers enjoy higher underwriting margins than intermediated ones. Reasons for this include the ability to more efficiently price for risk (by targeting less risky customers) and the ability to manage costs more efficiently (often down to newer technology and avoiding expensive legacy infrastructure).

The relevance of the direct distribution business model lies in the superior margins earned when compared to peers with intermediated distribution. In South Africa, for example, the largely intermediated Santam's motor underwriting margin has averaged around 5% (although this includes more profitable corporate business). In comparison, Outsurance (which operates a direct model with success) has typically enjoyed comparable margins of around 20%.

Twin diamonds among the rocks

Although the industry might appear unattractive through a top-down lens, we have identified two excellent businesses (Admiral and Esure). These firms have consistently enjoyed profitability over many cycles, manifesting in above-average returns on equity (see right chart on opposite page).

UK motor premium cycle set to turn



Source: Towers Watson, Confused.com

Premium opportunities in UK motor insurance

Both these companies have protected valuable business (at times to the detriment of market share) and, consequently, are well positioned to benefit from the upward swing in the premium pricing cycle ahead. Unsurprisingly, they employ and benefit from direct distribution business models.

In addition, both companies enjoy good management and have demonstrated an agility and innovative capacity that will serve them well in a rapidly evolving insurance landscape - shaped by developments such as increased internet distribution, telematics and even driverless cars.

Admiral is the pioneer of direct insurance in the UK and comes with substantial pedigree. Since the company's inception in 1993, a highly regarded management team has delivered impressive earnings and dividend growth (as shown in the chart below).

The earnings base is dependent on the core UK motor book in which it has a 12% market share, although the large component of ancillary service revenue (eg bells and whistles such as car rental fees) helps to dampen the cyclical nature.

Diversifying earnings further, Admiral owns Confused.com (the leading price-comparison website in the UK) and is currently spending aggressively on expanding insurance and price comparison businesses into continental Europe and

the US. While the investment required in the near future will temporarily depress earnings, we expect these businesses to contribute substantial earnings over time as they mature and achieve scale.

Esure is a small and nimble direct motor insurer listed in 2013, with a 5% market share in the UK motor industry. It owns the Esure and the women-focused Sheilas' Wheels' brands. Having a woman-focused brand is a positive given the EU directive against price discrimination between men and women (even though women have a statistical disposition towards fewer and less severe claims).

Earlier this year, management demonstrated excellent capital allocation in acquiring the 50% it didn't already own of price comparison website Gocompare.com, at an attractive valuation. Management ambitions are to double earnings from this source in the next five years. Consequently, this fast-growing and high quality price comparison business is set to make a healthy contribution to Esure's earnings in the future. We believe this dynamic is currently underappreciated by the current market price.

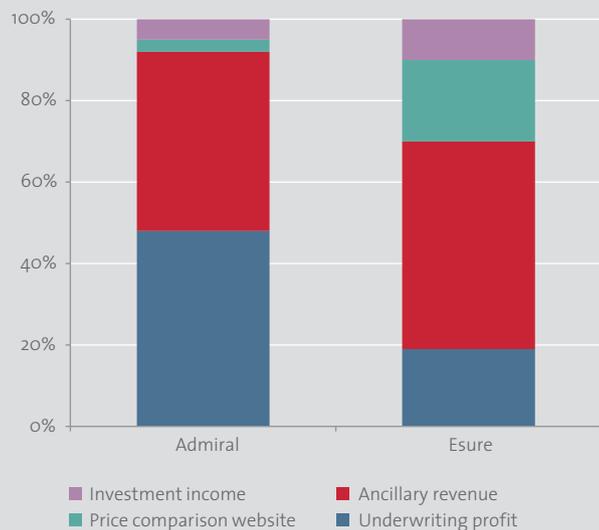
Grudge free purchases

In our view, these two companies provide investors with compelling opportunities as they are well positioned to grow into a hardening insurance market, benefiting from expanding underwriting margins along the way. In addition, investment income has been depressed far below normal levels by the record low interest rate environment, and eventual interest rate normalisation will provide an additional earnings boost in time.

Despite the good prospects over the next few years, valuations are undemanding and dividend yields are high.

For most, insurance is a reluctant purchase. In this instance, however, we buy shares in these well-managed companies without a grudge. **UP**

Diversified earnings mix: 30 June 2015



Source: Company reports



Online classifieds: the next growth vector for Naspers

Aslam Dalvi - Investment Analyst

Naspers has been tremendously successful at building new businesses and investing in new growth opportunities. Its more mature Pay TV and print businesses currently make up the bulk of reported profits and cash flow, and its investment in Tencent, the massive Chinese internet company, today constitutes around 96% of Naspers' market capitalisation.

