

UP

July 2015

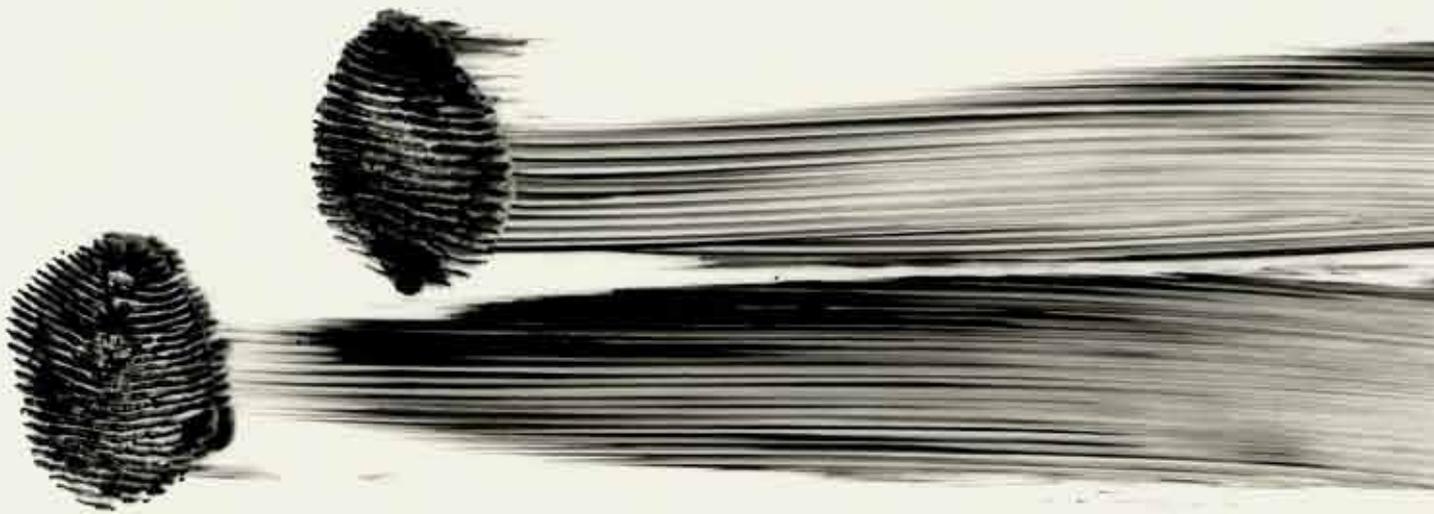
Kagiso Asset Management

Quarterly



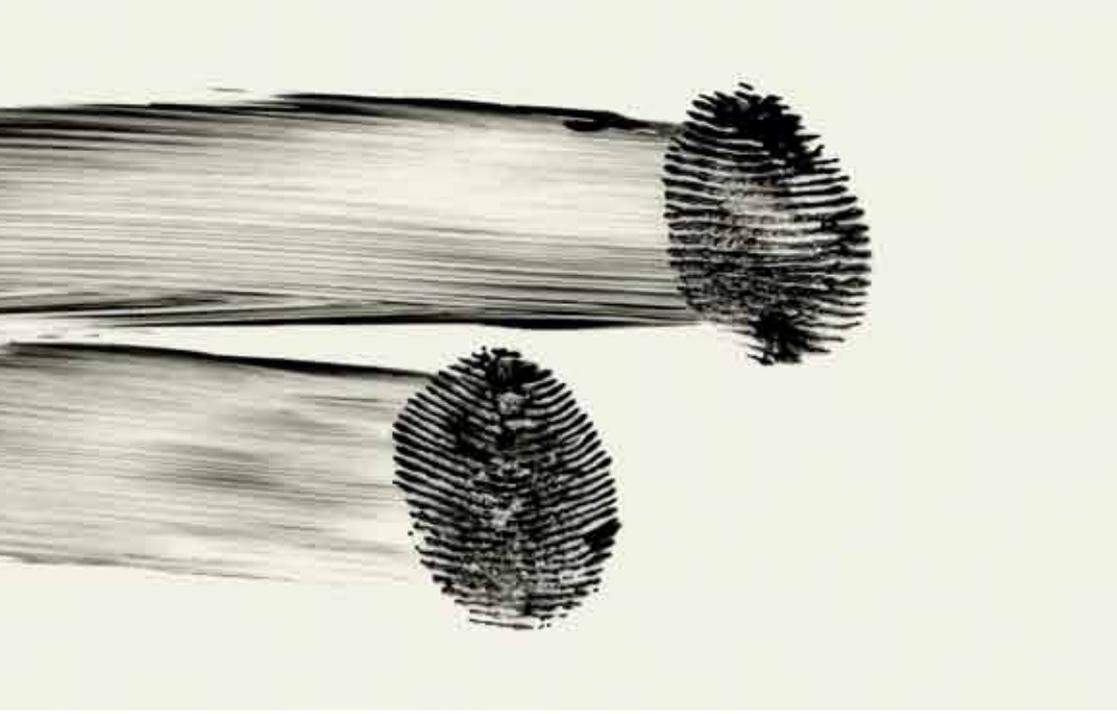
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Corning website: two finger swipe to next screen page

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Corning: looking through the glass

Rubin Renecke - Investment Analyst

Corning is a US manufacturer of glass, ceramics and related materials, primarily for industrial and scientific applications. Surprisingly, Corning is not a well-known brand name despite the fact that its products are used on a daily basis by consumers worldwide and have had a profound influence on the way we live.

Corning: looking through the glass

Commonly used products are damage resistant cover glass (found on all high-end smartphones, tablets and touch devices), ceramic substrates for catalytic converters (used in reducing fuel emissions) and optical fibre (used for telecommunications). The company also produces glass for liquid crystal displays used in flat screen TVs and other flat screen displays.

Corning started as the Brooklyn Flint Glass Works in 1851. In 1868, it moved its operations to Corning in New York State and changed its name to Corning Glass Works. In 1989, it became known as Corning Incorporated.

