Quarterly commentary

Camissa Islamic Balanced Fund

September 2023

The fund was down 1.0% in the third quarter, outperforming the competitor group average (down 1.5%). It is up 12.1% over the last three years, ahead of the peer group average (up 10.2% pa). Since its inception in 2011, the fund has returned 7.6% pa.

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.

Fund performance and positioning

A negative performance from global and local equities combined with a positive contribution from Sukuks, were the key factors underpinning performance in the quarter.

Negative contributors included MTN, Anglo Platinum, African Ranbow Minerals and Metair. The key positive contributors included Sasol, Mondi, PPC, Exxaro and Curro.

Global equity contributed negatively to performance, with key negative contributors including Albermarle, Bayer, Siemens Energy and JD.Com. Inpex, Shell, Micron Technology, Hochtief and Nutrien all contributed positively.

Our portfolios currently have high exposure to PGM miners, Datatec and MTN and a diverse range of other mispriced stocks, including an array of deeply discounted local mid-cap stocks.

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.