Kagiso Global Equity Fund
Quarterly commentary
March 2022

KAGISO
Asset Management

The fund was down 4.2% this quarter, outperforming its benchmark of FTSE World Index (down 4.8%). The fund has underperformed its benchmark over the past 3 years, returning 5.7% (versus the benchmark 15.1%).

Economic backdrop

The Russian invasion of the Ukraine and the resultant united and coordinated response by Western governments to impose substantial economic sanctions on Russia has caused an acute global supply shockwave. We now have very high commodity prices, supply chain frictions (that were beginning to normalise after the severe pandemic impacts), inflation and a decline in business sector confidence. It is not possible to predict how this conflict is resolved and its ultimate duration.

Some of the important long-term impacts of the war include: structural changes to the European energy ecosystem (which is overly reliant on Russia), an acceleration of de-globalisation trends (shifts towards less efficient but more stable regionalised supply chains) and changes to China-USA economic and political relations.

Developed economies were growing at above pre-crisis trend rates until recently, despite waning fiscal stimulus, due to very healthy consumer spending stemming from robust labour markets, accumulated savings from lockdown periods and surging wealth levels. This initial strength together with some additional fiscal stimulus targeting consumer energy cost relief, means that positive growth should be maintained. European near-term economic growth has been most negatively impacted due to an exceedingly high gas price and a dampening of business and consumer sentiment.

Chinese economic growth has now slowed due to: property market activity rebasing to a lower level because of cyclical excesses unwinding following regulatory interventions, supply constraints and targeted urban COVID-19 lockdowns. Chinese government interventions in many areas of its economy - aligned with longer-term planning (and congruent with sustainably high longer-term growth) - are proving disruptive in the short term. These interventions are targeting more inclusive and less financially risky growth, corporate monopoly positions, carbon emission reduction and technological independence.

The outlook for emerging economies differs widely, with varied exposures to global supply chain bottlenecks, high energy and agricultural prices, strong mining commodity prices, a moribund tourism industry and differing impacts from the stewardship of the pandemic crisis and efficacy of vaccine rollouts. In particular, some poorer economies are facing extremely high current food and energy inflation, which is leading to increased socio-economic instability risks.

Enduring global economic trends may be visible only when fiscal support and monetary stimulus tapers off more meaningfully, when supply chains are functioning more normally, when the acute effects of the military conflict have receded and when the longer-term impact of the military conflict is clearer.

Although South African economic growth has rebounded as expected, the local economy will continue to produce only moderate expansion from here, despite continued strength in the primary sectors (mining and agriculture). Scarring from years of state mismanagement and the recent pandemic lockdowns is highly evident in consumer spending, manufacturing capacity and fixed investment. In addition, there is a risk that future less buoyant commodity prices (particularly platinum group metals, iron ore and coal) will result in an even weaker outlook.

South Africa continues to battle with very high unemployment and a large unskilled population, which increases social instability risks - particularly in the face of increasing inflation. Growth continues to be hampered by unstable and inadequate electricity supply, underperformance of key transport infrastructure, weakened and revenue-hungry municipalities, as well as chronically low business and investment confidence. For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy.

While economic revival plans are well articulated, they still rely too heavily on implementation from weakened state institutions, do not draw sufficiently on private sector co-operation and remain hampered by political unwillingness to take unpopular but necessary actions. Recent actions to liberalise private sector electricity production, the conclusion of a long-delayed telecommunication spectrum auction and early steps towards enabling private sector access to freight rail network are modest moves in the right direction. Additionally, actions to rebuild crime fighting and tax collection capabilities continue to bear fruit - albeit at a slow pace as a result of capacity challenges.

Market review

Global markets were weak in the first quarter (down 5.0% in US dollars), with the UK (down 0.1%) outperforming, and Germany (down 11.1%) and France (down 9.2%) underperforming. Emerging markets were also weak in the quarter (down 1.2%) with highly varied performances: Russia (extreme weakness), China (down 14.2%) and South Korea (down 9%) were poor, whereas Brazil (up 34.8%) and South Africa (up 20.5%) performed relatively well.

Fund performance and positioning

The fund's modest outperformance relative to the benchmark over the first quarter of 2022 was due to strong performances from our Healthcare and Energy positions. Weaker performances from some of our Industrials, Materials and Consumer Staples holdings were a drag on performance in the quarter. Our significant underweight exposure to the Information Technology sector, which had a weak quarter, contributed positively to fund performance relative to the benchmark.

Notable positive contributors in the quarter were Bayer, Inpex, Nisshinbo, Kinder Morgan and Nutrien. Disappointing share price performances from SKF, Bodycote, Associated British Foods, Siemens and Evonik were the main detractors in the quarter.

The fund has maintained underweight positions in the Communication Services, Consumer Discretionary, Consumer Staples, Information Technology and Utilities sectors and following a strong run in share prices, we have moved to an underweight position in the Energy sector. The sectors where the fund continues to have overweight exposure are the Materials (DuPont, Evonik and Johnson Matthey), Industrial (SKF, Bodycote, Siemens, Timken and Siemens Energy), Health Care (Zimmer, Boston Scientific, Philips, Bayer) and Real Estate (Aroundtown, Unibail-Rodamco-Westfield, Grand City) sectors.

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 (pharmaceuticals, financial services, medical devices), tomorrow's workforce (automation and robotics), future mobility (energy storage, components and consumables), food security (crop protection, fertilisers, seeds and aquaculture) and green energy transition (wind and hydrogen power).

We have maintained our positioning in high quality cyclical companies as we believe that share price levels are still low relative to their long-term prospects and they should provide very attractive forward-looking returns.

Disclaimer

Kagiso Global Equity Fund is a sub-fund of Kagiso Global Asset Management ICAV. This Fund is managed by KBA Consulting Management Limited. The Fund and the Manager are authorised in Ireland and regulated by the Central Bank of Ireland.

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Additional information: Please read the Key investor information in conjunction with the Supplemental Deed of the fund and the Fund prospectus.

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