Quarterly commentary

Camissa Global Equity Feeder Fund

March 2023

Camissa Asset Management

The fund was up 14.0% in the first quarter of 2023, outperforming its benchmark of FTSE World Index (up 12.1%). The fund underperformed its benchmark over the past year, up 11.0% (versus the benchmark up 13.0%).

Economic backdrop

US economic growth is moderating from healthy levels due to headwinds from sharply rising interest rates, waning fiscal stimulus, less buoyant residential investment, notably higher consumer inflation and subdued business sentiment given geopolitical concerns. The US labour market remains resilient with household balance sheets robust, although consumer confidence is low.

Europe's economy is weak, with high inflation (although down significantly from the peak, European energy prices are still very elevated) and low consumer confidence. Although the war in Ukraine continues to impact, success in reducing gas consumption, securing alternative energy sources and warm winter weather has helped to prevent a deeper contraction. Manufacturing and exports, particularly German automotive production, are benefiting from easing global supply chain frictions and production recovery in the semi-conductor sector.

Recent banking sector stress in the USA (caused by grossly inadequate balance sheet management within regional banks) and Europe (following the collapse of Credit Suisse, due to years of large and costly investment banking mishaps) appears to have been contained, however a potential tightening in bank lending conditions may negatively affect economic activity.

Japanese economic activity has seen solid recovery following the 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. Recent wage settlements in Japan, which have been consistently higher than expected, may be a harbinger of structurally stronger domestic consumption. As with Germany, Japanese manufacturing and exports are benefiting from easing global supply chain frictions and reduced semi-conductor lead times.

Chinese economic activity, particularly consumption, is recovering strongly from the self-enforced slowdown caused by prolonged urban pandemic lockdowns and is being aided by more accommodative financial conditions. While still weak, property market activity may be stabilizing following policy easing. Chinese government policy has shifted towards prioritising economic growth after the economy, in 2022, marked the lowest annual growth rate since the 1970's.

The outlook for other developing economies differs widely, with varied exposures to volatile and generally (still) high commodity prices (energy, metals and agricultural), recovering tourism activity and the re-opening of Chinese borders. Some poorer economies are facing extremely high food and energy inflation, which is leading to increased socio-economic and fiscal instability.

After a moderate economic rebound from the COVID lows of 2021, the outlook for the South African economy has weakened due to sharply worsening electricity and transport logistics constraints. This is despite continued strength in the primary sectors (mining and agriculture). With a large and unskilled population, South Africa continues to grapple with excessively high unemployment levels. This exacerbates social instability, particularly in the face of currently rising food and transport prices.

Growth is also severely constrained by an inadequate and acutely unstable electricity supply, 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, we remain pessimistic regarding the structural growth rate for the local economy, despite signs of some incremental government moves towards economic reforms. Additionally, there is a risk that lower future export commodity prices (particularly platinum group metals, iron ore and coal) will result in even weaker prospects.

Markets review

Global markets were positive in the first quarter (up 7.9% in US dollars), with France (up 15.1%) and Germany (up 13.9%) outperforming. Emerging markets were also positive in the period (up 4.0%), albeit weaker than developed markets, with outperformance from South Korea (up 7.2%) and China (up 4.7%). Turkey (down 9.2%), India (down 6.3%) and Brazil (down 4.6%), however, underperformed.

Fund performance and positioning

The underlying fund's outperformance relative to the benchmark over the first quarter of 2023 was mainly due to positive contributions from our Industrials, Health Care and Consumer Staples holdings. Our Real Estate holdings and our significant underweight position in the Information Technology sector (which had a strong quarter) were the main detractors in the quarter.

Notable positive contributors in the quarter were SKF, Associated British Foods and Siemens. Aroundtown, JD.com and Mitsubishi UFJ Financial were the main detractors in the quarter.

The fund has maintained underweight positions in the Consumer Staples, Energy, Consumer Staples, Financials, Information Technology and Utilities sectors. The fund continues to have significant overweight exposure to the Industrial (SKF, Bodycote, Siemens, Timken, Siemens Energy), Consumer Discretionary (Adidas, Amazon, Panasonic, Sekisui Chemical, Sonos), Materials (DuPont, Evonik and Johnson Matthey) and Health Care (Zimmer, Boston Scientific, Philips, Bayer) 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 overweight positioning in Health Care, Consumer Discretionary 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.