UP

January 2017

Kagiso Asset Management

Quarterly

www.kagisoam.com


MMXVI-M

Regime change

Gavin Wood - Chief Investment Officer

> “2016 marked the beginning of profound change in the world order. It was an inflection point for governments, central bank power, policy stimulus and potentially also for economic growth and inflation.”

Regime change

Profound changes in governments

Voters in the United States and Europe are railing against 'the establishment' and are demanding substantial change.

The new US government will be different to that of the last eight years in material respects. Regressive policies on protectionism, immigration and global relations will likely be economically negative, but will be somewhat balanced by a more favourable US corporate taxation dispensation, lighter touch regulations, a less repressive environment for the financial sector and potentially increased infrastructure spending.

Importantly, the new US government should be far more effective at implementing policy given the Republican clean sweep and a cabinet likely to be filled with experienced businessmen.

In Europe, the Brexit negotiations will bring substantial change. The UK has voted for separation from the EU and against immigration and globalisation. The UK and the EU face great uncertainties and risk as a result. Upcoming elections in important EU countries may also bring anti-establishment surprises and will, at the very least, see governments sympathising with some of the 'populist' concerns.

Changes in central bank power

The major global central banks played a vital role in stabilising the financial system during, and just after, the 2008/2009 financial crisis. Subsequently their actions have been highly unconventional and largely counterproductive. Average developed economy policy rates have fallen by nearly 4%, while their balance sheets have roughly tripled relative to GDP as a result of aggressive quantitative easing.

Directly and materially intervening in financial markets via quantitative easing has boosted asset prices (especially bonds and defensive equities) and disproportionately benefited the wealthy in society. Such buying of risky assets below intrinsic value amounts to redistribution from taxpayers to asset sellers.

In addition, since the crisis, many central banks have gained power in areas well outside of their core mandate - expanded regulatory scope and greater influence in shaping economic policy. They have exhibited a very damaging asymmetric responsiveness to financial market movements and volatility. Reacting more to downward moves amounts to an inherent subsidy to financial market risk-takers.

Not surprisingly, these central banks are perceived by the populist masses as a key part of the establishment and the elite. They are symbols of rule by technocrats and experts. This hostile sentiment will likely lead to a reduction in central bank power and may even lead to threats to their independence.

Change in policy stimulus

Given the perception that monetary policy is increasingly ineffective, it is likely that current aggressive monetary stimulus measures will be reined in.

Fiscal stimulus, to be pursued by the Trump administration, impacts on economic activity and inflation are inherently linked to the types of measures applied and their duration. They are generally more impactful when there is large excess capacity, unlike at present. Although fiscal stimulus is seldom an enduring boost to growth, the change in sentiment it's prospect seems to be supporting could be powerful.

Together with tightening monetary policy, developed economy yield curves are likely to rise and steepen - a change already underway - with material implications for most financial assets.

Inflation may be returning

After the financial crisis, inflation has been stubbornly low in developed economies and there have been fears of Japan-style deflation. The trend now seems to be turning with a decline in economic slack, particularly in labour markets, and energy prices moving higher. In addition, the populist policy direction is mostly inflationary: protectionism raises imported goods prices, curbing immigration boosts local wages and fiscal stimulus is inflationary if there is little economic slack.

Importantly, central banks seem inclined to lag the improvement in global growth and, after fighting hard against deflation, they may tolerate inflation rebounding to levels above target.

Economic growth may be picking up

The current global expansion has been particularly weak on an annualised growth rate basis, but of relatively long duration. Some have feared a structurally lower growth environment, due to the dampening effects of the excessive saving of ageing populations, financial sector over-regulation, a lower propensity to consume in emerging economies and waning technology innovation for businesses.

We believe many of these forces are not permanent. A much larger portion of the drag on economic growth was due to households deleveraging after a 20-year credit binge up to the crisis and the private sector sentiment dampening effects of extreme central bank actions. Corporates have been eschewing capital expenditure and favouring dividends, buybacks and mergers and aquisitions (with inevitable cost cutting and job losses). Consumers have been worried about the low return outlook, stagnant incomes, economic uncertainty and rising inequality.

Global economic growth looks to now be improving: after slowing in 2016 to a post-crisis low of 2.3%, it is expected to rise to 2.7% in 2017[1]. Forward-looking economic surveys are signalling much better times ahead (chart below), with a meaningful recent shift in both the US and the euro area consumer and business confidence. A self-sustaining rise in 'animal spirits' that boosts especially the investment side of the economy could be very good for economic growth.

[1] World Bank estimates

South Africa is different

Intriguingly, South African changes under way are mostly in the opposite directions to the developed world.

Here there are also likely to be large changes in government in the years ahead. The ANC's elective conference in December 2017 should bring substantial change in leadership as a result of voter pressure to address corruption and general government ineffectiveness. We believe these changes will be incrementally positive for the country. There may be political and currency volatility in the interim however as the current regime fights to maintain power.

In contrast to developed economy central banks, the South African Reserve Bank (SARB) has been a shining example of an effective independent central bank. Having tightened policy over recent years, counter to developed economy trends, the SARB's next move is likely to be a reduction in rates.

Also, in contrast to developed economy trends, the South African government has just ended a countercyclical fiscal stimulus programme, which has resulted in large fiscal deficits and rising debt issuance, and is now in fiscal consolidation mode as weak economic growth inhibits its ability to grow expenditure.

Developed economy confidence rebounds

Sources: National Statistical Offices, IMF, CitiGroup

Regime change

Sentiment is depressed and economic activity is weak and the economy may only expand by 1.1% in 2017 (despite drought non-recurrence) and 1.8% in 2018.

Global fault lines

Amidst the generally positive sentiment around, major potential threats include:

- Populist nationalists election gains in EU elections.
- Instability from China, facing high debt balances and global trade curbs.
- The unpredictability of the new US president.