Well-known Corning inventions include:

- the bulb shaped glass encasement for Thomas Edison's incandescent light bulb (1879);
- heat resistant Pyrex glass (1915) and Corningware (1959), both still used in cooking and baking today;
- silicones used for sealing applications (1934);
- heat-resistant windows for the first US manned spacecraft (1961);
- the first optical fibre capable of maintaining light signals over significant distances (1970), which paved the way for the commercialisation of fibre optics in the telecommunications sector; and

- the cellular ceramic substrate for automotive emissions control (1972), which is now the worldwide standard for automotive catalytic converters.

Today, Corning's business is focused on four key industries: **consumer electronics, telecommunications, transportation and life sciences**. While all its products are based on glass or glass derivatives, we believe that Corning's display glass businesses present the most exciting growth prospects going forward.

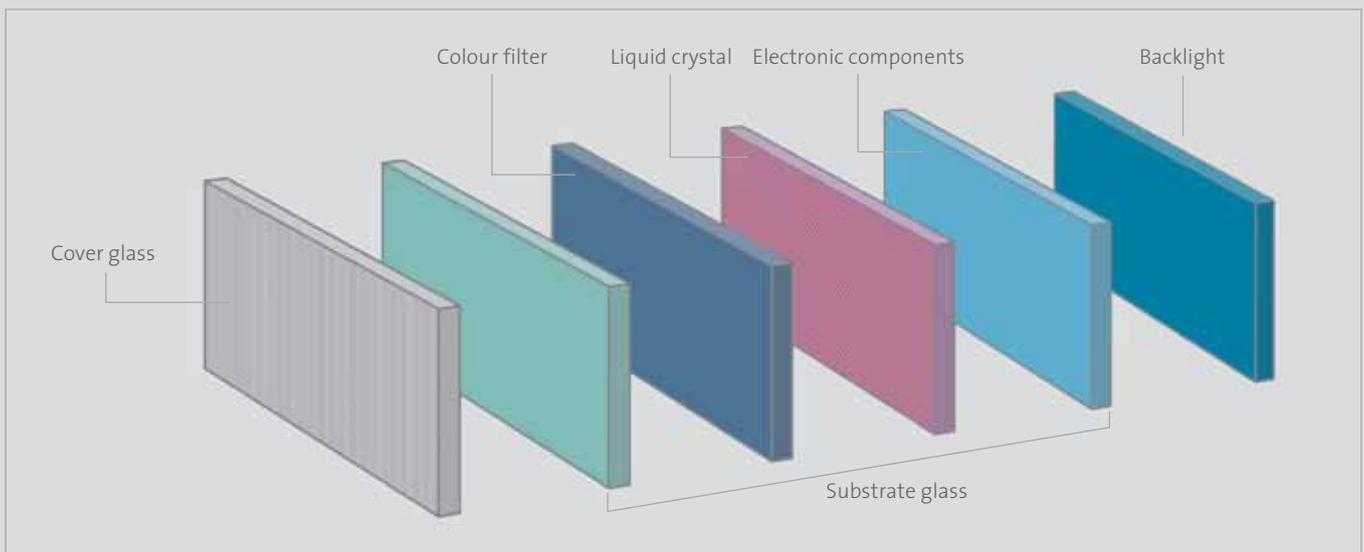
Not all glass is the same

Silica in the form of sand is the main ingredient of glass and this, combined with soda ash and limestone, is melted in a furnace at temperatures of 1 700°C to form glass. Soda-lime glass is the most common form of glass and used to make items like windows and bottles.

Adding diverse chemicals to the common soda-lime formula can create glass with very different characteristics. These formulations can result in glass that has higher heat or scratch resistance levels or higher optical clarity, and even paper thin flexible glass.

Corning has been at the forefront of these glass innovations for over 160 years. In 1964, it developed a proprietary

Liquid crystal display components



manufacturing process that produces glass with exceptionally clean, smooth and flat surfaces. This production method is still used today to produce the glass in flat screen TVs, smartphones and tablets.

Advanced display glass

Corning produces two types of glass that are used in most devices that have a screen display: cover glass, which helps protect the display on the exterior, and substrate glass, which enables functionality inside a device. The diagram on the left shows the basic structure of the components making up a liquid crystal display (LCD) panel, which is found in most devices with displays and used in modern day TVs. Corning's advanced display glass types (both cover and substrate) are formed in the same manufacturing process, but the chemical compositions of each type is very different.

The company has two divisions that produce high-tech glass products for modern day displays: Display Technologies and Specialty Materials.

Display Technologies

This is Corning's largest division by revenue and profits, housing its LCD glass substrate business. The success of this division is determined by consumers' demand for larger, thinner and higher resolution TV screens.

The chart below shows the rapid growth in the LCD TV market share from almost 0% in 2001 to close to 100% currently. Corning is the leading producer of glass for LCD screens and has a market share of about 50% globally.

Specialty Materials

Corning's other display glass division, Specialty Materials, makes Corning Gorilla Glass, which was introduced in the first generation Apple iPhone in 2007. It is used as a cover glass that helps protect the LCD touch screens of devices such as smartphones, tablets, notebooks and other handheld devices. Strong demand for smartphones has been the main reason why there has been such robust growth in the cover glass market (see graph below).

Corning first developed the formulation for Gorilla Glass in the early 1960s while experimenting with different ways of strengthening glass. Initially marketed as Chemcor in 1962, Corning thought Gorilla Glass would work for products such as phone booths, prison windows, eyeglasses and car windshields. However, the product failed to succeed for different reasons (including cost) and was eventually shelved in 1971. It was a solution waiting for the right problem to arise, which came in the form of Steve Jobs and the Apple iPhone 36 years later.

Global TV demand and market share by technology



Source: Display Search, Deutsche Bank estimates

Corning: looking through the glass

Jobs didn't want a plastic cover for the iPhone and preferred a tough glass that could protect the device's screen. Early in 2007, he approached the CEO of Corning with a request to produce such a cover glass, giving him a six month deadline. Corning took on the challenge without any commercial production line set up and went about modifying one of its LCD glass manufacturing plants to produce the iPhone Gorilla Glass on time. It is currently producing its fourth iteration of this product, which has become a standard component of high-end touch screen devices, and continues development for future uses.

