# Kagiso Global Equity Fund
# Quarterly commentary
December 2019

KAGISO
Asset Management

The Global Equity Fund returned 16.7% over the quarter, outperforming the benchmark, FTSE World Index, by 7.8% in US dollar terms. Over one year the fund achieved 25.4%, underperforming the benchmark (27.7%).

**Economic backdrop**

Global economic growth, though still reasonably buoyant, has decelerated further from the high rates of recent years especially given a continuing moderation in Chinese growth. Increased US trade tariff uncertainty seems to have caused sustained weak business confidence, particularly in the global manufacturing sector (especially in Europe and Japan). Growth expectations have recovered moderately as weak industrial production is being offset by consumption growth, which remains healthy due to sound labour markets. Major central banks have abruptly ended their tightening and begun loosening monetary policy, as well as signalling more accommodation should economic activity deteriorate.

US economic activity has been moderate, but, despite healthy consumption and a recovering housing sector, weaker manufacturing production (due to trade tensions) and the waning of fiscal stimulus effects is now weighing on growth.

In Europe, generally strong consumption and good growth in France, Spain, Ireland and Greece is partially offset by very weak manufacturing activity, particularly in Germany. This is affected by slower Chinese growth and a contracting global automotive market. Manufacturing in Japan has been similarly affected and near-term local consumption will now be weaker post a consumer tax hike. In both Europe and Japan, industrial weakness is being partially offset by increased fiscal stimulus.

Overall growth in China remains healthy but continues to moderate as the government acts to rebalance the economy and reign in credit excesses and as export growth is affected by increased trade tariffs. Infrastructure investment and manufacturing-related growth is most affected, although the economy is benefitting from -domestic stimulus.

Emerging market growth has eased in line with slower global growth but remains healthy, particularly in Indonesia and Brazil. South Africa, Russia and Turkey remain the laggards. Sharply falling inflation expectations allowed for an aggressive rate cutting cycle in 2019.

**Market review**

Global markets were higher in the last quarter (up 8.7% in US dollars) with the USA (up 9.1%), Germany (up 9.6%) and the UK (10.8%) outperforming. Within emerging markets (up 11.9%), South Africa (up 13.2%, the dollar return benefiting from an 8% appreciation in the currency over the period), Brazil (up 14.1%) and Russia (up 17.1%) outperformed. 2019 has been a very strong year for global equity markets (up 28.4% overall).

For several years, extreme and unconventional monetary stimulus in the form of price agnostic asset purchases have distorted asset prices across the globe. Global bond yields have retreated to very low levels (pricing in exceedingly low levels of future long-term inflation), corporate bond credit spreads are depressed, and equity prices are high, especially in large cap stocks and sectors where growth prospects are well appreciated.

US bond yields are moderately higher than the record low levels of 2016, accompanied by tentative signs of wage-led rising inflation (although yields in other developed markets are close to record lows). Recent trade tensions between the US and its key trading partners has negatively impacted the global growth outlook and central banks are undertaking pre-emptive easing measures in an attempt to avert material economic deterioration.

**Fund performance and positioning**

Fund performance was significantly ahead of benchmark for the quarter with key positive contributors being Siemens, Prudential, Spire Healthcare and JD.com. DuPont and Covestro detracted from performance in the quarter.

Our fund is mainly positioned in companies listed in developed markets, with exposure to a broad range of diversified sectors. Some examples of the global structural themes underpinning some of our holdings include an ageing population (hospitals, financial services), online disruption (e-commerce, payments, logistics), tomorrow's workforce (automation and robotics), special situations (spin-offs/asset sales) and future mobility (energy storage, components and consumables). Our fund positions have somewhat of a quality cyclical orientation and stand to benefit from a less negative economic environment than is reflected in their very depressed ratings.

Despite a global backdrop of reasonable, but slower, economic growth and risks of negative disruptions as Chinese economic growth continues to trend lower, we remain positive on the outlook for our stock holdings given their current low ratings and depressed earnings.