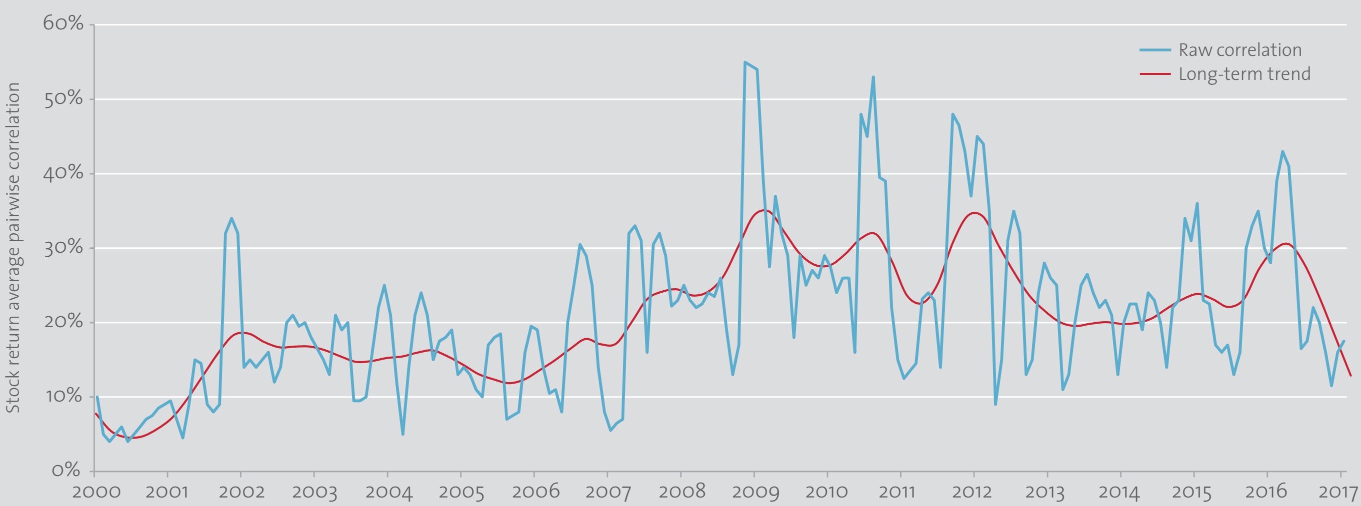
Outlook for markets

The 'regime change' described above, of improving sentiment and potentially stronger growth and inflation, is a good environment for global equities. However, on most measures, stock market valuations are very high and the continued outperformance of equities is reliant on any economic uptick translating into meaningful company earnings growth and enduring for years. (Still) very low bond yields continue to portend very low returns for all asset classes priced with low risk discount rates in mind.

The 'regime' of the past five or six years in financial markets has seen central bank interventions reduce the significance of economic fundamentals and price-insensitive investing strategies (such as passive and momentum) outperform as large caps have dominated and correlations have been high. Quality South African domestic stocks have been particularly strong as price-insensitive global emerging market investors have fed a powerful rerating virtuous cycle.

Style analysis shows that value has outperformed growth by a large margin in 2016 for the first time since 2006. We are seeing greater asset price dispersion (chart below) and thus great opportunities for stock picking strategies. The 'regime change' seems to be impacting financial markets and particularly seeing long-term, fundamental investing re-emerging as a very lucrative investment inefficiency to exploit. UP

Share price correlations have fallen



Sources: Citi Research, MSCI, Datastream

Growing low cost PGM miners

Mandi Dungwa - Investment Analyst

"South Africa produces more platinum group metals (comprising platinum, palladium, rhodium and other minor metals) each year than any other nation. However, the country's output peaked in 2006, at 8.7 million ounces and has fallen to 7.4 million ounces for 2016. This fall is the result of closures of capacity and low replacement capital expenditure by miners in response to a hostile environment."

Growing low cost PGM miners

Adversities have included rising costs (especially labour and electricity) labour disruptions, low metal prices and regulatory uncertainty. Two miners, Royal Bafokeng Platinum and Northam Platinum, unlike competitors, have chosen to invest in increasing their production during this period - each respectively investing in high quality growth projects.

The mine supply conundrum

Since its 2006 production peak, South Africa's platinum group metals (PGM) sector has experienced an array of stressors on production, beginning with significant electricity shortages between 2008 and 2012. This was followed by widespread labour disruptions which culminated in the unprecedented five-month strike across many SA PGM mines in 2014. Shortly after that, the collapse in the commodity prices made losses difficult to recoup. Further exacerbating factors include the introduction of safety stoppages imposed by the regulator, as well as the uncertain regulatory environment related to mine ownership.

As a result, producers have chosen not to re-invest in future production and the low PGM price environment has necessitated balance sheet preservation and austerity measures. Over this period, capital investments to increase production in local PGM mines has been cut by 40%. This has resulted in a global flattening in PGM mine supply, with PGM recycling providing the only source of slight growth, as shown in the chart below.

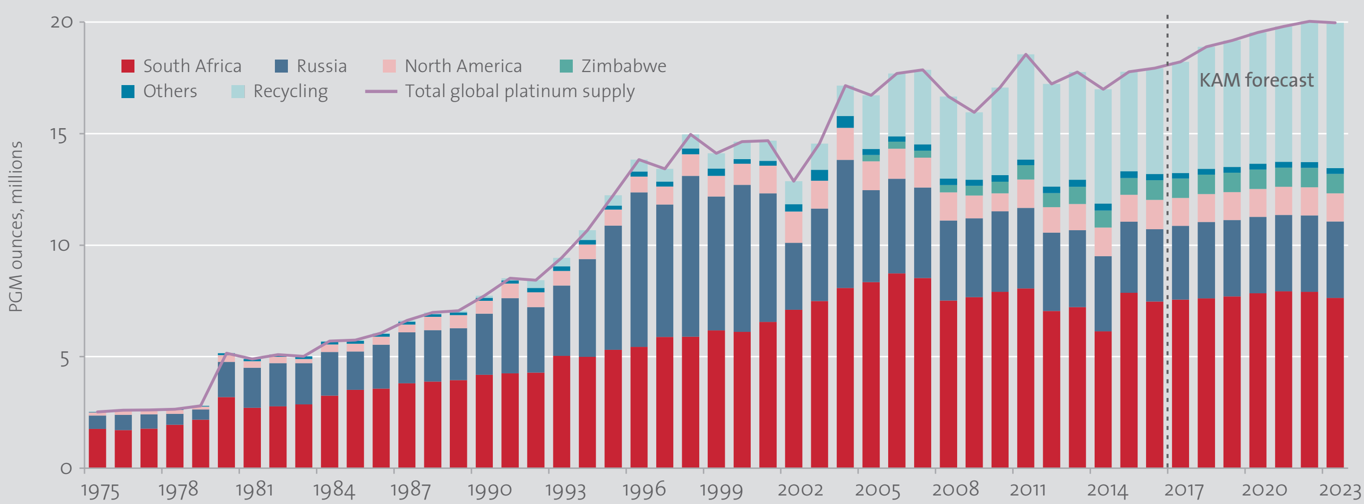
South African PGM supply currently makes up 42% of global supply. The abovementioned two projects combined will produce an additional 530 000 ounces of PGM annually, but this will not be enough to increase the overall output of the South African PGM sector as older mines are mined out. With such a weak supply outlook, we forecast that global demand for PGMs will outstrip supply and result in materially higher metal prices than current spot prices.

