

KAGISO ISLAMIC EQUITY FUND



Abdul Davids

Of the handful of Islamic equity funds offered by South African managers, the Kagiso Islamic Equity Fund has consistently outperformed its peers, not to mention outperforming the majority of straight general equity funds. At the end of 2021, it was 6th highest in the South African general equity category in terms of performance over five years – an annualised 12.64%, earning it five PlexCrowns. Last year was a particularly good year – it returned 37.87%, according to ProfileData, well above the 29.23% returned by the FTSE/JSE All Share Total Return Index.

The fund is primarily aimed at “Muslim investors seeking a Shariah-compliant portfolio of South African equities, who are in their wealth accumulation phase”

according to the fact sheet. Investors must “be able to withstand short-term market fluctuations in pursuit of maximum capital growth over the long term”.

Launched in July 2009, it has R1.5 billion in assets and is managed by Abdul Davids. As at the end of December 2021, 65.6% of the fund was in domestic equities and 22.5% in foreign equities. Its five top holdings were: Omnia (4.8%), Northam Platinum (4.5%), Datatec (3.9%), MTN (3.5%) and Anglo Platinum (3.5%).

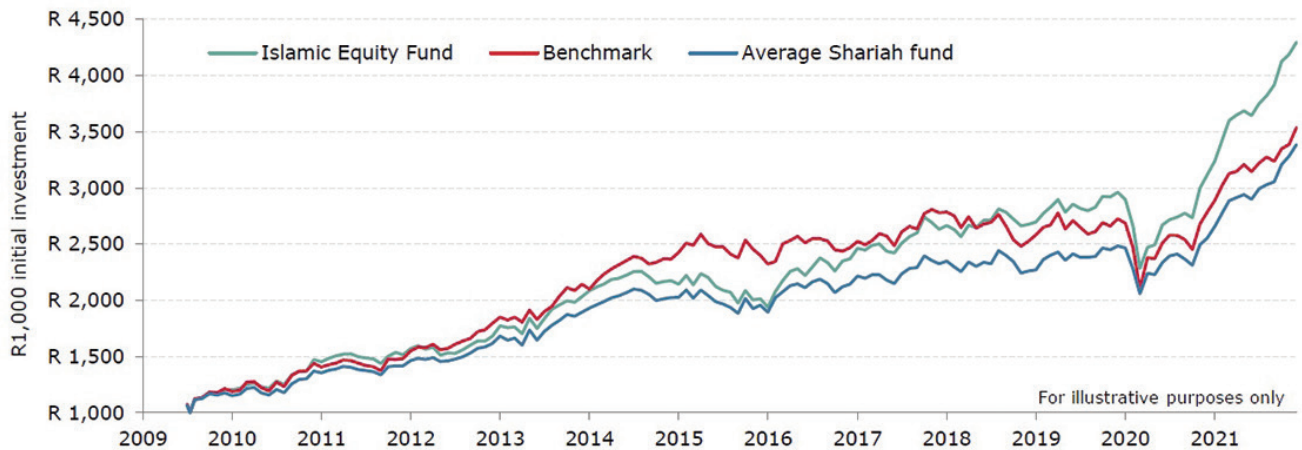
Personal Finance put the following questions to Davids:

Can you briefly outline the Shariah approach to investing?

AD: Shariah-compliant investing has a

strong focus on socially responsible or ethical investment as it requires shariah-compliant funds to adhere to qualitative and quantitative filters that avoid or severely restrict investment into companies that cause harm to society or the environment. As such, investments in weapon manufacturers, gambling and alcohol companies are prohibited. In addition, investments in banks and similar lending institutions and companies with too much debt are also prohibited.

Shariah-compliant companies comprise a sub-category of listed companies on the JSE, which is shrinking as it is, so your choice of shares must be fairly limited. How do you pick shares for the



portfolio while trying to minimise concentration risk?

AD: It is our view that there is sufficient breadth of opportunity on the JSE for shariah-compliant funds, notwithstanding the screening or filtering out of non-compliant companies. Furthermore, our equity unit trusts are able to invest up to 30% of the fund in global equity markets, which increases our universe substantially and minimises the risk of concentration.

To what do you attribute the fund's excellent performance to the end of 2021, and which shares have stood out for you?

AD: The fund has a substantial investment in the platinum group metals (PGM) sector

that has delivered very strong performance over the last three years. Investments in Northam Platinum, Anglo Platinum and African Rainbow Minerals have been standout contributors to performance on the back of a robust recovery in PGM prices.

Omnia has also been a significant contributor to the fund's performance over the last year, together with MTN and Telkom in the telecommunications sector both outperforming.

What challenges and opportunities to you see for the JSE in the year ahead, and how are you positioning your fund accordingly?

AD: The key challenge for the JSE and global equity markets is the impact of rising

interest rates or the current tightening cycle on equity share prices, both locally and in the United States. We see the withdrawal of fiscal stimulus measures by the US Federal Reserve and other central banks as a test of the sustainability of the current robust global economic growth environment.

Our bottom-up, valuation-focused research process is ideally suited for this period in global equity markets and we continue to see opportunities in smaller and mid-size companies on the JSE and in developed equity markets. We believe our investments in companies with healthy cash flows and low debt levels will provide our investors with the best opportunities of outperformance.