Kagiso Islamic High Yield Fund

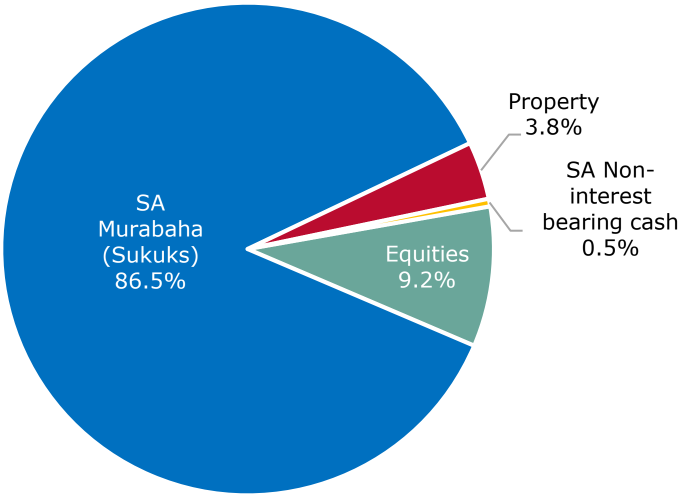
September 2019

Date of issue: 22 October 2019

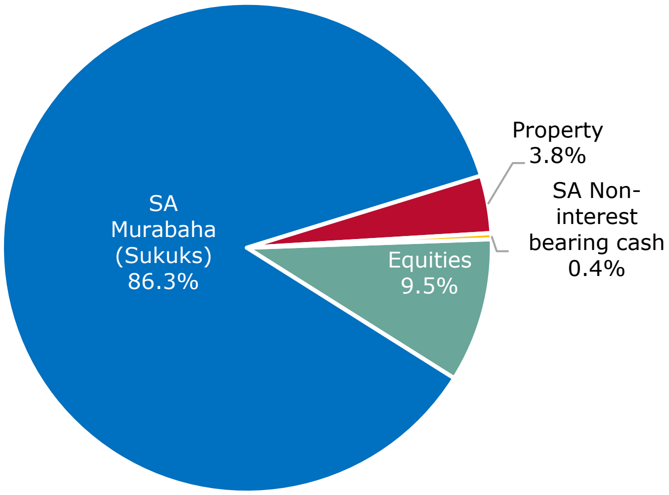
This fund aims to provide a high income yield and will typically have a strong bias towards yield assets such as sukuks and property, as well as dividend-paying equities. The underlying investments will comply with Sharia requirements as prescribed by the Accounting & Auditing Organisation for Islamic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

Asset allocation

Quarter ended September 2019



Quarter ended June 2019



Fund size R272.68 million
NAV 101.15 cpu
Number of participatory interests 269,561,002

Income distributions

30 June 2019	1.45 cpu
31 December 2018	N/A

Key indicators

Equity markets (total return)	Quarterly change
MSCI World Index (USD)	0.5%
MSCI Emerging Market Equity (US Dollar return)	-4.2%
FTSE Sharia All-World Index (US Dollar return)	-0.3%
Dow Jones Islamic Market World Index (US Dollar return)	0.6%
FTSE/JSE All Share Index	-4.6%
FTSE/JSE Resources Index	-7.3%
FTSE/JSE Industrials Index	-2.3%
Commodities and currency	**Quarterly change**
Platinum ($/oz)	5.8%
Gold ($/oz)	4.5%
Brent Crude ($/barrel)	-7.1%
Rand/US Dollar (USD)	7.4%

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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The fund is now over 6 months old and was up 3.0% since inception, underperforming its benchmark by -1.3%.

Economic backdrop

Global economic growth, though still healthy, has decelerated further from the high rates of recent years largely due to a continuing moderation in Chinese growth. Growth expectations have continued to retreat this quarter as business confidence has deteriorated with accelerating US protectionism, particularly in the global manufacturing sector (especially Europe and Japan). Consequently, key central banks have abruptly ended their tightening and begun loosening monetary policy and signaling more accommodation, should economic activity deteriorate. Trade activity continues to weaken due to the ongoing trade dispute between the US and China and this seems to be dampening business confidence.

US economic growth has been strong this year, but weaker manufacturing production (due to trade tensions) and the tapering off of fiscal stimulus support is now leading to a moderation back to trend. In Europe, manufacturing and export related activity is very weak, particularly in Germany, affected by slower Chinese growth and a contracting global automotive market. Japan's recent economic resilience is somewhat due to pre-emptive consumption ahead of 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 and as export growth is affected by trade tensions. Infrastructure investment and manufacturing related growth is most affected, although the economy is somewhat shielded by domestic stimulus.

Emerging market currencies were weaker this quarter as many countries continued along the path of aggressive rate cutting. India, Indonesia and Eastern Europe continue to outperform, but growth has eased in line with global growth. Indian growth in particular has been dampened by unexpected tax rises and a clampdown on the shadow banking sector. Previous laggards (South Africa, Russia and Turkey) have seen sequential growth off very low levels.

Locally, there was a moderate recovery in growth in the second quarter as the severe electricity-supply disruptions of the first quarter abated. Nevertheless, the South African economy continues to deliver a very weak performance, with persistently low business confidence, contracting fixed investment and lackluster consumption growth amidst a steadily deteriorating labour market. Continued progress in governance improvements (strengthening of corruption fighting institutions and improving corporate governance and senior leadership at SOCs) is being accompanied by frustratingly slow economic policy action in the face of a deteriorating fiscal position.

Market review

Global markets were only moderately higher in the last quarter in US dollars (up 0.7%) with the USA (up 1.7%) and Japan (up 2.8%) offsetting declines in France (down 1.4%), Germany (down 3.8%) and the UK (down 2.2%). Emerging markets (down 4.1% in dollar terms) were weak, particularly South Korea (down 4.8%), India (down 5.2%) and South Africa (down 12.4%).

In rand terms, the local equity market was negative this quarter (down 4.6%) with the resources sector (down 7.3%) underperforming. Diversified miners were weak, while gold and platinum miners were strong again (up 12.4% and 25.8% respectively). Standout performers included Northam Platinum (up 40.9%), Impala Platinum (up 36.6%) and Harmony Gold (up 36.4%).

Financials were down 6.8%, with Discovery (down 23.5%) and the banks (down 7.8%) being particularly weak. Listed property was also weak (down 4.5%), with Intu Properties (down 38.6%) the worst.

Industrials (down 2.1%) outperformed. Large companies, including MTN (down 8.0%) and Richemont (down 4.1%), underperformed, while British American Tobacco (up 13.7%) was strong.

For several years, extreme, unconventional monetary stimulus in the form of price agnostic asset purchases have 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 yields are moderately higher than 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 appear to have negatively impacted the global growth outlook and central banks are now undertaking 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.