Bucking the trend

Royal Bafokeng Platinum (RBP) and Northam Platinum (Northam) have not been affected by much labour disruptions in the sector and have come into the low price environment with stronger balance sheets than competitors. This is enabling both to invest in expansion projects which will support increased, low-cost production.

Northam is investing in its Booysendal Mine expansion, which will increase the company's PGM output from 444 000 ounces annually, to 800 000 ounces by 2022. RBP is investing in the Styldrift 1 project, which will increase its output from 300 000 PGM ounces currently to more than 470 000 PGM ounces in 2021. The chart below is a representation of the

Global PGM* supply is flattening



*Platinum, rhodium and palladium
Sources: Johnson Matthey, Kagiso Asset Management research

projected average production costs and capacity for PGM mining companies globally by 2022, when these expansion projects will both be at full capacity. It shows that RBP and Northam will be highly profitable relative to their competitors, due to their low-cost operations.

A key attribute of both the Booysendal and Styldrift 1 mines is their scope for mechanisation, due to their ore bodies being wide enough for machinery to access (more than two metres wide). Both new mines are being built for mechanisation which will result in better safety rates as people are removed from harm's way and will reduce the labour complement required. This will mean higher productivity rates and reduced costs compared to a conventional mine with a similar output.

A closer look at Booysendal

The Booysendal Mine is located near the town of Mashishing in Limpopo. The mine first came into production in 2013 and has now ramped up its production to 163 000 PGM ounces a year. We estimate that, by the end of the decade, Booysendal will be producing more than 400 000 ounces of PGMs a year as a result of its expansion project.

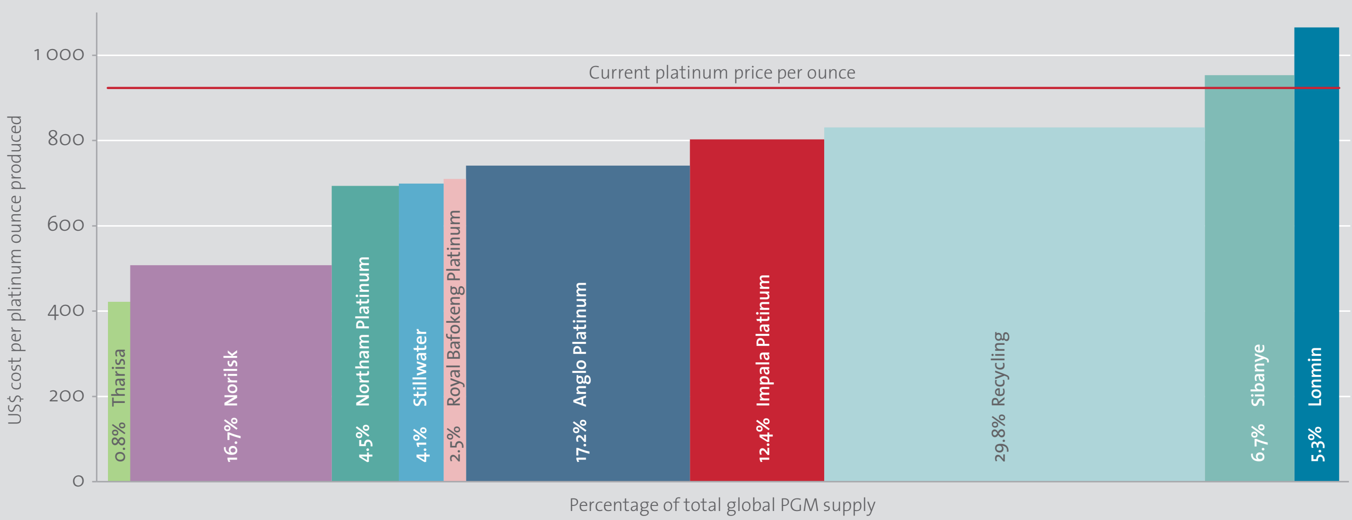
After a capital raise through a successful 2015 BEE deal, Northam has had capital available when competitors have not and has taken the strategic opportunity to buy stressed assets at the bottom of the cycle for a fraction of their replacement value. The Booysendal expansion was made possible in 2015, when Northam acquired the neighbouring Everest Mine from Aquarius Platinum. As result of challenges at the mine, Aquarius had suspended mining activity at Everest in 2012 and sold the mine, along with related assets, for R450 million. The Everest acquisition included assets with a replacement value of more than R3 billion, such as a concentrator. Having these assets significantly reducing the cost of increasing Booysendal's production.

A further cost advantage for the mine is that the area has a shallow ore body. This means the cost required to mine a tonne of platinum ore is cheaper than deeper mines which incur significant additional costs to access the ore, transport workers and cool the mine.

A closer look at Styldrift 1

RBP's Styldrift 1 Mine is located near the town of Rustenburg in the North West Province. RBP has invested R6.1 billion in the project since 2009 and the mine is currently under development. The expansion will be completed in two stages - the initial stage increasing production to 250 000 ounces of PGMs a year and the final stage increasing output to over 350 000 ounces a year.

Relative miner profitability projected for 2022



Sources: company reports, Kagiso Asset Management research

Growing low cost PGM miners

A key advantage to the Styldrift 1 Mine is its high-value revenue basket, which refers to the value of metal content per tonne of ore mined. The area contains Merensky Reef, a type of ore which has historically commanded 25% greater value per tonne over UG2, the alternative ore mined for platinum.

The mine is bordered by three competitor mines, which could lead to opportunities for collaboration in the future.

Forecasting demand

The primary industrial uses for PGMs are in the automotive industry in catalytic converters (an emissions control device in internal combustion engines) and in the jewellery industry. We believe that platinum demand faces headwinds from a declining diesel market share in Europe along with the changes in powertrain technology as the world moves away from the internal combustion engine in favour of electric vehicles. There is also currently weak jewellery demand in China as PGM producers have cut back on marketing spend in that region in an effort to preserve balance sheets and reduce costs.

