Kagiso Islamic Global Equity Feeder Fund
June 2020

The fund returned 13.8% this quarter, underperforming the Global Equity General funds (up 14.6% on average). This followed a very sharp fall in the previous quarter amid the massive market crash as the unexpected COVID-19 crisis stalled economic activity across the world. The fund has returned 14.4% pa since inception in January 2019.

After falling further than the general market in the first quarter, mid-cap stocks have generally lagged larger, liquid stocks in the sharp subsequent recovery, leading to a very material underperformance for the year to date. Many of these stocks are trading in thin volumes and at very depressed prices, amidst high uncertainty regarding the lasting damage they are suffering from the current crisis. More realistic market prices are likely to emerge as these companies report results and reposition their prospects. Given that the fund holds a high weighting in mid-cap stocks, though up strongly this quarter, it has lagged its benchmark for the year to date.

Economic backdrop
Efforts to reopen global economies are cautiously underway and it appears that the most severe scenarios concerning global health and economic outcomes may have been averted. However, a considerable amount of uncertainty remains regarding countries where the pandemic is still accelerating and the extent of subsequent waves post the unlocking phase. The immense increase in global government debt balances due to aggressive fiscal stimulus will most likely hamper future, long-term growth. Uncertainty remains very high.

Positively, the global economy entered the crisis in a buoyant position, with healthy consumer dynamics in most developed markets and a moderating, but still robustly growing, Chinese economy. Developed market consumer health appears to have been preserved thus far through extensive fiscal and monetary support and increased savings rates (from less spend under lockdown). Early consumer indications (discretionary retail sales and vehicle purchases) have been better than initially feared. However, their sustainability will be put to the test once fiscal support tapers off and the extent of permanent job losses are evident.

The Chinese economy has had a remarkably smooth resumption of economic activity, with many key economic indicators now above pre-crisis levels, including automotive purchases and online retail sales. However, the path of a return to trend growth, which is vital for a return of global growth to higher levels, is unlikely to be smooth as:

- consumer confidence is still fragile
- the capacity and appetite for debt-fuelled infrastructure stimulus appears diminished
- there are risks to manufacturing and export growth from extremely weak global trade and possible further deterioration in geopolitical relations.

Market review
Global markets were materially stronger this quarter (up 19.5% in US dollars), with Germany up 27.0% and the USA up 20.5%, but with the UK and Hong Kong lagging (up 9% and 4.7% respectively). Within emerging markets (up 18.2% in dollar terms), previous laggards South Africa and Brazil were stronger in the period.

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 will likely temper the permanent economic damage from the crisis. The interventions are providing a powerful buffer to financial markets for the time being.

Fund performance and positioning
Robust contributions came from Siemens, LyondellBasell and DuPont. Weaker performances from BP, Royal Dutch Shell and Bellway detracted from performance.

The fund has maintained underweight positions relative to benchmark in the Communication Services, Consumer Staples, Health Care, Utilities and Information Technology sectors. The fund has overweight exposure relative to benchmark in the Materials (Covestro, DuPont and Corteva) and Industrials (SKF, Bodycote, Siemens) 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, pharmaceutical companies), 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).

Despite the strong bounce-back in several of our holdings during the quarter, we have maintained our positioning in more cyclical companies as we believe that share price levels are still low and provide very attractive forward-looking returns.

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