We believe the group's next large earnings contributor will be its rapidly evolving emerging markets online classifieds business that is currently consuming cash and depressing earnings.

Online classifieds: the next growth vector for Naspers

Online classifieds

There are several well-known and successful online classified businesses around the world. These include Craigslist in the US, Gumtree in the UK, Finn, Blocket and Leboncoin in Western Europe (all owned by global classifieds player Schibsted) and Naspers-owned OLX, which is the leading online classifieds platform in emerging markets.

Online classifieds platforms provide a convenient meeting place for individuals wanting to buy and sell secondhand goods with limited formal business involvement.

The attraction of online classifieds relative to print is clear. Traditional 'paper' classifieds tend to be localised, whereas the reach of online classifieds is much broader, resulting in a larger pool of potential buyers and sellers. This, in turn, improves the likelihood of a transaction taking place.

In addition, the cost of an online classifieds listing is typically very low (and often free), whereas traditional print online classified advertisements tend to be charged on a per word basis. This allows users to provide more detail on goods and to include digital media, such as videos and pictures. Other advantages of online classifieds transacting include the ability to easily search for goods and better access to information - enabling buyers to make more informed purchasing decisions.

These benefits have resulted in a structural shift away from print classified mediums to online portals. The effect on the traditional print classifieds industry is clear when looking at advertising trends in the developed world. In the US, for example, data from the Newspaper Association of America shows that print-based classifieds advertising revenue has declined consistently from around US\$20 billion in 2000 to around US\$4 billion at the end of 2014.

Building a classifieds business

The main goal in establishing a successful classifieds business is to build a large community of active buyers and sellers. This requires considerable upfront investment as the business needs to attract new users faster than the competition and provide an efficient free service to its growing community.

During this initial stage, marketing spend is very high, the competition is fierce given the eventual spoils to the platform winner and there are infrastructure costs to build the platform. The business generates zero revenue as all listings are free and it is not yet large enough to attract third party advertising spend. This is a particularly risky phase as there is a reasonable probability that a competitor platform will 'win the war' for the dominant online community and that the business will not be profitable.

Key indicators for top five markets

	Brazil	Poland	Indonesia	India	Russia
Population size (million)	206	38	254	1 295	144
GDP per capita (US\$)	11 385	14 423	3 492	1 598	12 736
Internet penetration	58%	67%	17%	18%	71%
Mobile penetration	139%	156%	126%	74%	155%
Smartphone penetration	47%	37%	25%	11%	40%
Mobile as a % of total internet traffic	22%	52%	57%	65%	11%
Retail sales (US\$ billion)	429	166	411	718	794
e-commerce as a percentage of retail	3.8%	4.0%	0.6%	0.7%	2.2%
Naspers' rank within local market	1	1	1	1	1
Naspers' global rank within classifieds	6	5	19	18	2
Naspers' relative scale *	8.8	8.8	17.5	1.1	13.5

* Relative scale refers to number of site visits relative to the number two player in the market

As the number of users grows, there is a significant ‘platform effect’, whereby new users are attracted by the existing base of buyers and sellers. Once the user base is sufficiently larger than the nearest competitor (typically between seven to nine times the size), scale is achieved. This large active population of buyers and sellers becomes a massive advantage over the competition, which then typically fades away - conceding defeat. At this point, the platform enters the monetisation¹ phase, where profit grows rapidly as users are now willing to pay for access to such a large customer base, and advertising space can be sold.

The Naspers online classifieds business today

Naspers arguably has the world’s most attractive online classifieds portfolio, with exposure to over 40 high growth emerging markets, predominantly trading under the OLX brand. Today, the group has more than 240 million active users, enjoys the number one position in 30 markets and has already successfully monetised in eight of these markets.

Naspers has placed a strong emphasis on developing a mobile ‘ecosystem’ for its classifieds business. This has provided a clear edge over competitors and has enabled it to become the mobile leader in classifieds, with the number one shopping app across 15 markets.

We believe that there are five key classifieds markets that will be large contributors to profitability for Naspers over the next three to five years: Brazil, Poland, Indonesia, India and Russia. Of these five markets, Naspers is currently only monetising its platforms in Russia and Poland. Brazil and Indonesia should follow soon, given the relative scale achieved in those countries to date and the changes in the competitive landscape.