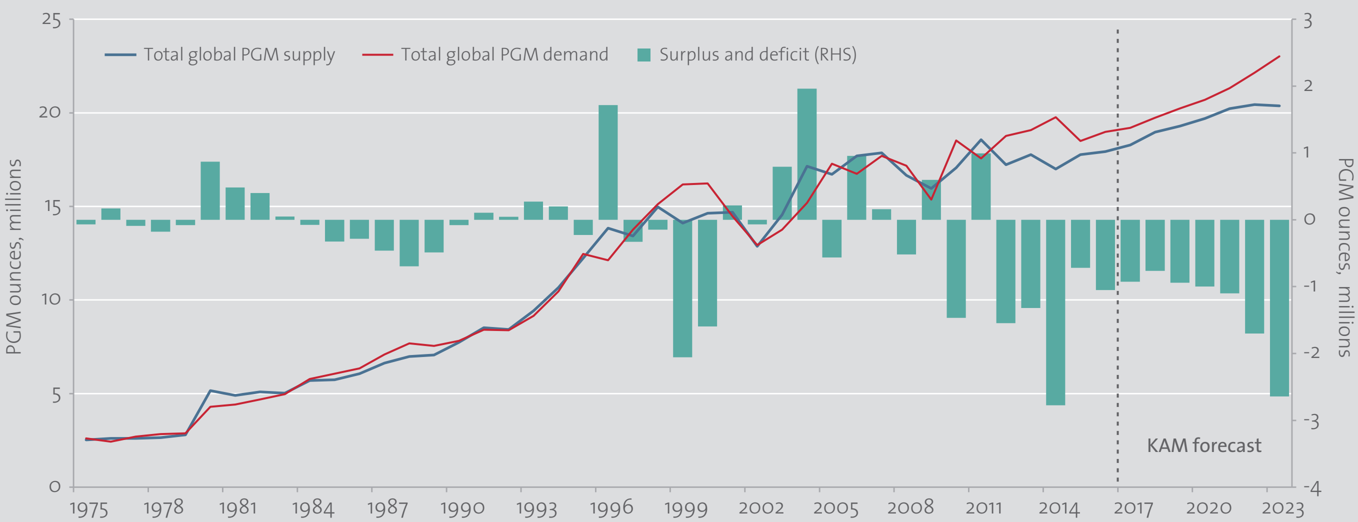
However, our view is that in the short to medium term, the bulk of electric vehicles will be hybrids, which will still contain an internal combustion engine and will therefore require an emissions control device, supporting PGM demand. We believe there will be an initial shift away from platinum demand in favour of palladium demand due to the evolving automotive technology and hybridisation. Jewellery demand should begin to grow again in the medium term. Increasing developing world emission standards should additionally support growth in autocatalyst PGM demand in the coming years, especially in the heavy duty diesel vehicle market.

If demand levels fall below our expectation, RBP and Northam will be favourably positioned relative to competitors due to their low production costs. In such a scenario, high-cost producers that have very little flexibility in reducing costs any further will either need to shut production, or raise further shareholder capital to sustain their current declining output.

Looking ahead

RBP and Northam are re-investing in the growth of their operations when competitors have chosen to implement austerity measures to safeguard their balance sheets. Our clients benefit from our investment in these two companies as they currently have strong balance sheets with growth that will position them favourably against competitors on the cost curve. UP

PGM* demand outpaces supply



*Platinum, rhodium and palladium
Sources: Johnson Matthey, Kagiso Asset Management research

Investec: a culture to bank on

Meyrick Barker - Investment Analyst

> Investec is a niche banking, wealth and asset management group linked together by a common culture. With a solid operating platform in place in the Asset Management and Wealth divisions, a well-defined road map to higher profitability in the bank and an impending change of guard at the CEO level, Investec has the potential to perform well in the medium term.

Investec: a culture to bank on

Out of the starting gates

Investec can trace its origins to a leasing company, founded in 1974, within JSE-listed holding company Hosken Consolidated Investments (HCI). Two years later, HCI sold the business to founder Ian Kantor. With a team of three employees in Braamfontein, Kantor began the journey of shaping the renamed Investec into the company it is today. The group now has £40 billion of banking assets and £141 billion in third-party assets under management, with operations based in the United Kingdom and South Africa.

Cultural advantage

Investec is a company known for its distinct corporate culture. It is one of the few listed, large SA corporates where the early employees are still active in the business today. The culture continues to encourage a strong entrepreneurial spirit. The company fosters an open, competitive environment where employees feel empowered and are willing to challenge the status quo, and a meritocracy is encouraged. Employees are discouraged from dependence on their leaders and are instead given ownership of what they do, enabling them to manage their own small business, or profit centre, within the corporation. This energetic, relationship-focused environment attracts driven individuals and often leads to superior service to customers.

Increased risk-taking can assist a bank in reducing its reliance on traditional lending income. Investec's results-driven culture may however encourage a greater level of risk-taking than that of competitors. The timeline below highlights a selection of key milestones in Investec's history, including those risk-taking misadventures that have peppered its past.

More than a bank

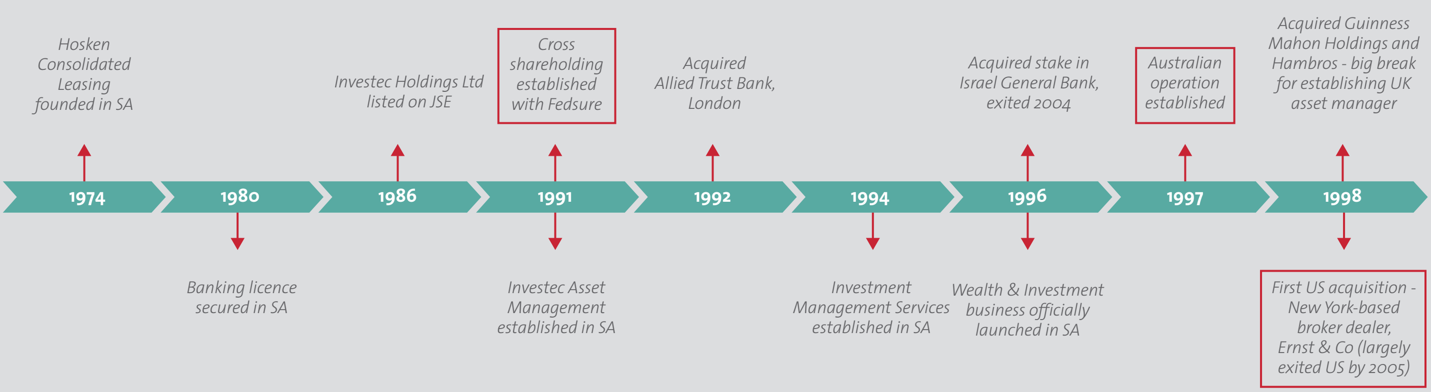
Increasing regulation, non-traditional competition and evolving fintech capabilities are making traditional banking activities less profitable. In its 1999 financial report, Investec far-sightedly highlighted that "meaningfully increased competition is seeing the preserve of banks fall victim to increasing degrees of disintermediation".