What the future holds

While LCD TVs, smartphones and tablets are common products today, it is the development of new glass formulations that make exciting fresh applications possible. A few years ago Corning released a video entitled 'A day made of glass' (see https://www.youtube.com/watch?v=6Cf7IL_eZ38 or scan the code below with a QR reader), in which it envisages the future applications of glass.

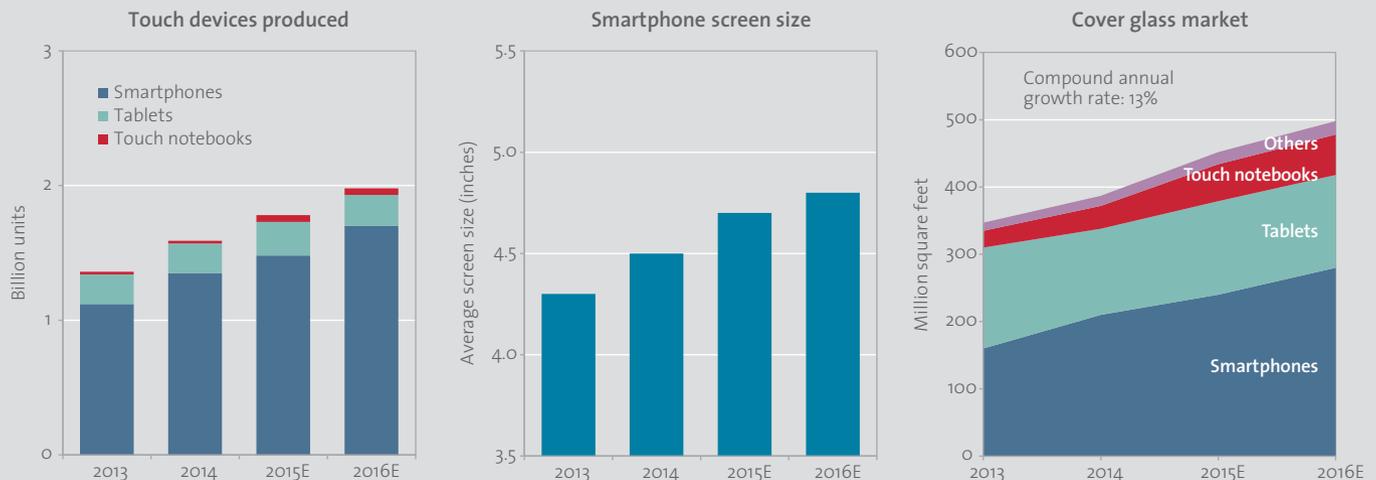


In-home design and architecture, and curtains could be replaced by light sensitive glass that darkens or lightens up depending on the time of day. Other surfaces in the home, such as mirrors or kitchen counter tops, could be transformed into interactive touch screen displays. In cars, thinner and lighter glass could be used to improve fuel efficiency and flexible glass panels would be ideal for interactive dashboards. In the work place and in the classroom, interactive desktop display glass will transform the way we work and learn while, in e-commerce, shopping for clothing can be transformed by digital fitting rooms made of interactive display glass.

Imagining glass

Corning's continuous innovation has resulted in many products that improve our daily lives. While we believe demand for bigger and thinner LCD TVs and smarter smartphones and tablets will continue to grow and result in ongoing demand for its high tech glass, it is the future applications for glass that present the most exciting opportunities for new growth areas. We therefore hold Corning in our relevant portfolios on behalf of our clients. **UP**

Smartphones drive cover glass market growth





Google: 'sugar' space 'cane' swipe swipe select

Waiting for the sugar rush

Dirk van Vlaanderen - Investment Analyst

Believed to have its origins in the Polynesian Islands over 5 000 years ago, sugar has since become a truly global industry with production at 174 million tons in 2014/2015. Sugar is produced from either sugar cane, which grows above ground in tropical climates, or from the root of the sugar beet plant, which favours cooler growing conditions. While used mainly for human consumption, sugar's potential as an alternate source of energy and transportation fuel has been recognised over the last 50 years.

Waiting for the sugar rush

Brazil is the most influential sugar producer globally

The left chart on the opposite page highlights the largest global producers of sugar (including Brazil, India, China and Thailand). While around 70% of sugar is produced for local consumption, any excess production is traded on the 'world sugar market'. Given that Brazil exports around 24 million tons of sugar per annum, or half the world market, the country's sugar production has significant implications for world prices.

Global sugar demand has increased by 2% to 3% per annum over the past 10 years and is expected to continue to grow at a similar rate given population growth and rising global income levels. With demand fairly consistent and predictable, global supply is the key factor influencing world sugar prices.

As shown in the chart below, sugar behaves like any cyclical agricultural commodity where, in the case of a sugar surplus (supply exceeds demand), the world sugar price falls, while the opposite is true in a deficit scenario.

World sugar prices are currently at five-year lows, having fallen from a recent peak of 35 US cents per pound to 12 US cents currently. This has been influenced by:

- Increased supply: five years of global surplus production has resulted in a significant build-up of sugar inventories on a global scale.

- India: the Indian government continues to offer export incentives to help clear high domestic inventories and support a fragile and debt-laden sugar industry. This has added to global supply, while India is normally a net importer of sugar.
- Currency: the Brazilian real has devalued against the US dollar by over 30% in the past six months, which has meant the effective cost of production in US dollar terms has declined. This has offered some support to a struggling and indebted Brazilian sugar industry, where several players have to sell sugar below the cost of production. We believe that this scenario is unsustainable in the medium term. Heavy debt burdens and poor profitability have resulted in over 68 mills (18% of total Brazilian mills) closing since 2007/2008, which points to curtailed supply going forward.
- Ethanol: the Brazilian sugar industry was originally developed to its current vast scale to support ethanol production as a substitute for gasoline in vehicle fuel. Therefore, most Brazilian sugar mills are able to swing between sugar and ethanol production. Given the less attractive dynamics in ethanol due to unsupportive government policies (keeping fuel prices artificially low) in the past five years, most mills have swung production towards sugar, adding to global surpluses. Recent policy

World sugar market dynamics



changes, which have resulted in higher gasoline prices and higher mandatory blending ratios¹, should stimulate better demand for ethanol and help curtail sugar production.