The recent corporate action between Naspers and global classified players Schibsted, Telenor and Singapore Press Holdings marked an important turning point in key markets such as Brazil and Indonesia. The deal will result in Naspers merging with the two biggest players in these countries and creating the scale that is needed to advance monetisation, thereby removing the need for large marketing spend in the war for dominance. The transaction will also significantly bring forward the date when profitability will be achieved. Furthermore, it includes certain non-compete clauses in several other smaller markets, which materially improve the probability of success in these markets.

While the Naspers classifieds portfolio is currently loss making, there is a large opportunity for the group across the top five markets (see table on the opposite page). These markets

¹ Monetisation in the e-commerce market context refers to a company’s ability to generate revenue through its web site operations by, for example, charging for the placement of advertisements.

Naspers’ relative scale in top fifteen markets



Source: Similar Web.com, Kagiso Asset Management research

Online classifieds: the next growth vector for Naspers

collectively cover a population of close to two billion people and per capita GDP in Brazil, Poland and Russia is relatively high and growing quickly. Average internet penetration across these markets is below 50% and smartphone penetration, a key driver of future growth, is only around 32%.

The balance of the portfolio (the other 35 countries) consists of operations in smaller markets with similar underlying growth opportunities to the top five. Collectively, these markets have the potential to be very profitable for the group. They are, however, mainly in the nascent stages of development. We expect several years of additional investment before they enter the monetisation phase and group dominance is not assured in all cases.

On the path to profitability

We estimate that Naspers has invested around R15 billion in its classifieds portfolio to build the leadership position it currently enjoys. The group is now the dominant platform in several key markets and, more importantly, it is also several times larger than its closest competitor (see charts on the previous page).

The typical evolution of profitability for a classifieds business follows a 'J-curve model' and there are many successful global examples. We have seen this evolution in Naspers' own portfolio as profit rose rapidly after monetisation at both Avito* and 58.com*. In the case of Avito, the rise in profitability has been sharp as the business went from a loss of 1.1 billion roubles in 2012 to an expected profit** of 3.2 billion roubles in 2015.

Of the eight markets where Naspers is currently monetising, only Russia is far down the monetisation curve. The other seven markets are still relatively early in the cycle and we would expect profit growth to accelerate from here. The opportunity ahead is therefore substantial, particularly when considering that many of the key markets have not yet even begun to monetise.

Given Naspers' scale and leadership in online classifieds in a number of attractive emerging markets, we believe that the probability of successful profit generation over the next three years is high. **UP**

* Avito is a Russian classifieds business that is 18.6% owned by Naspers and 58.com is a Chinese classifieds business held through associate Tencent, which has a 24.6% stake in the company.

** As represented by earnings before interest and tax.



The best thing since deregulation

Victor Seanie - Investment Analyst

Nutritious, convenient and ready to eat, bread is the second most important supplier of energy (kilojoules) in the national diet after maize products. Interestingly, the price of a standard loaf of brown bread has increased by an average 9.7% pa over the past 15 years (9.0% pa for white bread), compared to general CPI inflation of 5.9% pa and food inflation of 7.4% pa over the same period.

The best thing since deregulation

We explore the far-reaching developments that have taken place in the South African bread market and look at the implications for consumers. We also discuss who the likely winners and losers will be going forward among the country's four major millers and bread producers - Tiger Brands (Albany), Premier Foods (Blue Ribbon), Pioneer Foods (Sasko) and Foodcorp (Sunbake).

History

Due to a history of restrictive registration of bakeries in South Africa up until 1991, the country developed a highly concentrated packaged bread baking industry. For many of these years the industry was regulated, which meant that each bakery had its own allocated quota of products which it had to produce.

In addition, punitive measures were in place if bakeries under- or over-supplied bread and prices were fixed by the government. There was limited differentiation between brands and quality was not high. The fact that the major bakers also controlled the majority of flour mills made it difficult for smaller independent bakeries to enter and grow in the bread market. Today, Tiger Brands, Premier Foods, Pioneer Foods and Foodcorp bake more than 75% of all the bread consumed in South Africa.

Developments since deregulation

Bread is produced by three types of bakeries - the plant or industrial bakery, the in-store bakery and the artisanal (stand-alone) bakery.

After deregulation in 1991, the four largest bread producers effectively allocated control of regional bread markets among themselves. The number of plant bakeries dropped to between 60 and 70 compared to 200 in 1991. The competition authorities have pursued some of these practices and levied very large fines on these companies.

