Quarterly general investor report

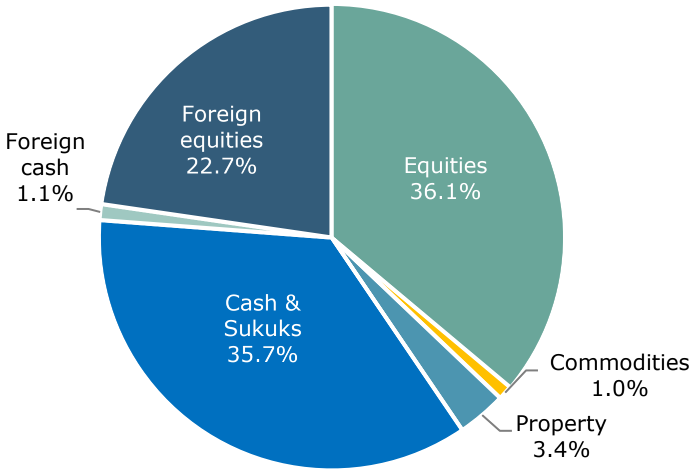
# Kagiso Islamic Balanced Fund
## September 2018

Date of issue: 26 October 2018

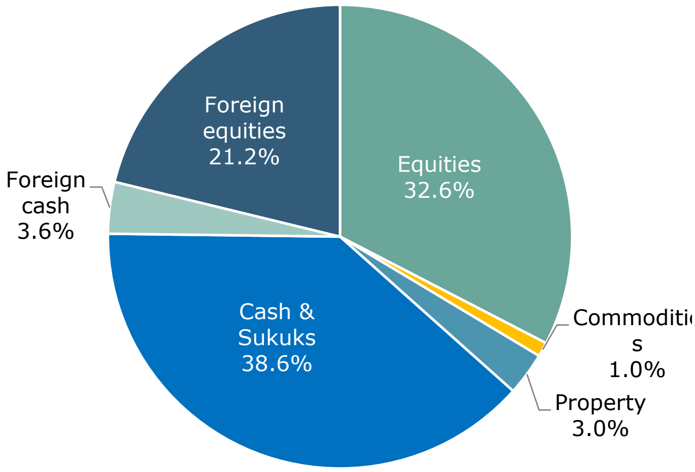
This fund will be invested in a wide variety of domestic and international asset classes such as equity securities, sukuks and listed property, within the constraints of the statutory investment restrictions for retirement funds. The underlying investments will comply with Sharia requirements as prescribed by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). The fund will not invest in any interest-bearing instruments.

## Asset allocation

### Quarter ended September 2018




### Quarter ended June 2018




## Top 10 equity holdings

**Quarter ended September 2018**

| | |
|---|---|
| Sasol | 3.1% |
| AECI | 2.5% |
| African Rainbow Minerals | 2.5% |
| Mondi | 2.0% |
| Anglo American | 2.0% |
| Equites Property Fund | 1.8% |
| MTN | 1.8% |
| Anglogold Ashanti | 1.6% |
| Datatec | 1.5% |
| Tongaat Hulett | 1.5% |
| Total | 20.3% |

**Quarter ended June 2018**

| | |
|---|---|
| Sasol | 3.6% |
| African Rainbow Minerals | 2.5% |
| Tongaat Hulett | 2.2% |
| BHP Billiton | 2.1% |
| Anglo American | 1.8% |
| AECI | 1.8% |
| Mondi | 1.8% |
| Nisshinbo Holdings | 1.5% |
| National Oilwell Varco | 1.5% |
| LyondellBasell | 1.5% |
| Total | 20.3% |

**Fund size** R1,256.87 million
**NAV** 162.01 cpu
**Number of participatory interests** 775,891,057

**Income distributions**

| | | |
|---|---|---|
| 30 June 2018 | 2.26 | cpu |
| 31 December 2017 | 0.00 | cpu |

## Key indicators

| Equity markets (total return) | Quarterly change |
|---|---|
| MSCI World Index (USD) | 5.0% |
| MSCI Emerging Market Equity (US Dollar return) | -1.1% |
| FTSE Sharia All-World Index (US Dollar return) | 4.7% |
| Dow Jones Islamic Market World Index (US Dollar return) | 5.2% |
| FTSE/JSE All Share Index | -2.2% |
| FTSE/JSE Resources Index | 4.6% |
| FTSE/JSE Industrials Index | -8.2% |
| **Commodities and currency** | **Quarterly change** |
| Platinum ($/oz) | -4.4% |
| Gold ($/oz) | -4.8% |
| Brent Crude ($/barrel) | 5.5% |
| Rand/US Dollar (USD) | 3.0% |

**Policy objective** The fund adhered to the policy objective as stated in the Supplemental Deed
**Additional information** Please read this quarterly investment report in conjunction with the minimum disclosure document for the fund

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# Kagiso Islamic Balanced Fund
September 2018

KAGISO Asset Management

The fund was up 2.5% this quarter, materially outperforming the average of other multi-asset high equity funds. The fund has returned a very pleasing 9.1% per annum over the last three years, and is ranked 6 out of 136 funds in its sector over this. This quarter's performance was primarily due to strong returns from our local equities. The fund has returned 7% per annum since its inception in 2011.