The bitter-sweet sugar health debate

The sugar industry is under increasing pressure from policy makers and non-profit organisations, which are raising awareness of the health impact of a high-calorie diet. Sugar has been cited as the main scapegoat for the rising global incidence of obesity and diabetes.

Some governments have been more proactive than others in taking a tough stance. Mexico's 2014 sugar tax is a recent example of an attempt to encourage lower sugar consumption. In South Africa, the Department of Health is currently debating implementing a similar measure.

Sugar producers are very much part of the debate around sugar consumption and are engaged with all stakeholders to support awareness around the responsible consumption of sugar, and promotion of a healthy lifestyle. For example, in some African countries Illovo fortifies its sugar products with vitamins A and D to add much-needed nutrition to consumers.

¹ The national maximum blend of ethanol in gasoline has been increased from 25% to 27%

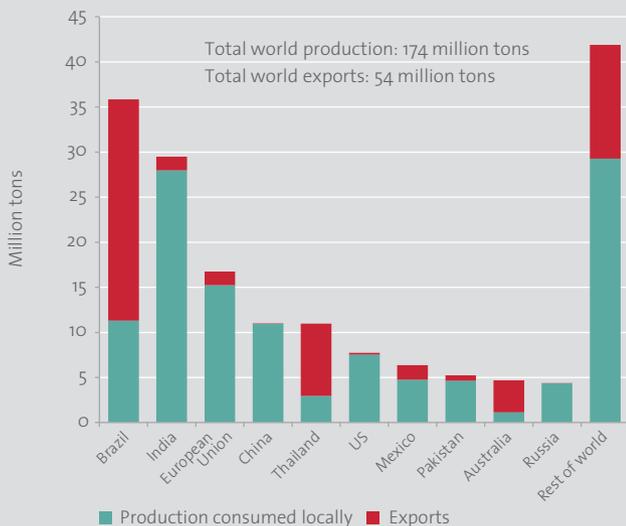
We have already seen a decline in sugar consumption per capita in most developed markets over the past 15 years as growing health awareness and higher income levels have led to a shift into higher protein and lower sugar diets. However, per capita consumption remains very low in emerging markets, with significant scope to increase as GDP and income levels improve. This, combined with high population growth rates, means the outlook for global sugar demand remains robust at around 2% growth per annum, despite the low or negative growth expected in developed regions.

SA producers: keeping Africa sweet

South Africa is home to the two largest African sugar producers, Illovo and Tongaat Hulett (Tongaat) - listed on the JSE Securities Exchange. While these companies are both sugar producers, their differing country exposure and profit-drivers make for very different investment propositions (see pie charts over the page).

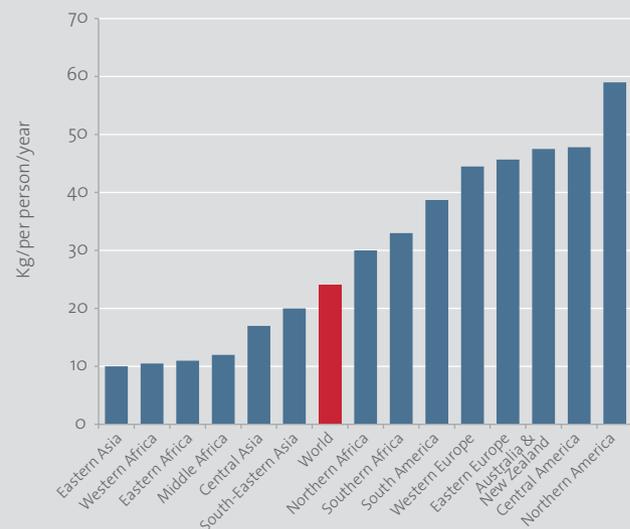
Tongaat generated 38% of its profits from its vast land portfolio and 25% from its starch business in the year-end to March 2015. This has helped diversify its exposure away from the more cyclical sugar businesses. The group's country exposure is mainly to Zimbabwe, Mozambique and South Africa, and it exports about 22% of its production into the EU market.

Global sugar production by country (2014/2015)



Source: United States Department of Agriculture

Consumption per capita of sugar and sweeteners



Source: Food and Agriculture Organisation (UN), Morgan Stanley research

Waiting for the sugar rush

Illovo is more of a pure-play sugar company, with a diverse and attractive production footprint in many African countries. Around 20% of its 2014/2015 volume was sold to the EU, with 74% sold in the higher-margin domestic and neighbouring African markets (such as the DRC). The remaining 6% was sold on the world market.

Lower world and EU sugar prices are hurting

Both Tongaat and Illovo sell very little of their excess production directly into the world market. Instead, they focus on exports to the EU and domestic and regional African markets, where prices trade at a significant premium to world sugar. Cost benefits, tariffs and transport costs in Africa give the local producers an advantage over their global counterparts when it comes to selling sugar in African markets.