South Africa currently has one of the most highly concentrated bread markets in the world. While local production is dominated by industrial bakers, artisanal bakers dominate in many foreign markets (see chart on opposite page).

Since deregulation the number of in-store and artisanal bakeries (particularly franchise operations) has grown dramatically and, today, nearly every supermarket has its own in-store bakery.

Perhaps the biggest and most important recent innovation has been the use of branded packaging instead of clear plastic bags. This has enabled bread producers to build valuable brands and charge premium prices, particularly in the case of Albany. Premium loaves have also only recently been introduced (added fibre, low GI, omega-3 fortified breads and soy and linseed loaves) and have become popular among more affluent consumers. An interesting new trend in the bread market has been the emergence of branded craft bread, similar to the trend seen in the beer market.

Tiger Brands has operated the most modern bakeries in the country over the recent past. This has provided a competitive edge that has helped the group produce better quality bread with greater efficiency and, as a result, it has higher bread profit margins than its competitors.

Competitor moves

Both the CEOs of Premier Foods and Pioneer Foods' are former Tiger Brands executives and are in the process of instilling the 'Tiger Brands Way' at Blue Ribbon and Sasko respectively. They are challenging Tiger Brands in its most lucrative markets, namely Gauteng and KZN.

Median bread prices

	Albany	Blue Ribbon	Sasko
			
	Median price (rand *)		
Brown	11.00	9.60	9.70
White	12.50	11.50	10.80

* The median price is the median bread price across four stores surveyed in August 2015 in different locations in Cape Town

New processes introduced at Premier Foods and Pioneer Foods include: reducing the cost of bread-making through increased automation, adjusting wheat grinding to enable mills to use lower cost wheat (yet still achieve the same flour quality) and increasing extraction rates (the amount of flour obtained per ton of wheat). Other changes include: improving the quality and consistency of bread, introducing new premium loaves, expanding distribution into more outlets and building the brands in order to increase their bread prices.

Expansion into new geographic areas

Historically, Gauteng has been the province where Sasko has had the lowest market share, followed by KZN. Gauteng is South Africa's largest bread market and has been lucrative for Tiger Brands due to population density and brand loyalty. Population density reduces the distance bread trucks have to travel and, therefore, leads to lower distribution costs. Pioneer built a new bakery in Shakaskraal, north of Durban in 2013, increasing its national bakery capacity by 7% and has succeeded in taking market share from Tiger Brands in KZN.

National bread market volumes are growing at around 1% annually and bread producers are therefore aggressively competing for market share. Against this backdrop, bread market consolidation continues. In 2014, Premier Foods

acquired five Eastern Cape bakeries, bringing its Blue Ribbon brand to the province for the first time. Given that South African consumers are still under pressure, it is likely that they may be more willing to experiment with lower priced bread brands.

