

Kagiso Islamic High Yield Fund

June 2019

Date of issue: 26 July 2019

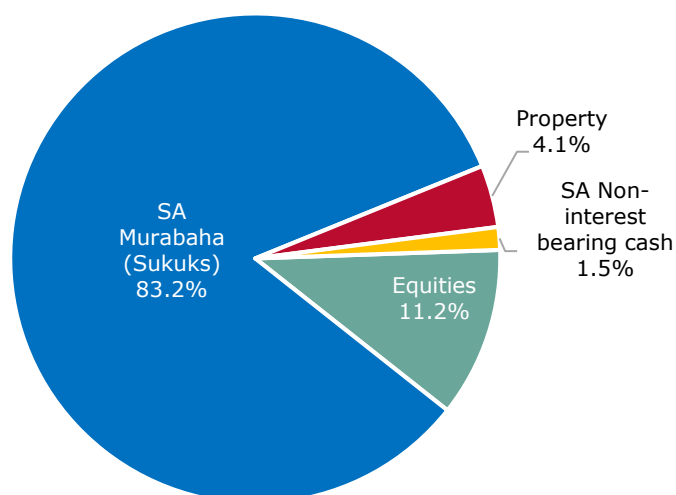
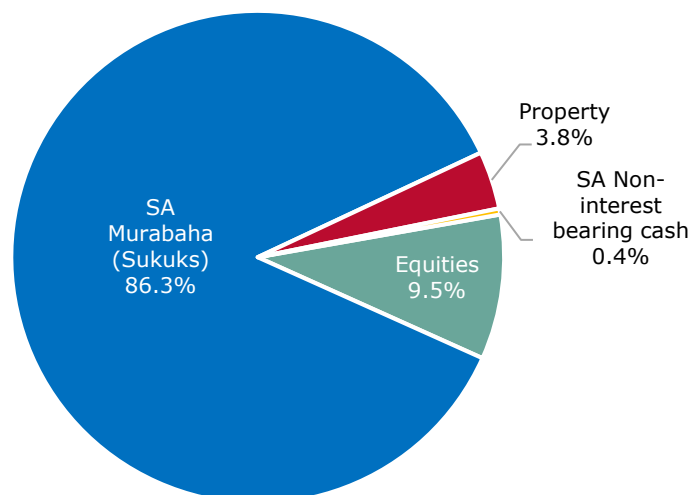


This fund aims to provide a high income yield and will typically have a strong bias towards yield assets such as sukuks and property, as well as dividend-paying equities. The underlying investments will comply with Sharia requirements as prescribed by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). The fund will not invest in any interest-bearing instruments.

Quarter ended June 2019

Quarter ended March 2019

Asset allocation



Fund size R212.19 million
NAV 102.46 cpu
Number of participatory interests 207,018,552

Income distributions
 30 June 2019 1.71 cpu
 31 December 2018 N/A

Key indicators

Equity markets (total return)	Quarterly change
MSCI World Index (USD)	4.0%
MSCI Emerging Market Equity (US Dollar return)	0.6%
FTSE Sharia All-World Index (US Dollar return)	2.5%
Dow Jones Islamic Market World Index (US Dollar return)	3.5%
FTSE/JSE All Share Index	3.9%
FTSE/JSE Resources Index	2.6%
FTSE/JSE Industrials Index	4.5%
Commodities and currency	Quarterly change
Platinum (\$/oz)	-1.7%
Gold (\$/oz)	9.1%
Brent Crude (\$/barrel)	-4.6%
Rand/US Dollar (USD)	-2.9%

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

Performance is not yet available

Economic backdrop

Global economic growth, though still healthy, has decelerated from the high rates of recent years. Strengthening developed region labour markets continue to underpin consumer expenditure via solid wage growth. Inflation rate expectations have retreated meaningfully, particularly in Europe. Key central banks have therefore paused their slow tightening measures and are signaling a more accommodative monetary policy if economic data deteriorates.

Trade activity is weak, partly due to the "trade war" (front loaded orders in advance of tariff implementation are now being run down and there are direct reductions in certain affected categories).

US economic growth has been strong this year, but weaker manufacturing production and the tapering off of fiscal stimulus support will now lead to a moderation back to trend. In Europe, manufacturing and export related activity is weak, particularly in Germany, affected by slower Chinese growth and a contracting global automotive market. Japan's growth is similarly weak and will be exacerbated by an impending consumer tax hike.

Overall growth in China continues to moderate as the government acts to rebalance the economy and reign in credit excesses. Infrastructure and manufacturing related growth is most affected, although temporarily shielded by domestic stimulus.

Stronger commodity prices and producer currencies have led to an improvement in economic growth and inflation prospects for commodity-focused emerging economies. India, Indonesia and Eastern Europe continue to outperform emerging market peers and laggards, Argentina, Turkey (contracting), South Africa (deteriorating low growth) and Brazil (significant iron ore mine disruptions) remain weak.

The South African economy continues to experience very weak economic growth, particularly with persistently low business confidence, contracting investment; and lacklustre consumption growth (wage settlements have moderated meaningfully and employment is stagnant). Early progress by the new ANC leadership on governance improvements is being followed up by frustratingly slow policy reforms in the face of a deteriorating fiscal position (debt to GDP).

Market review

Global markets rebounded and were strong again this quarter (up 4.2% in dollar terms and 17.4% year to date) with the USA (up 4.3%), France (up 7.5%) and Germany (up 8.9%) outperforming. Emerging markets (up 0.7% in dollar terms) were mixed and generally robust, except in China (down 3.9%).

Locally, the equity market was positive again this quarter (up 3.9%) with resources (up 2.6%) outperforming – gold and platinum miners were strong (up 26.6% and 9.4% respectively). Standout performers included Gold Fields (up 44.1%) AngloGold Ashanti (up 32.6%) and Impala Platinum (up 14.3%).

Industrials were up 2.6%. Heavyweights including MTN (up 20.5%), Richemont (up 14.2%) and Naspers (up 2.6%) contributed positively, while British American Tobacco (down 17.3%) detracted. Retailers were generally higher - Woolworths (up 5.2%), Mr. Price (up 4.7%) and Pick n Pay (up 3.9%). Hospitals (down 15.0%) and food producers (down 4.8%) underperformed.

Financials (up 5.4%) outperformed, with Absa, MMI, and FirstRand very strong (up 15.7%, 14.3% and 11.1% respectively). Listed property was generally strong (up 4.5%) with Intu Properties (down 32.9%) underperforming.

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 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 rates have risen from the record low levels of 2016, accompanied by tentative signs of wage led rising inflation (although yields in other developed markets are now back down to record lows). Recent trade tensions between the US and its key trading partners seem to have negatively impacted the global growth outlook and central banks are now poised to undertake pre-emptive easing measures in an attempt to avert material economic deterioration.

Fund performance and positioning

The fund aims to maintain a relatively high exposure to income earnings assets, consisting mainly of sukuks and high dividend yield equities.