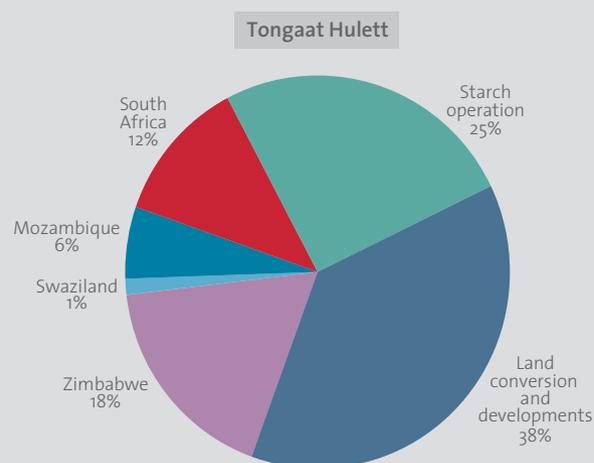
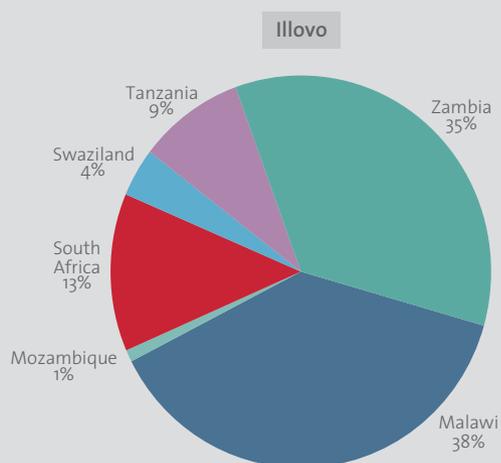
Changes in the EU sugar regime (to come into effect in October 2017) have seen EU prices fall from over €700 per ton in 2012 and 2013 to around €400 per ton currently. This, combined with a weaker euro exchange rate, has put significant pressure on profits attributable to EU exports. Regional African prices, which are at a premium to world prices, have also fallen in line with world prices. Therefore, although Illovo doesn't sell directly into the world market, it has been impacted by lower world prices as the abundance of world sugar is finding a way into Africa's rather porous borders.

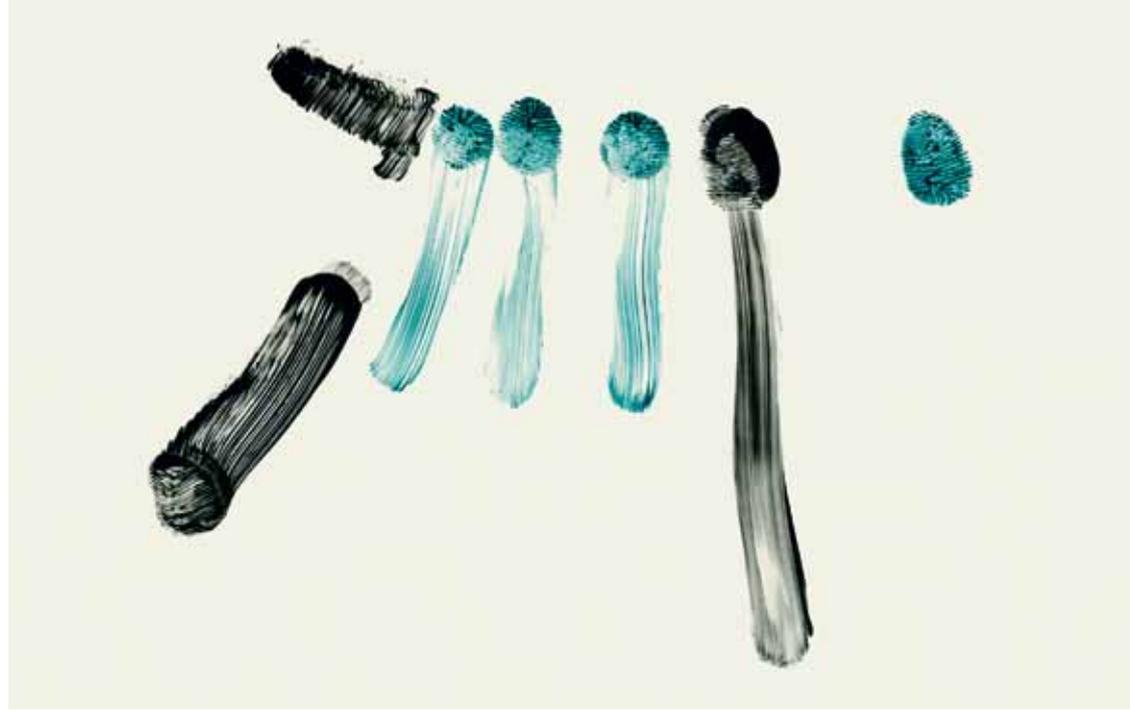
The lower sugar prices have galvanised both Illovo and Tongaat to cut costs and diversify their sales mix away from the EU and world markets into the premium deficit markets in Africa. There is also a greater focus on more stable downstream activities (such as ethanol, furfural, refined sugar and starches) and closer collaboration with the large multinational food and beverage companies, resulting in more stable demand for sugar.

Well positioned for the sugar rush

Looking ahead, 2015 and 2016 are likely to be very tough years for Illovo and Tongaat's sugar operations, with lower world/EU prices exacerbated by a drought in South Africa. However, we believe world prices are unsustainably low and will normalise higher, and both Illovo and Tongaat are therefore well positioned to benefit from higher global prices and the insatiable demand for sugar in Africa. **UP**

Operating profit by reported segment (year ending March 2015)





Oil & Gas - News app: open swipe swipe swipe swipe enlarge (viewed upside down)

Oil and the demise of OPEC?

Abdul Davids - Head of Research

In the last twelve months there have been significant movements in the prices of many commodities. For the oil market in particular, the speed and extent of the price movements have been particularly pronounced.

Last year, the Brent crude oil price per barrel peaked at around US\$115 on 19 June, declined by 60% to US\$46 by mid-January 2015 and then rebounded by 45% to US\$67 by mid-May this year.

Oil and the demise of OPEC?

Below, we explore the factors behind these large price movements and, more importantly, the future outlook for the oil price.

History

Oil is traded in the most liquid commodity market and represents the largest market by value. It has a key differentiator when compared with many other commodities - each barrel of oil is used up and cannot be recycled.

While demand for oil has grown consistently over many decades, supply has historically been fairly concentrated as it has been dominated by a limited number of oil-producing countries. In particular, the Organisation of the Petroleum Exporting Countries (OPEC) has dominated supply for almost four decades and provided the world with a unique paradox: the lowest cost producer was also the swing producer. It oversaw the supply to closely match the difference between the demand for oil and the supply from non-OPEC sources to ultimately control the oil price. Arguably, prices have been higher than they would otherwise have been and this has allowed non-Opec production to gain market share.