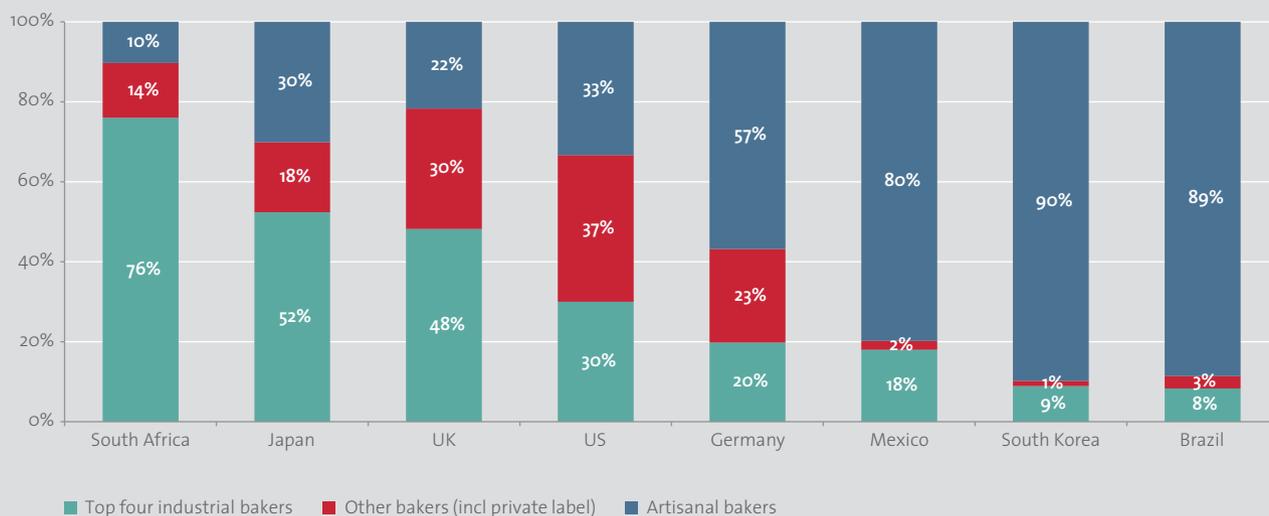
Customers are willing to switch

We conducted consumer research to establish the buying trends and preferences of South African bread consumers (see charts on the next page). When it comes to switching brands, the main reasons consumers are willing to buy an alternative bread brand are if their preferred brand is unavailable (37%), or the quality changes (37%). This is followed by changes in taste (28%) and price (17%). Albany consumers appear to be the most loyal to their brand, followed by Sasko and Blue Ribbon consumers.

Taste and quality are the largest contributing factors to bread brand choice, while price is a factor for only 15% of consumers. Sasko had the largest market share (50%) in our sample survey among consumers for whom price is an important consideration. Consumer perception of bread quality is informed by how well it freezes, its softness, its ability to retain moisture, how fresh it feels after three days and how well it toasts.

According to Tiger Brands, Albany stays fresh longer due to the short cooling time from oven to packaging. This prevents

Global bread market share



The best thing since deregulation

moisture loss in the loaf as excess evaporation occurs through a longer cooling period. Albany's storage life is about five days, compared to about three days for Sasko, mainly due to the cooling process employed by Tiger Brands which makes use of spiral cooling tower technology. While grinding processes and flour mixture also affect the storage life of bread, Tiger Brands' competitive advantages have been eroded in recent years as Premier and Sasko have invested in their bakeries and have installed new equipment.

The results of the survey showed that the key success factors for bakers to win market share include strong distribution to ensure availability, improved bread quality and taste as well as reasonable relative prices.

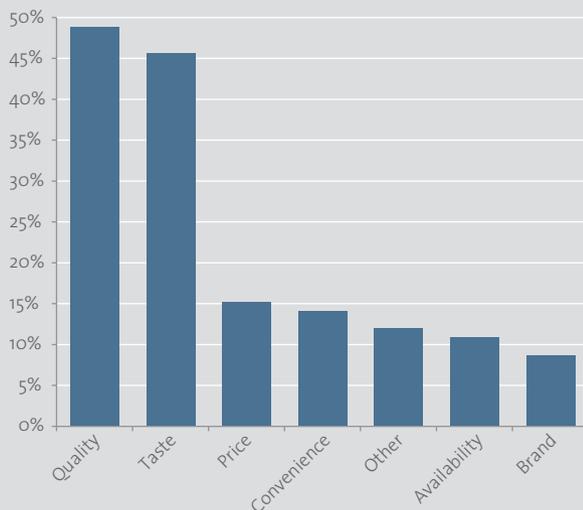
Winners and losers

Given that its competitors are encroaching on its markets, it may profit Tiger Brands to do likewise by taking market share from Premier and Pioneer in markets where it currently has lower market share.

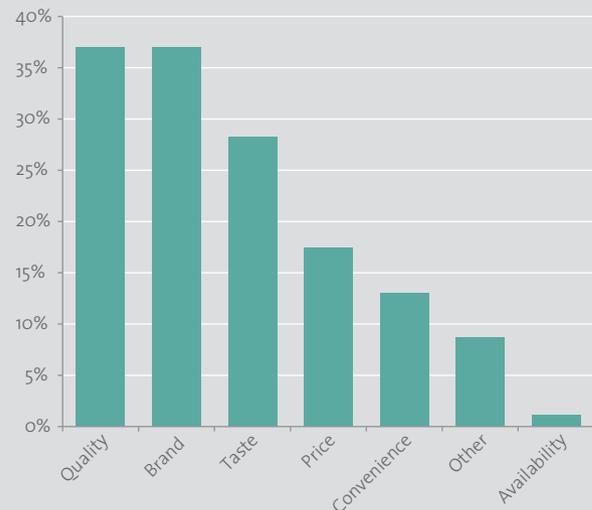
In the absence of such a strategy, Premier and Pioneer are likely to emerge as the biggest winners in the bread market going forward and Tiger Brands as the biggest loser. Consumers stand to benefit from better quality bread, improved availability and better prices. These are some of the factors behind Pioneer's current share price high and Tiger Brands' relative underperformance. **UP**