**Economic backdrop**

Global economic growth continues to be strong in 2018, with robust growth in the USA offsetting growth elsewhere which has decelerated from the elevated levels of 2017. Inflation rates around the world are on an upward trend due to higher energy prices, tightening labour markets in the developed world and currency depreciation in emerging markets.

The US economy continues to grow above trend, with a strengthening labour market and much improved investment spend. However activity is being supported by substantial front-loaded tax cuts and continued accommodative - albeit slowly tightening - monetary policy.

Chinese government measures to rebalance the economy, reign in credit excesses and reduce pollution are resulting in a marked deceleration in infrastructure-related growth, a trend we expect to continue for the medium term. There are signs that growth in industrial activity and consumer spending may have peaked at the end of 2017, but overall growth still remains at healthy levels. In other emerging markets, the inflation and interest rate outlooks have worsened as capital outflows in the year to date have led to currency depreciation and growth has moderated somewhat due to the recent deceleration in global trade.

In Europe and Japan growth has decelerated but is holding at trend levels, and there are definitive signs of tightening labour markets. PMI indices (a measure of the economic health of manufacturing and services sectors) have declined from the highs of January, with a particularly sharp decline in the manufacturing component. Positively, in Japan there are signs of sustained momentum in business investment spend, mostly geared towards improving productivity against a backdrop of acute labour shortages.

Fears of an escalating trade war between the US and its trading partners have increased. Actions announced thus far are having some direct impact on trade activity (which started the year at high levels) and, more importantly, are dampening business confidence.

South African data points, such as the negative first and second quarter GDP reports, less optimistic confidence indicators and very lacklustre company results, have all been much weaker than expected. This has resulted in significant weakness in equities with domestic exposure, bonds and the rand, reflecting an appreciation that current economic conditions are weak and that considerable structural reforms are required to meaningfully increase growth in the medium term. There is a risk that the situation worsens further as the very supportive global economic backdrop fades somewhat.

**Market review**

For a number of years, extreme unconventional monetary stimulus in the form of price agnostic asset purchases has distorted asset prices across the globe. Global bond yields remain very low (pricing in extremely low levels of future long-term inflation), corporate bond credit spreads are extremely suppressed and equity prices are high, especially in sectors where growth prospects are well appreciated.

Global bond rates are rising from the record low levels of 2016, accompanied by signs of rising inflation, particularly in the US. Importantly, the rate of total global central bank asset purchases peaked in early 2017 and is steadily reducing as monetary stimulus programs are withdrawn. These changes in trend are causing a more normal (higher) level of market volatility and a welcome increase in dispersion across equities, as well as across asset classes – a better environment for stock pickers.

Over the quarter, equity markets were stronger. The US and Japan outperformed (up 7.7% and 6.3% respectively) while Hong Kong (down 2.2%) and the UK (down 1.8%) underperformed. Emerging markets were mixed (down 0.9% in dollar terms with Brazil and Russia outperforming and South Africa and Turkey weaker).

Locally, the equity market was weak (down 2.2%). Financials (up 4.2%) outperformed this quarter, with Capitec Bank, Discovery, Sanlam and FirstRand the biggest gainers. The property sector was negative again and is now down 22.2% this year.

Resources were positive again this quarter (up 4.7% and up 24.1% this year), with PGM miners outperforming (up 25.5%), while the gold sector (down 5.9%) lagged. Standout positive performers were Impala Platinum (up 44.4%), African Rainbow Minerals (up 29.4%) and Northam Platinum (up 18.0%), while Gold Fields (down 28.2%) underperformed.

Industrials were down 8.1%, with Aspen Pharmacare (down 32.0%), Tiger Brands (down 17.2%), MTN (down 14.9%) and Naspers (down 6.5%) particularly weak. The hospitals sector was also weak (down 9.8%). Standout positive performers were Bidcorp (up 12.4%) and Richemont (up 3.6%).

**Fund performance and positioning**

Strong stock selection from our local equity holdings along with a positive contribution from our holdings in sukuks were the largest contributors this quarter. Contributors this quarter were African Rainbow Minerals, Anglo American Platinum, Sasol and Equites Property Fund. Key detractors were Libstar Holdings, Mediclinic and Tongaat Hulett.

Our global holdings contributed negatively to performance this quarter. Key positive contributors were Cisco Systems, Inpex Corporation and Roche Holdings. Detractors were Spire Healthcare, Continental and JD.com.

Against a global backdrop of reasonable (though decelerating) economic growth, tightening monetary policy, high asset prices, heightened geopolitical tensions and a local market still pricing-in reasonable optimism about South Africa's turnaround we are increasingly guarded on the outlook for financial markets.

We are optimistic that more normal financial conditions are proving to be a much better environment for stock picking. We retain a particularly high exposure to local mid-cap stocks. An example is local information and communication technology (ICT) company Altron, which has undergone a significant restructure. The business disposed of a number of capital-intensive manufacturing businesses to instead focus on delivering compelling ICT solutions. The shareholding structure has been transformed, significant management changes have been effected and the cost base has been optimised.

We are still early in the journey of Altron's reinvigoration. The new management team and revitalised board have been in place for less than two years. The recently released trading statement guiding for an increase in earnings of approximately 25% provides evidence of some initial successes stemming from the restructuring.