Following the 2008 financial crisis, oil demand growth has moderated, while the US shale industry has shown substantial

volume growth in oil production. The emergence of US shale as a key contributor to global oil production has not only resulted in the US becoming more energy independent but has virtually eliminated its reliance on OPEC oil imports.

What is OPEC?

When OPEC was formed in 1960, the main aim was to ensure the nationalisation of oil exploration and marketing within member states. The five founding member countries - Iran, Iraq, Kuwait, Saudi Arabia and Venezuela - were later joined by Algeria, Angola, Ecuador, Libya, Nigeria, Qatar and the United Arab Emirates. These twelve countries form the current OPEC member states.

Relationships between OPEC member countries have often been strained due to regional politics, civil and regional wars and domestic economic pressures. One of the main examples was in the 1970s and 1990s, when disunity among member states resulted in volatile oil prices. However, since the financial crisis, internal discipline within OPEC has contributed to sustained oil prices above, or close to US\$100 per barrel. Member states have been led by Saudi Arabia, which voluntarily cut back on production to protect oil prices.

Recent history of Brent crude oil price



OPEC as a percentage of world supply



Over the last six years, sustained high oil prices have not only contributed to substantial windfall profits for OPEC member states but also to gains in market share for non-OPEC, higher-cost oil producers (such as the US and Canadian tar sands producers). OPEC's willingness to be the global swing producer has resulted in continued market share losses from over 50% in the late 1970s to below 35% today (see right chart on the opposite page).

The 1984 to 1987 period mirrors what is currently happening in the global oil market. OPEC market share declined from over 40% in 1980 to 25% in early 1986, before rebounding to above 35% by 1989. This rebound in market share in 1986 coincided with a 60% decline in oil prices following Saudi Arabia's decision to 'flood' the market with cheaper oil in order to squeeze out higher-cost producers. The strategy paid off as oil prices bounced back soon afterwards but, more importantly, OPEC regained lost market share.

At OPEC's November 2014 meeting in Vienna, Saudi Arabia announced a 'free-market initiative'. Instead of curtailing OPEC's output to accommodate new oil production, the Saudis announced that they would defend and increase their market share. From that point onwards, Saudi Arabia would allow market forces to balance supply and demand, and establish an

equilibrium price. It said that other OPEC members were free to do the same. However, among the OPEC member states, Saudi Arabia is the dominant producer with the necessary scale and flexibility to meaningfully alter the supply of oil.

US shale oil: the game changer

There are a variety of problems affecting the production from other OPEC members. The Arab Spring, which was a wave of demonstrations and uprisings that started in North Africa and spread across the Middle East in 2011, has resulted in the collapse of Libya's oil exports, while Iraqi oil exports remain absent due to the civil war. Iran's exports have suffered due to nuclear-related sanctions.

Under normal market conditions, the unprecedented geopolitical turmoil in the Middle East and among OPEC member states would have resulted in record high oil prices. However, the extraordinary growth of shale oil output in the US, coupled with a surge in Canadian oil sands output, was more than enough to cover the unplanned production outages from Libya, Iraq and Iran.

The post financial crisis era of sustained high oil prices and the advances made in hydraulic fracturing technology contributed to rapid oil production growth in the US.

US crude oil production



Oil and the demise of OPEC?

The chart on the previous page highlights the substantial growth in US oil production, from around 5 million barrels per day (bpd) in 2011 to over 9 million bpd by 2014, mainly due to the surge in US shale oil production.

The current level of US production was last seen in 1985, before OPEC abandoned its quota system that triggered the 1986 collapse in oil prices. US oil production declined by 3 million bpd between 1987 and 1999, making it the biggest casualty of OPEC's action.

Since the November 2014 OPEC meeting and the initial dramatic oil price fall, US oil production has started to moderate, the number of oil rigs deployed in the US has declined by 30% and oil prices have started to move up. However, we believe that future US oil production will not only be dictated by economics but also by the US government's resolve to reduce dependency on oil from volatile regions. In addition, the combination of a vast resource base of shale oil, coupled with technologically-driven efficiencies, will eventually result in more US shale oil production becoming economically viable at lower oil prices.

The big casualties in the current oil market turmoil are the higher-cost oil producers, especially those with large debt burdens. These include the Canadian tar sands producers and the deep water producers.

Looking ahead, the US shale oil industry should emerge as a much more efficient and lower-cost producer, while retaining the flexibility of production that shale oil wells offer (as they require less capital expenditure, are numerous and have a lifespan of between 12 months and three years). A re-setting of the US production base is necessary but it appears unlikely that US oil production will decline by nearly as much as the 3 million bpd decline of 1986.

OPEC's declining influence

The era of OPEC domination of the global oil market appears to be behind us as the current geopolitical turmoil in the Middle East exacerbates the disparate interests of member states. Saudi Arabia's opening of its oil tap effectively compels other OPEC members to follow suit and current economic and social realities are the only inhibitors to a larger-scale supply response from the rest of the OPEC member states. The prospect of a return to normal oil production from Libya, Iraq and Iran should, therefore, place an effective cap on the current rally in oil prices. **UP**



Logistics Expert app: open swipe swipe enlarge

Logistics businesses: moving the economy

Qaqambile Dwayi - Investment Analyst

As a component of supply chain management, logistics is the management of the supply of goods from suppliers to the factory floor and onwards to customers.

Logistics deals with the management of the flow of goods from place to place and from company to company in their journey to the eventual consumer. In essence, it involves the multiple processes that link the production and the consumption of goods.

Logistics businesses: moving the economy

There are sound commercial reasons for companies to outsource logistics. It frees up management's time and a company's capital - both fixed assets and working capital. Logistics is non-core to most businesses and cost effective when handled by external specialists who can guarantee a smooth functioning of the process. Companies that outsource the logistics process essentially convert a somewhat fixed cost to a variable cost and are thereby better able to manage variable volumes.

In this article, we explore the basic transportation, warehousing and distribution aspects of logistics and assess current market trends and the impact of technology.

