Camissa Core Equity Fund

December 2024

The fund was down -1.9% this quarter, outperforming the FTSE/JSE Capped SWIX Index (-2.1%). The fund returned 12.8% during 2024 and 6.2% pa over the last three years, behind the benchmark (8.5% pa), and 7.1% since inception in 2006, slightly underperforming the benchmark (7.6%).

Economic backdrop

Global economic activity remains firm, but somewhat uneven. Financial conditions have gradually eased and developed market real household income continues to grow due to falling inflation, resilient employment and firm wages, whilst manufacturing activity has been weak and faces the risk of increased protectionism. The US economy is outperforming, with strong labour market, meaningful increases in aggregate household wealth and increasing business confidence and investment.

China's economic growth has been weak in nominal terms given ongoing deflation. The very weak property market has meaningfully dampened consumer confidence, contributing to disappointing consumption growth. Policymakers are responding with more aggressive monetary and fiscal stimulus and structural interventions that may improve near-term economic activity.

Europe’s economy has been stagnating given its export link to China’s weak economy, scarring from the energy crisis and the eroding competitiveness of its automotive and chemical sectors. It should benefit from any rebound in global manufacturing activity from low levels. Japan is maintaining solid economic activity, driven by rising private consumption, strong wage growth and enhanced business profitability and investment. Additionally, a healthy increase in long-term inflation expectations is supporting the normalisation of monetary policy.

Current South African economic activity is being somewhat boosted by a mild cyclical recovery in real consumption as consumers benefit from declining inflation and interest rates, together with recent once-off cash withdrawals from the two-pot retirement dispensation. Nevertheless, economic activity is constrained by acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence.

Following the election and the formation of the Government of National Unity, there have been positive leadership changes in key ministries and a commitment to attempting to address the country’s structural problems. Consequently, following the dramatic economic decline of the last 15 years, there is room for optimism that the economy may stabilise and the country may potentially be setting on a more constructive path. Yet, given the deep structural issues in the economy - most notably the sizable government debt burden and a large, unskilled population with high unemployment levels - we believe that a modestly higher growth trajectory will take an extended period of time to engineer and this path is beset with risks.

Markets review

Global markets were slightly negative in the fourth quarter (down 0.1% in US dollars), with France (down 10.1%), the UK (down 6.8%), Hong Kong (down 4.9%) and Japan (down 4.1%) underperforming. Emerging markets were also negative, down 7.8% for the period, with underperformance from Brazil (down 19.7%), South Korea (down 17.7%), India (down 10.6%) and China (down 7.7%). Overall, however, 2024 was a very positive year for global equity markets, that were up 19.2%.

In rand terms, the local equity market was down 2.1% for the fourth quarter. Resources were down 10.1%, underperforming the other sectors. Sasol (down 28.2%), Kumba (down 18.6%) and Sibanye (down 16.1%) all underperformed, while Thungela outperformed (up 21.8%).

Financials were down 1.8% in the quarter, with banks down 3%, listed property down 0.8% and life insurers up 2.8%. Outsurance (up 17.2%), Quilter (up 15.8%) and Discovery (up 14.3%) outperformed, while Ninety One (down 12.3%), Hammerson (down 9.2%) and Standard Bank (down 8.5%) underperformed in the sector.

Industrials were only slightly negative (down 0.5%), with particularly robust performances from Tiger Brands (up 24%), Pepkor (up 20.2%) and Mr Price (up 10.4%). Conversely, AB InBev (down 17.8%), Bytes (16.6%) and Aspen (down 15.5%) underperformed.

The local market was positive for the year (up 13.4%). Financials were up 21.6%, industrials were up 17.3% and Resources were down 7.2%

Fund performance and positioning

Positive contributors this quarter were our overweight positions in Brait, Datatec, Omnia, Quilter and Richemont as well as our underweight positions in Impala Platinum, Harmony Gold, Sibanye Stillwater, Bidvest and Bidcorp. On an annual basis, Impala Platinum, Prosus/Naspers, Altron and Quilter also contributed positively.

Key detractors were our overweight positions in Sasol, Northam Platinum, Metair, Glencore and Anglo American, as well as underweight positions in Discovery, Tiger Brands, Mr Price, Capitec and Foschini. On an annual basis, overweight positions in Metair and Glencore also detracted.

Stock snapshot

Brait is an investment holding company comprising two key investments: Premier Foods and Virgin Active. Premier is one of South Africa's largest food producers, focused mainly on milling and baking, through the ubiquitous Blue Label (bread), Snowflake (flour) and Iwisa (maize) brands. Since 2011, Premier has invested over R6 billion into upgrading its bakeries, resulting in greater operating efficiency (higher operating profit margins) and improved bread quality (commanding higher prices to consumers). The benefits here have become apparent in recent years as Premier has gained market share in the highly competitive bread market, delivering very robust profit growth and good cash flow generation for shareholders.

Virgin Active is well positioned as a premium fitness club operator in a growing industry, with strong market shares in South Africa, Italy, UK, Australia and Southeast Asia. While the group was severely impacted by the COVID pandemic, cash operating profit is expected to recover to pre-COVID levels in 2025. New management have sharpened the strategy - focusing on repositioning gyms as social wellness destinations, increasing customer engagement (including significant digital investment) and investing in the gym estate. This strategy has started to pay off and we foresee strong growth ahead.

Brait management have bolstered central liquidity through the listing of Premier in March 2023 and a R1.5 billion rights issue in August 2024. This has allowed the business to repay some of its central debt and granted sufficient time for Virgin Active to fully recover and thus for shareholders to realise full value for Brait's underlying investments, without the need for any distressed asset sales. We believe the current share price undervalues its prospects and that it offers the potential for outsized future shareholder returns as Brait's value-unlock strategy unfolds.