Part of Investec's response to these threats has been to focus on niche banking, and to increasingly move into non-traditional banking business over the past 20 years, growing its Asset Management, and Wealth & Investment (Wealth) capabilities. All three divisions operate in SA and the UK, with limited presence in a few other countries to better serve clients. The chart illustrates the evolution of each division's contribution to group profits over the past 16 years.

Banking offering

In SA, Investec Private Bank has successfully combined a personalised banking offering at a premium fee with competitive

Investec's key milestones



Sub-optimal decisions

lending prices. The bank positions itself as a high touch offering for high earning professionals and entrepreneurs, serviced via personal bankers and a call centre with no physical branches. Investec's private client base now exceeds 70 000 individuals. A recent project to export the model to the UK has proven challenging, attracting limited clients thus far.

Investec has established a strong reputation in SA and the UK in servicing the small- to mid-size corporate banking segment. The group differentiates itself through superior client engagement and customised services and products. It has developed expertise in specialist capabilities such as aircraft finance. Following the financial crisis, many large UK banks closed their doors to mid-sized corporates, to Investec's benefit.

Wealth and Investment

Wealth is Investec's smallest division. It provides investment management services and independent financial planning advice to private clients, family offices, charities and trusts. The business manages £51 billion of assets, 65% of which is in the UK and Europe, making it one of the UK's largest wealth managers. The SA business is largely a private client stockbroking business.

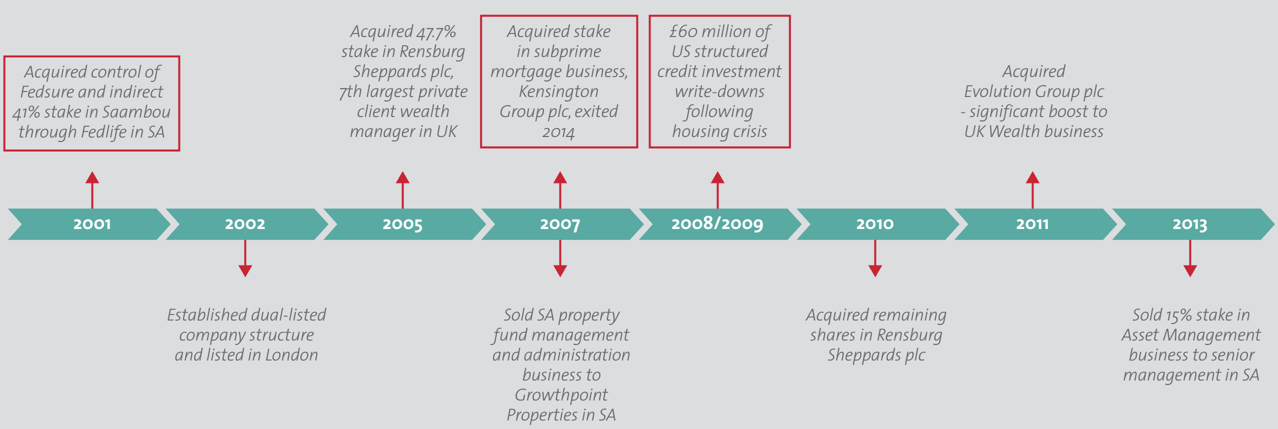
In the UK, Investec has made astute acquisitions to supplement organic growth (see timeline below). This gave immediate access to trusted brands and an established track record, creating credibility within the high net worth market.

In the Wealth business, the customer often particularly values the relationship with their Investec adviser. The stickiness of client funds is determined by the level of long-term servicing rather than shorter-term performance, making the business resilient through tough market cycles. Not all clients' assets are managed by Investec itself. Increasing this portion is a focus for the division due to the higher margins involved.

Asset Management

Investec's Asset Management business has grown very much organically, especially in SA. The business, headed by Hendrik du Toit who has driven its success from day one, operates independently from the rest of the group. Established in 1991 to manage the group's pension fund, a few small mutual funds and private clients, today Investec manages £90 billion of assets. The business has been very successful, having delivered accumulated dividends of approximately $1.5 billion to the group.

A majority institutional money manager, Investec focuses on institutional asset consultants, asset platforms and large independent professional financial advisers. Unlike other large SA competitors, Investec does not have one single investment philosophy that governs its offerings. Rather, the strong culture of meritocracy and autonomy attracts high calibre portfolio managers who build successful analyst teams with varied investment philosophies. A competitive edge is that the business is robust enough to take a very long-term view on supporting



Sources: company reports, Kagiso Asset Management research

and nurturing these teams through different performance cycles. Investec's model has gained significant acceptance among institutional investors, providing valued products at all points of the investment style cycle.

Key strategic focus areas are to further globalise its product offering, to enhance its multi-asset offerings and, importantly, to capture a larger share of the North American market.

Outlook: slow for the Zebra crossing or continue at a canter?
To date, the Brexit vote has had limited impact on Investec's operations, however, pressures could still manifest in the bank, particularly if property prices fall. The greatest credit risk lies in Investec's 'legacy book' - low-margin, higher-risk loans which were predominantly written before 2008.

It is unclear whether the UK private banking strategy will be successful as the group is yet to clearly articulate the unique market offering Investec provides to its recently revised UK target market. Further drains on resources may result.

Locally, Discovery has indicated its intention to provide a retail banking offering beyond its existing credit card. Although Discovery's offering may appeal to many Investec clients, the majority of Investec's Private Banking profits are made from a relatively small number of clients. These clients require more complex products than Discovery is likely to offer.

