Quarterly commentary

Camissa Global Equity Feeder Fund

September 2022

The fund was down 4.4% in the third quarter, underperforming its benchmark of FTSE World Index (up 4.0%). The fund has underperformed its benchmark since inception, down 1.6% (versus the benchmark up 10.1%).

Economic backdrop

The level of US economic activity remains healthy despite strong headwinds from sharply rising interest rates, waning fiscal stimulus, notably higher consumer inflation and concerning geopolitical tensions. The US labour market has been resilient thus far and household balance sheets remain robust, although consumer confidence has declined. The US dollar has strengthened considerably this year as the Federal Reserve Bank has lead globally with interest rate hikes to tackle high inflation.

Europe's economy has been weakening, with higher inflation (exacerbated by a weakening currency), spiking energy prices and very low consumer confidence. The war in Ukraine continues to impact directly given its proximity to Europe, but also indirectly via the sanctions on Russia raising energy and agricultural product prices.

Japanese economic activity has seen solid recent recovery due to the complete lifting of COVID restrictions (improving business sentiment and private consumption) and continued strong export activity - all against a backdrop of an extremely loose monetary policy and very weak yen.

Chinese economic activity has been very slow to recover as the self-enforced slowdown resulting from targeted urban pandemic lockdowns has extended, aided by increased fiscal and monetary stimulus. Property market activity, while still very weak, is slowly benefitting 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.

The outlook for other emerging economies differs widely, with varied exposures to high commodity prices (energy, metals and agricultural prices) and persistently weak tourism activity. Some poorer economies in particular are facing extremely high food and energy inflation, which is leading to increased socio-economic and fiscal instability.

Market review

Global markets were weak in the third quarter (down 6.1% in US dollars), with the Hang Seng (down 20.2%) and Germany (down 11.5%) underperforming. Emerging markets were also weak in the quarter (down 11.4%), with underperformance from China (down 22.4%), South Korea (down 17.9%) and South Africa (down 12.0%), while Turkey (up 16.3%) and India (up 6.8%) outperformed.

Fund performance and positioning

The fund's underperformance relative to the benchmark over the period was mainly due to negative contributions from our Consumer Discretionary, Health Care and Industrial holdings. Our Information Technology and Communication Services holdings added positively to relative performance.

Notable positive contributors in the quarter were Netflix, Timken, Boston Scientific and Keysight. Associated British Foods, Aroundtown, Siemens Energy, Philips and Bayer were the main detractors in the quarter.

The fund has maintained underweight positions in the Communication Services, Information Technology, Consumer Staples, 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) sectors. The fund has increased its exposure to Consumer Discretionary sector in the quarter and is now overweight relative to the benchmark.

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 and increased our Consumer Discretionary exposure 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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