Quarterly commentary

Kagiso Global Equity Feeder Fund

September 2020

The fund was down -1.8% this quarter, underperforming other Global general equity funds (up 3.6% on average). This followed a very sharp fall in the first quarter amid the massive market crash as the unexpected Covid-19 crisis stalled economic activity across the world.

Economic backdrop

Efforts to reopen global economies are cautiously underway and it appears that the most severe scenarios concerning global health and economic outcomes have been averted. However, a considerable amount of uncertainty remains around the resurgence of Covid-19 in many regions, necessitating the resumption of restrictions. The immense increase in global government debt balances due to aggressive fiscal stimulus will hamper future, long-term growth and uncertainty remains high.

Positively, the global economy entered the crisis in a buoyant position, with healthy consumer dynamics in most developed markets and a moderating, but strongly growing Chinese economy. Developed market consumer health appears to have been largely preserved thus far through extensive fiscal and monetary support and increased savings rates (less spend under lockdown). Early consumer indications (discretionary retail sales and vehicle purchases) have fared better than initially presumed and in many regions housing activity is now at healthy levels, partially due to changing consumer needs resulting from remote working. However, consumer expenditure sustainability is being put to the test as fiscal support tapers off and permanent job losses begin to bite.

The Chinese economy has had a remarkably quick resumption of economic activity, with many key economic indicators above pre-crisis levels and continuing to improve, especially automotive purchases and online retail sales. However, the path of a return to trend growth that is vital for a return of global growth to higher levels, is unlikely to be smooth as:
consumer confidence is still shaken (evidenced in increased savings rates);
the capacity and appetite for further debt-fuelled infrastructure stimulus appears diminished; and
there are risks to manufacturing and export growth from weak (though improving) global trade and possible further deterioration in geopolitical relations.

The medium-term outlook for emerging economies is extremely varied at present, with differing exposures to low energy prices (importers versus exporters), the decimated tourism industry, varying pandemic-related impacts and exposure to the more buoyant Asian regions.

Market review

Global markets were strong again this quarter (up 8.0% in US dollars), with Germany up 8.1% and the USA up 8.9%, but with the UK and Hong Kong lagging (flat and down 2.6% respectively). Within emerging markets (up 9.7% in dollar terms), South Korea (up 13.5%) and India (up 15.1%) outperformed.

Governments in developed countries responded to the healthcare crisis and the resultant pausing of large parts of their economies, with aggressive fiscal stimulus packages. Together with a dramatic easing of monetary policy (rate cuts, increased quantitative easing and other unconventional measures) this has tempered the economic damage from the crisis. The interventions have provided a powerful buffer to financial markets up to this point, but we expect increased volatility when fiscal stimulus inevitably wanes, when inflation emerges at last and when interest rates rise from the current extremely low levels.

Fund performance and positioning

In broad terms the fund has underperformed the FTSE World Index over the third quarter of 2020 due to the weak performance of some of our Energy, Real Estate and Financial holdings.

We saw positive contributions from some of our quality industrial companies in this quarter, led by Siemens, Covestro, Timken and Johnson Matthey. Our energy holdings (Kinder Morgan and Inpex) were key detractors from performance, as were Aroundtown, Bayer and Ontex.

The fund maintained significant underweight positions in the Communication Services, Information Technology, Health Care and Utilities sectors in the past 3 months. The sectors where the fund had overweight exposure are in the Energy (Kinder Morgan and Inpex), Financials (Prudential, M&G, US bank exposure, Just Group), Materials (DuPont, Covestro, Evonik, Corteva and Johnson Matthey), Industrial (SKF, Bodycote, Siemens, Timken) 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 (hospitals, financial services), online disruption (e-commerce, payments, logistics), tomorrow’s workforce (automation and robotics), Food security (fertilisers, farm efficiency, alternative feed sources) and future mobility (energy storage, components and consumables).

Despite the strong bounce-back in several of our holdings during the quarter, we have maintained our positioning in high quality cyclical companies as we believe that share price levels are still very low relative to their long-term prospects and they should provide very attractive forward-looking returns.