Consumer bread brand choices

I buy the bread brand because of:



I change between bread brands because of:



Kagiso Asset Management Funds

Performance to 30 September 2015	1 year	3 years ¹	5 years ¹	10 years ¹	Since launch ¹	Launch	TER ²
Unit trust funds³							
Equity Alpha Fund	-6.2%	10.0%	10.2%	14.2%	18.7%	Apr-04	1.5%
South African Equity General funds mean	2.3%	12.7%	12.3%	12.4%	15.7%		
Outperformance	-8.5%	-2.7%	-2.1%	1.8%	3.0%		
Balanced Fund	-2.8%	8.7%	-	-	9.0%	May-11	1.5%
South African Multi Asset High Equity funds mean	6.1%	12.1%			11.3%		
Outperformance	-8.9%	-3.4%			-2.3%		
Protector Fund	0.4%	7.0%	6.1%	8.3%	10.2%	Dec-02	1.6%
CPI + 5% ⁴	9.8%	10.5%	10.6%	11.1%	10.7%		
Outperformance	-9.4%	-3.5%	-4.5%	-2.8%	-0.5%		
Stable Fund	1.0%	7.6%	-	-	7.7%	May-11	1.6%
Return on large deposits*	5.5%	5.3%			5.3%		
Outperformance	-4.5%	2.3%			2.4%		
Institutional funds⁵							
Managed Equity Fund	-7.6%	9.8%	10.9%	-	12.6%	Sep-06	
FTSE/JSE SWIX All Share Index	6.1%	16.2%	15.7%		14.0%		
Outperformance	-13.7%	-6.4%	-4.8%		-1.4%		
Core Equity Fund	-4.1%	12.7%	13.3%	14.8%	17.7%	Nov-04	
FTSE/JSE SWIX All Share Index	6.1%	16.2%	15.7%	15.5%	18.2%		
Outperformance	-10.2%	-3.5%	-2.4%	-0.7%	-0.5%		
Domestic Balanced Fund⁶	-6.0%	8.2%	9.8%	-	8.7%	May-07	
Peer median ⁷	3.4%	12.6%	13.8%		10.6%		
Outperformance	-9.4%	-4.4%	-4.0%		-1.9%		
Global Balanced Fund⁸	0.7%	-	-	-	11.0%	Jul-13	
Peer median ⁹	7.4%				14.2%		
Outperformance	-6.7%				-3.2%		
Sharia unit trust funds³							
Islamic Equity Fund	-10.6%	7.3%	8.1%	-	11.5%	Jul-09	1.3%
South African Equity General funds mean	2.3%	12.7%	12.3%		14.9%		
Outperformance	-12.9%	-5.4%	-4.2%		-3.4%		
Islamic Balanced Fund	-5.8%	7.3%	-	-	6.0%	May-11	1.5%
South African Multi Asset High Equity funds mean	6.1%	12.1%			11.3%		
Outperformance	-11.9%	-4.8%			-5.3%		

Highest and lowest monthly fund performance	Highest	Lowest								
<i>Equity Alpha Fund</i>	4.1%	-3.9%	8.1%	-4.3%	8.1%	-4.3%	10.9%	-9.0%	11.9%	-9.0%
<i>Balanced Fund</i>	2.2%	-2.8%	6.2%	-3.5%	-	-	-	-	6.2%	-4.2%
<i>Protector Fund</i>	2.2%	-2.5%	4.8%	-3.5%	4.8%	-3.5%	7.9%	-5.3%	9.5%	-5.3%
<i>Stable Fund</i>	2.9%	-2.2%	4.0%	-2.2%	-	-	-	-	4.0%	-3.5%
<i>Islamic Equity Fund</i>	4.6%	-3.7%	8.1%	-4.9%	8.1%	-4.9%	-	-	8.1%	-4.9%
<i>Islamic Balanced Fund</i>	3.3%	-2.6%	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 12-month period to 30 September 2015; ³ Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; ⁴ CPI for September is an estimate; ⁵ Source: Kagiso Asset Management; gross of management fees; ⁶ Domestic Balanced Fund and benchmark returns to 31 August 2015; ⁷ Median return of Alexander Forbes SA Manager Watch: BIV Survey; ⁸ Global Balanced Fund and benchmark returns to 31 August 2015; ⁹ 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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