Quarterly commentary

Camissa Islamic Balanced Fund

March 2024

The fund was down 1.6% in the first quarter, underperforming competitor funds (up 1.6% on average). It has returned 5.6% pa over the last three years (competitors were up 8.3% pa on average). Since its inception in 2011, the fund has delivered 7.5% pa versus competitors who were up 8.4% pa on average.

Economic backdrop

Global economic activity remains firm, benefiting from easing financial conditions and strong developed market real household income growth due to sharply falling inflation and higher wages. The US economy, in particular, is demonstrating strength, with relatively strong consumption underpinned by a robust labour market, healthy immigration and high aggregate household wealth.

Europe's economy, which has stagnated given its link to China's weak economic recovery, should benefit meaningfully from a rebound in global manufacturing activity from low levels, lower gas prices and increased government investment (particularly in the South). Japan is sustaining solid economic activity, with increasing private consumption due partly to high wage growth and improving business investment. The very weak currency is also aiding exports and inbound tourism.

Following a very weak post-Covid reopening recovery, Chinese economic growth is very slowly accelerating, but is weak in nominal terms due to persistent deflation. Property market activity has been considerably weak for a sustained period and has depressed consumer confidence. Nonetheless, there is an improvement in exports, manufacturing and infrastructure spending.

Economic activity in South Africa is severely constrained by inadequate electricity supply, acute 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 lower. For these reasons, coupled with the sizable government debt burden and a large, unskilled population with high unemployment levels - we remain pessimistic regarding the structural growth rate for the local economy. Gradual steps by government toward economic reform (now involving more productive private sector partnerships) need to hasten to stabilise the economy and prevent further decline.

Markets review

Global markets were strongly positive in the first quarter (up 9.0% in US dollars), with Japan (up 13.1%) and the US (up 10.6%) outperforming. Emerging markets were also positive in the period (up 2.4%), with outperformance from Turkey (up 14.6%), India (up 6.1%) and South Korea (up 0.7%). South Africa (down 6.7%) and Brazil (down 7.5%), however, underperformed.

In rand terms, the local equity market was down 2.3% in the period. Industrials outperformed (up 0.9%), driven by robust performances by Multichoice (up 40.2%) and Sappi (up 20.1%). Other standout positive performers included Richemont (up 12.5%), AVI (up 11.3%) and Mr Price (up 10.8%). Weak performances were delivered by Spar (down 25%), MTN (down 18.8%) and Woolworths (down 15.9%).

Resources were also positive (up 0.8%), with outperformance from Harmony (up 32.1%), Anglogold (up 20.6%) and Gold Fields (up 10.9%). Kumba (down 20.9%), Thungela (down 20.8%) and Sasol (down 19.9%) underperformed.

Financials underperformed the other sectors (down 7.1%), with listed property up 3.9%, banks down 7% and life insurers down 9%. NEPI Rockcastle (up 7.7%) and Santam (up 7.1%) outperformed, while Remgro (down 24.8%), Discovery (down 16%) and FirstRand (down 13.3%) underperformed.

Fund performance and positioning

A negative performance from local equities was the main factor underpinning performance in the fourth quarter. The key negative contributors included MTN, our PGM holdings (Northam Platinum and Anglo Platinum), PPC, Omnia and Sasol. Positive contributors included Mr Price Group, Rhodes, Bowler Metcalf and Aspen.

Global equity contributed positively to performance, with key performances from Siemens Energy, Micron, Bodycote, Hitachi and Linde. Bayer, Koninklijke Philips, Johnson Electric, Continental and Albermarle all detracted.

Currently, our portfolios have high exposure to PGM miners, Datatec, MTN and a diverse range of mid-cap stocks including Omnia. We also hold a position in Sea Harvest.

Sea Harvest was established in 1964 and has a portfolio of South African and Australian fishing businesses. Within its South African fishing operation (nearly 50% of revenue and over 80% of group profit), Sea Harvest catches, processes and sells Cape Hake to the local and export markets. Demand for wild-caught seafood remains strong while global supply has stagnated, resulting in good long-term pricing power. Sea Harvest has access to a sought-after source of wild-caught protein and has invested significantly in its fishing fleet and processing facilities to improve efficiency and profitability.

The past few years have seen a perfect storm of much higher costs (freight, fuel, packaging and load shedding), poor weather conditions and decade-low catch rates. This has meant a significant cyclical reduction in SA fishing earnings, despite strong demand and pricing. With more normal fishing conditions and continued good price increases, we expect a strong recovery in the coming years. The current share price is very low relative to near-term cash flow expectations from Sea Harvest, with a very low rating being applied to cyclically low earnings.