The anatomy of logistics businesses

Logistics companies are generally low margin, high volume and capital intensive businesses, which enjoy scale efficiencies due to a range of clients that use the same logistics infrastructure.

Specialist logistics companies are able to use their asset base more efficiently compared to non-specialist firms. Their assets generally include trucks, forklifts, warehouses, distribution centres and IT systems, while their specialist skills include supply chain consulting services and the ability to manage bulk orders as well as multi-temperature goods. These companies have dynamic IT systems, allowing for prime use of storage space and the most efficient planning of collection and delivery routes.

Inbound and outbound logistics

Logistics can be loosely divided into inbound (primary) and outbound (secondary) functions. Inbound logistics is the process whereby raw materials or unfinished goods are taken to assembly or production lines to be used in the manufacturing of the final product. Outbound logistics involves moving the final product from the place of production to warehouses or distribution centres and, ultimately, to retail outlets.

South Africa

Globally, logistics is a commonly outsourced function and has led to the formation of 'pure' logistics and transport companies, with FedEx and DHL among the most recognised.

In South Africa, specialist logistics companies tend to seek exposure across a range of sectors to diversify revenue streams and access critical mass (see table below). Certain companies, such as Unitrans and One Logix, have carved out niche markets in which to specialise in order to achieve higher margins.

The majority of logistics companies have substantial exposure to high volume type sectors. These include the fast-moving consumer goods (FMCG), pharmaceuticals, fuel, construction materials and long distance transportation industries, where margins are kept low by fierce competition between logistics providers. Some sectors require specialised trucks and/or

Logistics revenue exposure by sector

Company	FMCG	Fuel	Construction	Chemical	Agriculture	Mining	Other	
Barloworld	Light Green	Light Green	Light Blue	Light Green	Light Green	Light Green	Dark Blue	
Bidvest	Light Green	Light Green	Light Green	Dark Grey	Dark Grey	Light Blue	Dark Blue	0%
Clover	Dark Blue	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	1 - 10%
Imperial	Dark Blue	Light Green	Light Green	Dark Green	Light Green	Dark Green	Light Blue	11 - 15%
One Logix	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Dark Blue	16 - 20%
Super Group	Dark Blue	Light Green	Dark Green	Light Green	Light Green	Light Blue	Light Blue	21 - 25%
Unitrans	Light Blue	Light Green	Light Green	Light Green	Light Blue	Light Green	Light Blue	26 - 30%
Value Group	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Dark Blue	> 40%
Vector	Dark Blue	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	

adherence to safety standards due to the fragile or hazardous nature of the products being transported (the pharmaceuticals, automobile, fuel transportation and parts of the agricultural sectors fall into this category).

North of SA's borders

Most South African logistics companies provide services into Africa. Unitrans follows a similar logistics business model to the one it operates in South Africa and derives about 50% of its profits from Africa (ex-South Africa). Imperial has adopted a wholesale model, whereby it owns the warehouses and distribution infrastructure in the African countries in which it operates and takes on the inventory risk (for example in the pharmaceutical distribution sector). It manages key parts of the logistics process but outsources some parts, eg transporting goods by truck. In Germany, Imperial operates a barge-driven inland waterway delivery business down the Rhine river, focusing mainly on iron ore and coal, and also provides contract logistics predominantly to the German chemical industry.

The main SA logistics players

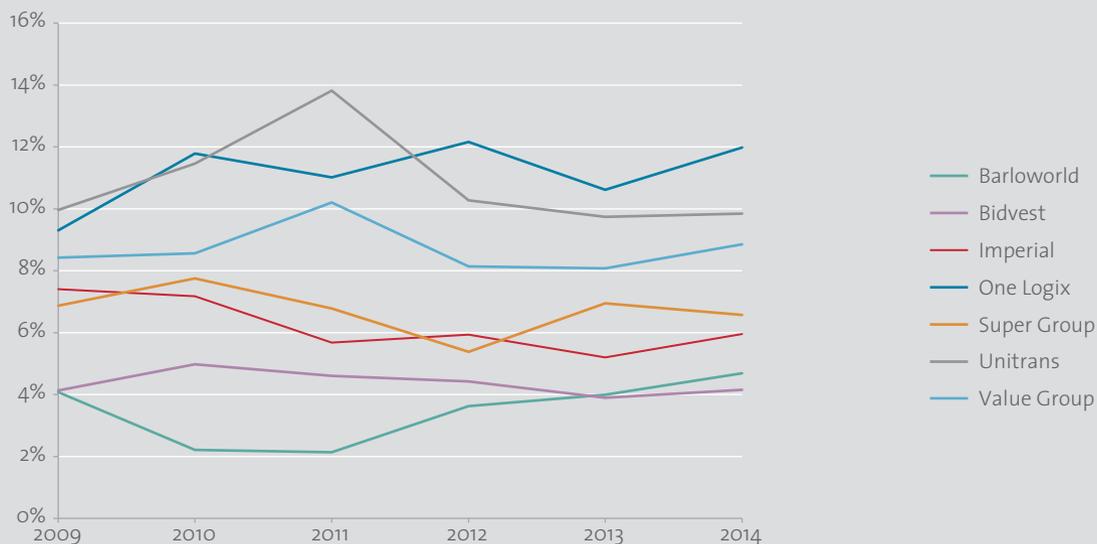
Bidvest, the largest logistics company in South Africa, specialises in freight and forwarding through Bidvest Panalpina Logistics. They have multi-user warehouses, which are strategically located throughout South Africa's import entry and export exit

points. Bidvest has a client base across various sectors, although it has higher exposure to the chemical, agricultural and mining sectors (see table on the opposite page). Margins are below industry average due to the company's higher exposure to freight and forwarding, which is a generally low margin business (see graph below).

Imperial Logistics, the second largest logistics company in the country, is almost three times the size of Unitrans, the third largest player by revenue. It offers a range of logistics services across sectors, including warehousing and distribution, transportation and integrated supply chain management. The company derives about half of its revenue from the FMCG sector and has the most diversified customer base by sector compared to the other key logistics players. However, lower relative representation in specialised logistics has resulted in margins that are below industry average through time (see graph below).

