Quarterly commentary

Camissa Balanced Fund

September 2023

The fund was down 3.7% in the third quarter, underperforming competitor funds (down 1.5% on average). It has returned 12.0% pa over the last three years (well ahead of competitors - up 10.2% pa on average) and delivered 8.6% pa since its inception in 2011 (0.6% pa on average ahead of competing funds).

Economic backdrop

Global economic activity has decelerated but is proving reasonably resilient in the face of very rapid monetary tightening. The US economy is demonstrating surprising strength, with a relatively resilient consumer underpinned by a strong labour market with very low unemployment.

Europe's economy, which has been slow given China's weak economic recovery, should benefit from improving consumer real disposable income due to firm wages and sharply falling inflation. Notwithstanding an extremely loose monetary policy, a very weak yen and weak exports to China, Japanese economic activity has been solid. Japan has improving private consumption and business investment, as well as continued export growth.

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 rebound, the property market, manufacturing sector and export industries remain very weak. Near term growth prospects are strong however and should be boosted by government stimulus measures.

Economic activity in South Africa is severely constrained by an inadequate and acutely unstable electricity supply, the underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities and chronically low business confidence. Additionally, the economic contribution from the mining sector that has benefitted from high commodity prices, is now far weaker. For these reasons, coupled with the sizable government debt burden and a large, unskilled population with high unemployment, we remain pessimistic regarding the structural growth rate for the local economy. Gradual steps taken by government toward economic reforms (now involving more productive private sector partnerships) are vital to stabilise the economy and prevent further decline.

Markets review

Global markets were negative in the third quarter (down 3.4% in US dollars), with Germany (down 7.7%) and Japan (down 6.6%) underperforming. Emerging markets were also weak in the period (down 2.8%), albeit stronger than developed markets, with outperformance from Turkey (up 32.8%) and India (up 2.9%). South Korea (down 6.2%), Brazil (down 5.0%) and South Africa (down 4.4%), however, underperformed.

In rand terms, the local equity market was down 3.5% in the period. Financials outperformed (up 2.0%) with life insurers up 3.9%, banks up 1.6% and listed property down 1.0%. OUTsurance (up 25.8%), Sanlam (up 12.5%) and Capitec (up 9.5%) were particularly positive. Growthpoint (down 9.5%), Nedbank (down 7.7%), FirstRand (down 6.8%) and Discovery (down 6.0%) underperformed.

Resources were negative (down 5.2%), with Anglogold (down 23.2%), Gold Fields (down 20.4%), Implats (down 19.8%) and Anglo Platinum (down 15.6%) underperforming. Thungela (up 24.8%), Sasol (up 16.7%) and Exxaro (up 12.0%) outperformed.

Industrials underperformed the other sectors (down 6.7%) driven by weak performances delivered by Richemont (down 25.5%), MultiChoice (down 22.5%) and MTN (down 18.3%). Truworths (up 39.6%), Sappi (up 12.9%), Mondi (up 11.4%) and Spar (up 10.7%) outperformed.

South African bonds decreased by 0.3% in the quarter, underperforming cash (up 2.1%). Foreigners were sellers of South African government bonds in the period. Globally, bonds weakened amid increasing medium-term interest rate expectations. South African bonds outperformed comparative emerging market bonds in the quarter.

At their last meeting in September, the SARB kept the repo rate unchanged at 8.25%. Despite a relatively benign expected inflation trajectory, the SARB rhetoric remained hawkish and focused on upside risks to inflation from a weaker currency and higher energy prices. South African government long bond yields remain very high in the context of well-contained inflation.

Fund performance and positioning

Negative performance was delivered from both equities and bonds in the third quarter. Within local equities the key negative contributors included Prosus/Naspers, MTN, Amplats and Metair. Sanlam, Curro, and Exxaro in particular, contributed positively.

Global equity contributed negatively to performance, with Prudential, Bayer and Siemens Energy as key detractors. Aroundtown, the Japanese banks and Sekisui contributed positively.

- 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, Datatec, Sanlam, MTN and certain PGM miners, including Amplats.

Anglo Platinum (Amplats) is one of the world's lowest cost platinum group metal (PGM) miners, due to the bulk of its production coming from its sizable Mogalakwena open-pit mine. It has an extensive high-grade reserve base that makes it the largest global producer, with valuable optionality for growth if PGM prices allow. Mogalakwena's output is uniquely exposed to high nickel and copper content, which are commodities that have a robust demand outlook given their usage in technologies required for growing decarbonization applications.

Amplats also has valuable PGM processing facilities, which enable it to beneficiate its own mines' production and monetise its excess capacity through performing processing for other miners. It can therefore benefit from other miners' investment in production growth, without further capital expenditure of its own. Processing capacity is a barrier to entry for new PGM production as it is prohibitively expensive to build. We expect an environment where PGM demand remains steady and where supply is severely constrained due to a decade of underinvestment and a shortage of processing capacity. In this context, Amplats's low-cost mines and valuable processing facilities are very undervalued at present.

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