Quarterly commentary

Camissa Balanced Fund

June 2023

Camissa Asset Management

The fund was up 2.5% in the second quarter, slightly behind competitor funds (up 3% on average). It has returned 14.1% pa over the last three years (competitors were up 11.3% pa on average) and delivered 9.2% pa since its inception in 2011 (0.8% pa on average ahead of competing funds).

Economic backdrop

Global economic activity has decelerated from higher post-lockdown rebound growth levels but is proving reasonably resilient in the face of very rapid monetary tightening.

US economic growth has moderated from higher levels due to headwinds from sharply rising interest rates, less buoyant residential investment and notably higher consumer inflation. Despite subdued business sentiment, business fixed investment growth has been positive. US consumers remain strong, despite their low measured confidence levels, given a surprisingly resilient labour market.

Europe's economy remains weaker, with persistently higher energy prices and low consumer and business confidence. While there have been some positive effects from the alleviation of global supply chain issues and reduced semiconductor lead times, the manufacturing and export sectors have not experienced the anticipated level of rebound given the weaker than expected economic recovery in China.

Japanese economic activity has been solid, with improving private consumption, business investment and continued export growth - all against a backdrop of an extremely loose monetary policy, a very weak yen and weak exports to China. Recent wage settlements in Japan, which continue to be higher than expected, may be a harbinger of structurally stronger domestic consumption and the first healthy price inflation for many decades.

The Chinese economy's recovery has fallen well short of expectations after the lifting of prolonged pandemic lockdowns. Although contact-intensive service industries are experiencing a robust rebound, the property market, manufacturing sector and export industries remain very weak. Near term growth prospects are still strong and could be boosted by government stimulus measures.

Economic growth in South Africa is severely constrained by an inadequate and acutely unstable electricity supply (at least for the next few years), underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities and chronically low business confidence. For these reasons, coupled with the very large government debt burden and a large and unskilled population with high unemployment, we remain pessimistic regarding the structural growth rate for the local economy. This is despite signs of some incremental government moves towards economic reforms. Additionally, the economic contribution from the mining sector benefiting from high commodity prices is now much weaker.

Markets review

Global markets were positive in the second quarter (up 7.0% in US dollars), with Japan (up 9.0%) and the US (up 8.7%) outperforming. Emerging markets were also positive in the period (up 1.0%), albeit weaker than developed markets, with outperformance from Brazil (up 22.2%) and India (up 12.4%). Turkey (down 10.6%), China (down 9.6%) and South Africa (down 4.7%) underperformed.

In rand terms, the local equity market was up 0.7% in the period. Financials outperformed (up 5.9%) with life insurers up 7.2%, banks up 5.8% and listed property up 0.7%. Reinet (up 14.2%), FirstRand (up 13.4%) and Remgro (up 10.0%) were particularly positive. Transaction Capital (down 54.3%), Growthpoint (down 5.8%) and Capitec (down 5.4%) underperformed.

Industrials were positive (up 3.7%), with Bytes (up 56.5%), Textainer (up 34.6%) and Richemont (up 13.1%) outperforming, while Spar (down 25.4%), MultiChoice (down 22.6%) and Tiger Brands (down 16.6%) underperformed.

Resources underperformed the other sectors (down 6.4%) driven by weak performances delivered by Implats (down 23.5%), Sibanye (down 20.8%), African Rainbow Minerals (down 13.7%) and Northam (down 13.3%). Gold Fields (up 10.4%), Glencore (up 8.7%) and Harmony (up 8.3%) outperformed.

South African bonds decreased by 1.5% in the quarter, underperforming cash (up 1.9%). Foreigners were buyers of South African government bonds in the period. Globally, bonds weakened amid increasing medium-term inflation expectations. South African bonds underperformed other emerging markets as local geopolitical developments reduced expectations for the economy’s prospects.

At their last meeting in May, the SARB increased the repo rate by 0.5%, bringing the rate up to 8.25%. Despite a relatively benign expected inflation trajectory, the SARB remained hawkish and focused on upside risks to inflation. South African government long bond yields remain very high despite a credible SARB’s extensive efforts towards countering inflation.

Fund performance and positioning

Positive performance from foreign equities was the main contributor to fund performance, while local equities and yield asset classes detracted. Within local equities the key negative contributors included Metair, Northam and Anglo Platinum. Particularly positive contributors in the second quarter were MTN, Sanlam, and FirstRand.

Global equity contributed positively to performance and key contributors included Panasonic, Philips and Netflix. JD.Com, Walt Disney and SKF contributed negatively.

- We see a high level of upside in a diversified set of opportunities within our portfolio of local and global equities.
- We have high exposure to long duration South African government bonds due to the very high real yields on offer

Our portfolios currently have high exposure to Prosus, certain PGM miners, Anglo American, Datatec, Sanlam, MTN and a diverse range of other mispriced stocks including Exxaro.

Exxaro is low-cost producer of high-quality thermal coal and is one the largest suppliers of coal to Eskom through long-term agreements, that ensure earnings stability for the company. Its flagship mine, Grootegeluk, is one of the lowest cost coal mines in the world. As capital markets incentivise low carbon energy investment, coal supply is set to decline while demand should be stable, which should be positive for coal prices. With a 20% shareholding in SIOC, Kumba Iron Ore's operating subsidiary, Exxaro is also exposed to the high-quality iron ore market. Additionally, the company has invested in renewable energy production assets. Given its significant cash generating ability we believe Exxaro is very undervalued.