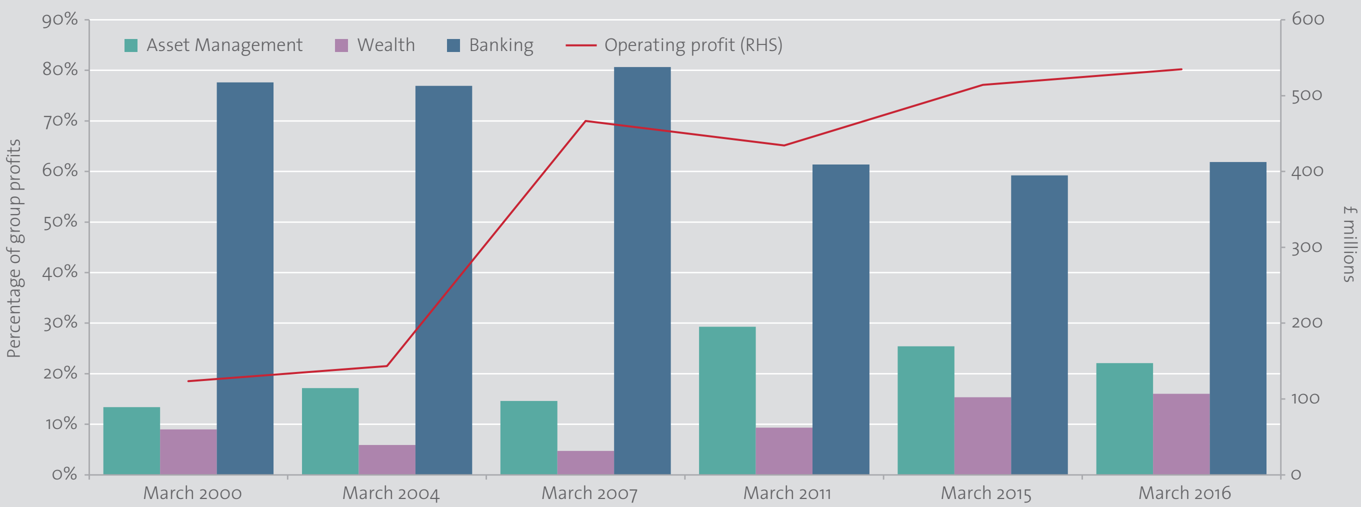
The SA banking sector remains subject to the risk of a sovereign credit rating downgrade below investment grade, which could increase banks' funding costs and exacerbate client credit losses.

The near-term opportunities for Asset Management are subdued. Asset management fees, already under pressure, will be increasingly scrutinised in a lower return world. 2016 has seen inflections in many multi-year investment style trends and while Investec has established franchises across the style spectrum, there is likely to be a disruptive period as past outperforming franchises laden with inflows might underperform.

As the management team transitions over the next few years, the group faces a challenge: it needs to urgently increase the Bank's returns to a level above its cost of capital so as to decrease the economic value cross subsidisation from Asset Management and Wealth. The Asset Management division in particular is independently run and has no reliance on the group. Prolonged underperformance at the Bank will increase pressures for a separation.

Investec's businesses are very dependent on healthy financial markets and therefore the group's prospects look reasonable, given the current market momentum. The group has many cultural strengths and robust client franchises. Its long-term success is likely to depend on whether it can turn around its underperforming UK bank. UP

The increasing contribution of Asset Management and Wealth



Sources: company reports, Kagiso Asset Management research

Kinder Morgan: by shareholders, for shareholders

Abdul Davids - Head of Research

"In the late 1990s, the emergence of commercial hydraulic fracturing and horizontal drilling for shale (collectively known as fracking) transformed the US energy landscape. These technologies enabled access to previously unreachable, abundant North American oil and gas reserves."

Kinder Morgan: by shareholders, for shareholders

After decades of heavy dependence on imported energy, the US is now the largest global natural gas producer, and by 2020, could overtake Saudi Arabia as the world's largest supplier of hydrocarbons. A key beneficiary of these developments has been Kinder Morgan, now North America's largest energy infrastructure company.

Founded in 1997 by college friends Richard Kinder and William Morgan when they acquired Enron Liquids Pipeline for US$40 million, Kinder Morgan now has a market capitalisation of close to US$50 billion. It has invested in an unparalleled network of pipelines, terminals and processing facilities across the US and Canada. This network uniquely positions the company to take advantage of the growing need for energy infrastructure to support domestic oil and gas production.

Exploiting the oil and gas opportunity

The US economy has relied heavily on imported energy for the last 40 years or so and related infrastructure was structured to support this. Imported supplies were transported in one direction: from the US Gulf Coast refineries and ports to the mid-continent region. Following the 'fracking revolution', new infrastructure was required to connect the new shale wells - located across the country - to the existing refinery centres.

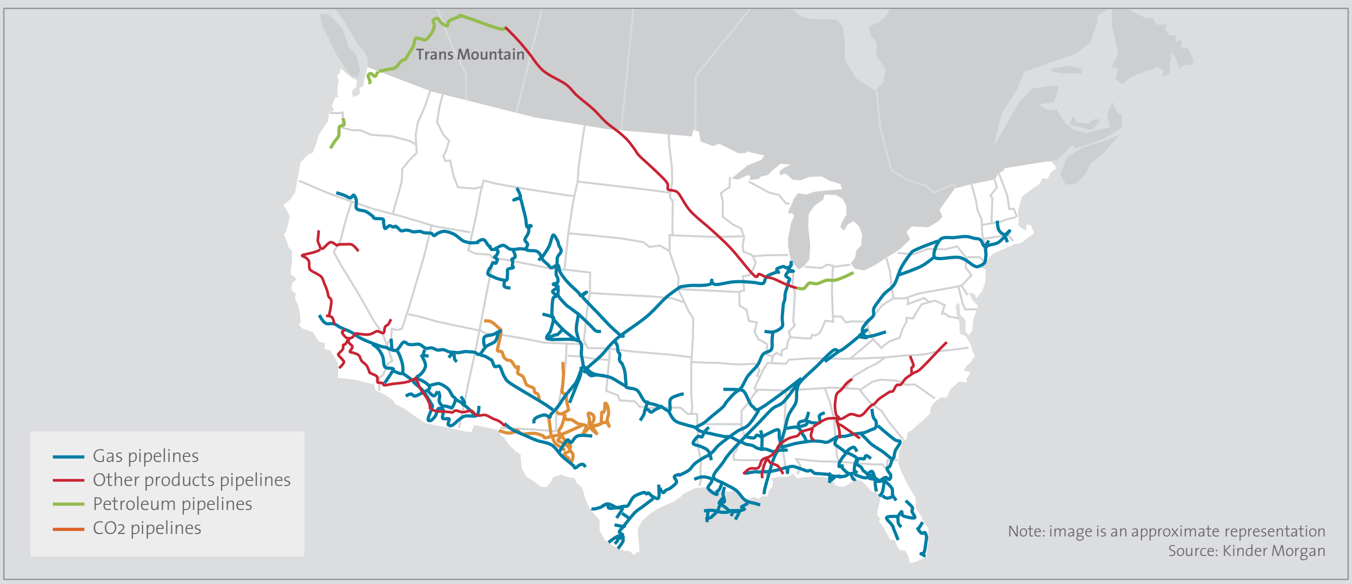
Refined product then either needs to be transported to ports for export, or back through a complex network of pipelines for domestic use across the breadth of the US.

Seeing opportunity, Kinder Morgan invested heavily to meet this demand by buying up numerous smaller pipeline businesses and building new lines to connect new shale wells to existing networks. Today, the company's vast network of pipelines, terminals and processing facilities spans approximately 135 000 kilometres (visual below) and comprises 180 terminals, which store and redirect flow.

