Camissa Global Equity Feeder Fund

June 2022

Camissa Asset Management

The fund was down 9.5% in the second quarter, underperforming its benchmark of FTSE World Index (down 6.8%). The fund has underperformed its benchmark since inception, down 0.03% (versus the benchmark up 9.5%).

Economic backdrop

US economic activity is now well ahead of pre-COVID levels despite strong headwinds from sharply waning fiscal stimulus, much higher consumer inflation and rising short-term interest rates. Consumer resilience is very much evident, stemming from robust labour markets, the buffer from accumulated savings from lockdown periods and higher wealth levels stemming from high house prices and equity markets. Nevertheless consumer confidence has been declining due to the above headwinds.

Europe's economy, while performing reasonably, has been weakening at a time of higher inflation due to energy prices spiking and consumer confidence weakening. The war in Ukraine is impacting directly given its proximity to Europe, but also indirectly via the sanctions on Russia raising energy and agricultural product prices.

In contrast, Chinese economic activity is recovering from a self-enforced slowdown due to targeted urban COVID-19 lockdowns, aided by increased fiscal and monetary stimulus. Property market activity is starting to benefit from some policy easing. Chinese government interventions in many areas of the economy - aligned with longer-term planning (and congruent with sustainably high longer-term growth) - are proving disruptive in the short term. These interventions are targeting more inclusive and less financially risky growth, increased corporate competition in industries where firms are particularly dominant, carbon emission reduction and technological independence.

Similarly, Japanese economic activity is recovering due to the complete lifting of COVID restrictions and continued strong export activity.

The outlook for other emerging economies differs widely, with varied exposures to global supply chain bottlenecks, high energy and agricultural prices, strong mining commodity prices and a moribund tourism industry. In particular, some poorer economies are facing extremely high current food and energy inflation, which is already leading to much increased socio-economic instability risks.

Although South African economic growth has rebounded (slightly faster than expected), the local economy will likely continue to produce low expansion from here, despite continued strength in the primary sectors (mining and agriculture). South Africa continues to battle with excessively high unemployment and a large unskilled population, which increases social instability risks - particularly in the face of rising food and transport prices. Growth continues to be hampered by acutely unstable and inadequate electricity supply, underperformance of key transport infrastructure, weakened and revenue-hungry municipalities and chronically low business confidence. For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy. Additionally, there is a risk that lower future commodity prices (particularly platinum group metals, iron ore and coal) will result in an even weaker outlook.

Market review

Global markets were very weak in the second quarter (down 16.1% in US dollars), with the Hong Kong (up 0.7%) outperforming and Germany and the USA (both down 16.1%) underperforming. Emerging markets were also weak in the quarter (down 11.3%): Brazil (down 25.7%), South Africa (down 22.9%) and South Korea (down 20.8%) underperformed, while China (up 3.5%) outperformed.

Fund performance and positioning

The fund underperformed the benchmark this quarter mainly due to weak performances from our Industrial, Health Care and Real Estate holdings. Notable positive contributors in the quarter were JD.com, Microsoft, Ontex and Amazon. Disappointing share price performances from Aroundtown, Siemens, Siemens Energy, Philips and DuPont were the main detractors in the quarter.

The fund has maintained underweight positions in the Communication Services, Consumer Discretionary, Information Technology, Energy, Financials and Utilities sectors. The fund continues to have significant overweight exposure to the Industrial (SKF, Bodycote, Siemens, Timken and Siemens Energy), Health Care (Zimmer, Boston Scientific, Philips, Bayer), Materials (DuPont, Evonik and Johnson Matthey) and Real Estate (Aroundtown, Unibail-Rodamco-Westfield, Grand City) sectors.

Our fund is mainly positioned in companies listed in developed markets, with exposure to a broad range of diversified sectors. Some examples of the global structural themes underpinning some of our holdings include an ageing population (pharmaceuticals, financial services, medical devices), tomorrow's workforce (automation and robotics), future mobility (energy storage, components and consumables), food security (crop protection, fertilisers, seeds and aquaculture) and green energy transition (wind and hydrogen power).

We have maintained our positioning in Health Care and high-quality cyclical companies as we believe that share price levels are very low relative to their long-term prospects and they should provide very attractive forward-looking returns.

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