Unitrans focuses on the mining, fuel transport (where safety standards are clearly imperative) and specialised agricultural logistics sectors. It has specialised fleets for specific contracts and, instead of owning warehouses and distribution centres, it manages some warehouses on behalf of clients. In addition, it has historically avoided long distance transportation, focusing mainly on short haul.

SA logistic companies' operating profit margins



Source: Company data, Barclays research, Kagiso Asset Management research

Logistics businesses: moving the economy

Super Group is the fourth largest player in the South African logistics industry. It has exposure to the FMCG sector (which makes up almost half of its supply chain revenue) and to the mining and cement sectors (which contribute about a third to supply chain revenue). The company also has a division that takes inventory risk and is a wholesaler to local forecourts and convenience stores. Super Group's logistics margins are slightly below industry average due to its exposure to highly competitive and less specialised sectors.

One Logix has exposure to the specialised automotive transport logistics sector. It focuses on passenger and commercial cars, heavy duty vehicles and specialised equipment in the local and cross-border market.

The impact of technology

For inbound logistics, manufacturers need to minimise inventory risk and, at the same time, not run short of inputs to their processes. This demands very high efficiency from logistics providers. For outbound logistics, customer preferences and expectations mean that companies need to restock their goods swiftly and deliver on time. Therefore, specialist logistics companies need the latest technologies to efficiently and timeously service their customers. Below are some of these advanced technologies:

- Automatic replenishment systems: a process whereby a retailer's point of sale (tills) system is synchronised with

the inventory management system to update stock levels as items are purchased. For example, Pick n Pay's use of this system has resulted in improved product availability and reduced inventory holding.

- Just-in-time software: an inventory management system that matches inventory very tightly with demand. Direct business benefits include reduced investment in inventory and related holding costs.
- Route planning capability: this optimises the physical transportation of goods. Imperial Distribution uses a transportation optimisation system called PLATO, which helps them to plan and pick the most efficient routes for their vehicles.

Outlook

Specialist logistics businesses form a key part of the South African economy. The industry is, however, mature and characterised by intense competition, constraining margins. At current share prices, we prefer to be exposed to those businesses which offer specialist niche logistics services and therefore command sustainably higher margins, those that have significant scale and those that have exposure to faster-growing African (ex-SA) logistics markets. Our portfolios therefore have small exposures to Imperial and to Unitrans (via KAP Industrial). **UP**

Kagiso Asset Management Funds

Performance to 30 June 2015	1 year	3 years ¹	5 years ¹	10 years ¹	Since launch ¹	Launch	TER ²
Unit trust funds³							
Equity Alpha Fund	-1.1%	14.6%	14.5%	17.4%	20.0%	Apr-04	1.5%
South African Equity General funds mean	5.2%	16.4%	15.7%	14.7%	16.5%		
Outperformance	-6.3%	-1.8%	-1.2%	2.7%	3.5%		
Balanced Fund	1.5%	12.1%	-	-	11.0%	May-11	1.5%
South African Multi Asset High Equity funds mean	7.3%	14.2%			12.3%		
Outperformance	-5.8%	-2.1%			-1.3%		
Protector Fund	3.7%	9.5%	8.3%	10.0%	10.7%	Dec-02	1.6%
CPI + 5% ⁴	9.9%	10.7%	10.5%	11.2%	10.7%		
Outperformance	-6.2%	-1.2%	-2.2%	-1.2%	0.0%		
Stable Fund	5.2%	9.6%	-	-	9.0%	May-11	1.1%
Return on large deposits*	5.4%	5.2%			5.3%		
Outperformance	-0.2%	4.4%			3.7%		
Institutional funds⁵							
Managed Equity Fund	-3.0%	14.9%	15.9%	-	14.1%	Sep-06	
FTSE/JSE SWIX All Share Index	10.2%	20.6%	19.9%		15.0%		
Outperformance	-13.2%	-5.7%	-4.0%		-0.9%		
Core Equity Fund	0.3%	18.0%	18.0%	17.8%	18.9%	Nov-04	
FTSE/JSE SWIX All Share Index	10.2%	20.6%	19.9%	18.1%	19.1%		
Outperformance	-9.9%	-2.6%	-1.9%	-0.3%	-0.2%		
Domestic Balanced Fund⁶	1.9%	11.4%	11.6%	-	9.7%	May-07	
Peer median ⁷	7.9%	15.3%	15.0%		11.1%		
Outperformance	-6.0%	-3.9%	-3.3%		-1.4%		
Global Balanced Fund⁸	6.5%	-	-	-	14.5%	Jul-13	
Peer median ⁹	10.7%				16.6%		
Outperformance	-4.2%				-2.1%		
Sharia unit trust funds³							
Islamic Equity Fund	-4.5%	11.5%	11.8%	-	13.4%	Jul-09	1.2%
South African Equity General funds mean	5.2%	16.4%	15.7%		16.3%		
Outperformance	-9.7%	-4.9%	-3.9%		-2.9%		
Islamic Balanced Fund	-1.4%	10.7%	-	-	7.5%	May-11	1.4%
South African Multi Asset High Equity funds mean	7.3%	14.2%			12.3%		
Outperformance	-8.7%	-3.5%			-4.8%		

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%	-2.4%	6.2%	-3.5%	-	-	-	-	6.2%	-3.5%
<i>Protector Fund</i>	1.8%	-2.5%	4.8%	-3.5%	4.8%	-3.5%	7.9%	-5.3%	9.5%	-5.3%
<i>Stable Fund</i>	2.2%	-0.6%	4.0%	-1.9%	-	-	-	-	4.0%	-1.9%
<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 31 March 2015; ³ Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; ⁴ CPI for June is an estimate; ⁵ Source: Kagiso Asset Management; gross of management fees; ⁶ Domestic Balanced Fund and benchmark returns to 31 May 2015; ⁷ Median return of Alexander Forbes SA Manager Watch: BIV Survey; ⁸ Global Balanced Fund and benchmark returns to 31 May 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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