Natural gas is an increasingly important energy source powering the US economy, overtaking coal in 2015 as the most consumed fuel (highlighted in the graph opposite). Demand for US natural gas is projected to increase by a further 35% over the next 10 years. Kinder Morgan has the largest natural gas network in the US with 111 000 kilometres of pipeline, connected to every important US natural gas or shale gas resource. Thirty-eight percent of the natural gas consumed in North America moves through the company's pipelines.

The company is the largest independent transporter of petroleum products, moving 2.1 million barrels of product

Kinder Morgan's North American pipeline network



Note: image is an approximate representation
Source: Kinder Morgan

per day. It transports gasoline, jet fuel, diesel, crude, natural gas liquids and more from the Gulf Coast refineries to wholesale distribution centres throughout the country.

Kinder Morgan is the largest transporter of carbon dioxide, transporting 1.2 billion cubic feet per day. Most of the carbon dioxide is used in enhanced oil recovery projects in the Permian Basin of West Texas. As the largest independent terminal operator in the US, Kinder Morgan's liquids terminals store refined petroleum products, chemicals, ethanol and more, and have a capacity of 152 million barrels. It's dry bulk terminals store and handle approximately 65 million tonnes of petroleum coke (a valuable by-product of the oil refining process), steel and coal and other materials every year.

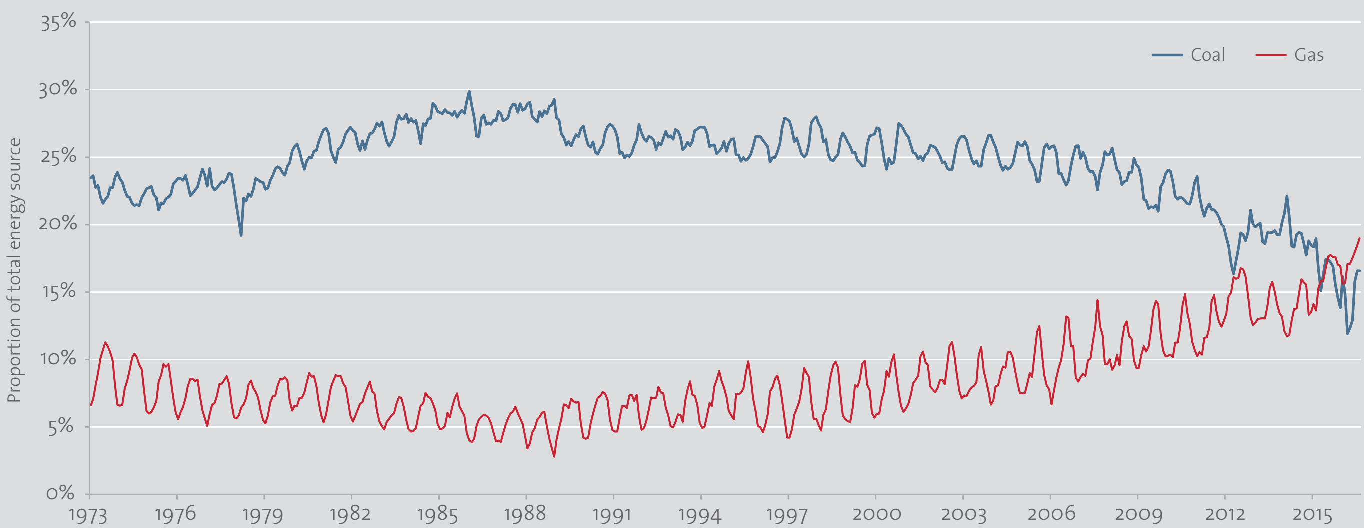
Kinder Morgan Canada's oil sands pipeline transports around 300 000 barrels per day from Alberta to Vancouver, British Columbia and Washington State. The upcoming expansion of the Trans Mountain pipeline will span 1150 kilometres and will increase capacity to approximately 890 000 barrels per day. The Canadian government approved this US$6.9 billion expansion project in November 2016 and construction is due to begin in 2017 to be completed by late 2019.

Attractive, low-risk business model

Kinder Morgan's revenue model operates like a toll bridge. A flat fee is charged for usage, regardless of the volume of product transported. This provides a stable and growing cashflow stream that is essentially unaffected by the volatility in energy prices. The company manages business risk by ensuring that capacity on new pipelines is pre-sold to energy companies via an auction process before construction commences. Once completed, pipelines remain in use for decades with very little maintenance required, resulting in strong cashflows with low ongoing capital requirements.

The management team and founding shareholders collectively own 29% of Kinder Morgan and describe the company as "run by shareholders, for shareholders". The current executive chairman, Richard Kinder, earns a token salary of US$1 a year, as does CEO Steven Kean. Neither receives a bonus, and only Kean receives share options and restricted share awards. Consequently, their income is entirely reliant on dividends, aligning their own interests directly on par with those of minority shareholders. The company aims to provide a stable, growing dividend profile that is underpinned by the solid cash generation of the business.

Source of energy for US electricity generation



Source: US Energy Information Administration

Kinder Morgan: by shareholders, for shareholders

Taking advantage of the dips

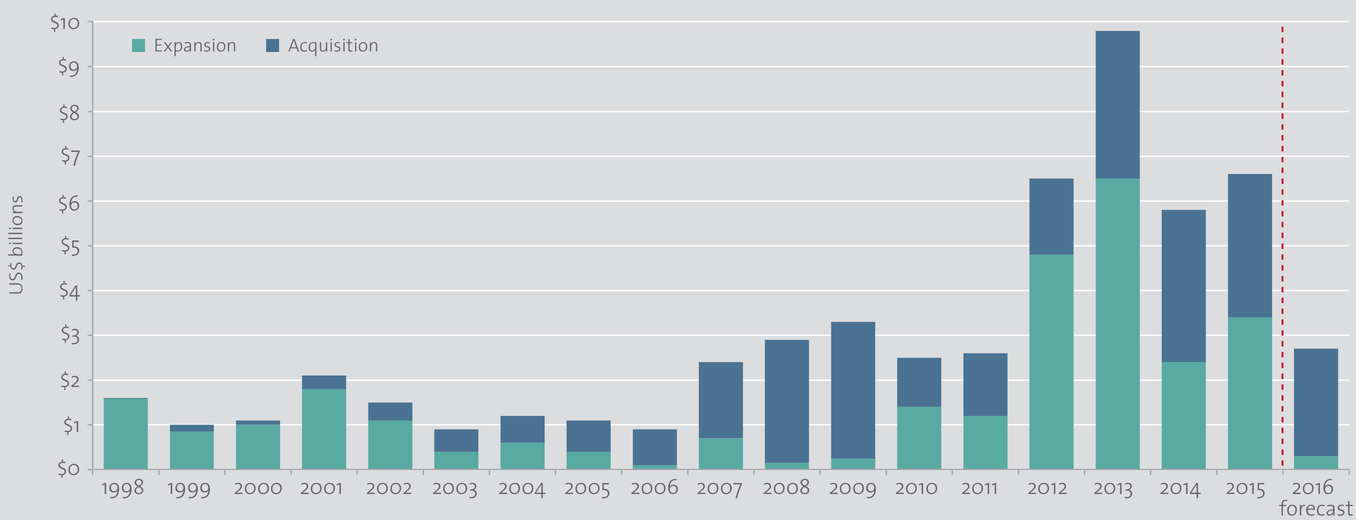
Throughout the mid-2000s oil price boom, Kinder Morgan invested in its own infrastructure for growth. In 2008, oversupply in the market caused oil prices to drop from a peak of US$143 in mid-2008 to below US$30 a barrel in early 2009. Kinder, then CEO, recognised that this downturn was the result of a fundamental change in the dynamics of the oil market, caused by the emergence of shale and the rise of the US as a major energy producer. He used the opportunity to aggressively acquire assets to grow Kinder Morgan's market share, using debt raised against the strong balance sheet. Following the more recent 2014 oil price collapse there has again been a noticeable increase in acquisitions, as the company exploits depressed pipeline company valuations and the low interest rate environment in the US.

In the low oil price environment of 2015, Kinder Morgan's own share price declined along with others in the energy market, despite its stable revenue model. As a result, the company reduced its 2015 dividend payout to channel cashflow into reducing debt levels to avoid the risk of a downgrade to its credit rating. Many investors - who had selected the share for its protection from commodity price volatility - were disappointed with the reduced dividend. The share price fell sharply, reaching US$12 a share in January 2016, from an April 2015 peak of US$44. However, the company's cashflow generation remained largely unaffected by the energy price rout and the share price has recovered strongly in 2016 and the dividend payout has been increased again.

Future prospects

As North American energy production continues to grow and export volumes increase, Kinder Morgan's unmatched infrastructure network positions the company for significant growth in cashflow generation. Investors in our global funds can expect to benefit from this growth. UP

Kinder Morgan's invested capital history



Source: Kinder Morgan

Kagiso Asset Management Funds

Performance to 31 December 2016	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]								
Equity Alpha Fund	12.1%	4.3%	10.4%	10.9%	17.8%	Apr-04	1.51%	0.46%
SA Equity General funds mean	2.8%	4.8%	10.7%	8.7%	14.4%			
Outperformance	9.3%	-0.5%	-0.3%	2.2%	3.4%			
Balanced Fund	10.9%	5.2%	9.5%	-	9.2%	May-11	1.55%	0.49%
SA Multi Asset High Equity funds mean	1.4%	6.1%	10.3%		9.7%			
Outperformance	9.5%	-0.9%	-0.8%		-0.5%			
Protector Fund	11.1%	5.5%	7.3%	7.0%	10.0%	Dec-02	1.68%	0.37%
CPI + 5%[5]	11.5%	10.7%	10.6%	11.3%	10.7%			
Outperformance	-0.4%	-5.2%	-3.3%	-4.3%	-0.7%			
Stable Fund	15.2%	7.3%	8.4%	-	8.5%	May-11	1.56%	0.57%
Return on large deposits*	6.3%	5.7%	5.5%		5.5%			
Outperformance	8.9%	1.6%	2.9%		3.0%			
Institutional funds[6]								
Managed Equity Fund	10.9%	3.0%	10.4%	10.7%	12.1%	Sep-06		
FTSE/JSE SWIX All Share Index	4.1%	7.6%	14.2%	11.4%	12.8%			
Outperformance	6.8%	-4.6%	-3.8%	-0.7%	-0.7%			
Core Equity Fund	6.0%	3.5%	11.8%	10.8%	16.3%	Nov-04		
FTSE/JSE SWIX All Share Index	4.1%	7.6%	14.2%	11.4%	16.7%			
Outperformance	1.9%	-4.1%	-2.4%	-0.6%	-0.4%			
Domestic Balanced Fund[7]	10.6%	3.8%	7.7%	-	8.2%	May-07		
Peer median[8]	5.4%	7.6%	11.2%		9.9%			
Outperformance	5.2%	-3.7%	-3.5%		-1.7%			
Global Balanced Fund[9]	11.2%	6.7%	-	-	9.4%	Jul-13		
Peer median[10]	2.4%	8.5%			10.8%			
Outperformance	8.8%	-1.8%			-1.4%			
Sharia unit trust funds[4]								
Islamic Equity Fund	17.7%	5.2%	9.3%	-	12.2%	Jul-09	1.36%	0.27%
SA Equity General funds mean	2.8%	4.8%	10.7%		12.8%			
Outperformance	14.9%	0.4%	-1.4%		-0.6%			
Islamic Balanced Fund	10.4%	5.0%	8.5%	-	7.1%	May-11	1.48%	0.16%
SA Multi Asset High Equity funds mean	1.4%	6.1%	10.3%		9.7%			
Outperformance	9.0%	-1.1%	-1.8%		-2.6%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	8.2%	-4.1%	8.2%	-4.7%	8.2%	-4.7%	10.9%	-9.0%	11.9%	-9.0%
Balanced Fund	5.5%	-3.5%	5.5%	-4.2%	6.2%	-4.2%	-	-	6.2%	-4.2%
Protector Fund	3.4%	-2.4%	3.4%	-4.2%	4.8%	-4.2%	7.9%	-5.3%	9.5%	-5.3%
Stable Fund	3.8%	-0.8%	3.8%	-3.5%	4.0%	-3.5%	-	-	4.0%	-3.5%
Islamic Equity Fund	7.3%	-3.8%	7.3%	-4.6%	8.1%	-4.9%	-	-	8.1%	-4.9%
Islamic Balanced Fund	4.6%	-3.0%	4.6%	-3.0%	8.2%	-5.4%	-	-	8.2%	-5.4%

[1] Annualised (ie the average annual return over the given time period); [2] TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 30 September 2016; [3] Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Kagiso Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 30 September 2016; [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] CPI for September is an estimate; [6] Source: Kagiso Asset Management; gross of management fees; [7] Domestic Balanced Fund and benchmark returns to 31 August 2016; [8] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [9] Global Balanced Fund and benchmark returns to 31 August 2016; [10] Median return of Alexander Forbes Global Large Manager Watch. *Return on deposits of R5 million plus 2% (on an after-tax basis at an assumed 25% tax rate).

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