Quarterly commentary

Camissa Islamic Balanced Fund
June 2024

The fund was up 1.9% in the second quarter, underperforming competitor funds (up 3.8% on average). It has returned 6.1% pa over the last three years (competitors were up 9.0% pa on average). Since its inception in 2011, the fund has delivered 7.5% pa versus competitors, up 8.5% pa on average.

Economic backdrop

Global economic activity remains firm, benefiting from gradually easing financial conditions and strong developed market real household income growth due to falling inflation and higher wages. The US economy is demonstrating resilience, 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 export link to China's weak economic recovery, should benefit meaningfully from an eventual rebound in global manufacturing activity from low levels, lower gas prices and increased government investment (particularly in the south). Japan is maintaining solid economic activity, with improving business investment and increasing private consumption amidst high wage growth. The very weak yen is aiding exports and inbound tourism.

Following a very slow post-COVID reopening recovery, Chinese economic growth is gradually 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 acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit stabilising) electricity supply and chronically low business confidence. Following the election and the formation of the government of national unity, there have been positive leadership changes in key ministries and a commitment to the constitution and to addressing the country's structural problems. Consequently, there is optimism that, after the dramatic economic decline of the last 15 years, the economy may stabilise and the country may potentially be setting on a more constructive path. Nevertheless, given the deep structural issues in the economy - most notably the sizable government debt burden and a large, unskilled population with high unemployment levels - we believe that any meaningful recovery will take an extended period of time and is beset with risks.

Markets review

Global markets were positive in the second quarter (up 2.8% in US dollars), with Hong Kong (up 9.2%) and the US (up 4.3%) outperforming. Emerging markets were also positive in the period (up 5.1%), with outperformance from Turkey (up 21.6%), South Africa (up 12.5%) and India (up 10.4%).

In rand terms, the local equity market was up 8.2% in the period. Financials outperformed the other sectors (up 17.1%), with banks up 20.0%, life insurers up 17.6% and listed property up 5.5%. Capitec (up 27.0%), FirstRand (up 24.6%) and Sanlam (up 22.4%) all outperformed, while Hammerson (down 6.2%), Ninety One (down 5.9%) and Sirius (down 4.5%) underperformed.

Industrials were also positive (up 4.8%), with particularly robust performances from Spar (up 33.8%) and Foschini (up 28.1%). BidCorp (down 8.0%), AB InBev (down 6.6%) and Multichoice (down 6.2%) underperformed.

Resources underperformed the other sectors (up 3.4%). African Rainbow Minerals (up 41.7%) and Anglo American (up 23.9%) outperformed, while Amplats (down 21.7%), Gold Fields (down 10.0%) and Sibanye (down 9.1%) underperformed.

Fund performance and positioning

A negative performance from global equities was the main factor underpinning performance in the second quarter. The key negative contributors included Anglo Platinum, MTN, Metair, Glencore and PPC. Positive contributors included Anglo American, Omnia, Mr Price Group and Northam Platinum.

Global equity contributed negatively to performance, with the key detractors being Albermarle, Continental, Panasonic, Medtronic and Johnson Matthey. Siemens Energy, Koninklijke Philips, Evonik, Shell and Johnson Electric all contributed positively.

Currently, our portfolios have high exposure to PGM miners, Datatec and MTN together with a diverse range of other mispriced stocks, including an array of deeply discounted local mid-cap stocks. We also hold a position in PPC.

The South African cement industry has been challenged by subdued market demand over the last decade. Government infrastructure spend has been very low and the negative economic and political environment has disincentivised private sector capital investment. Subdued demand has been compounded by the entrance of additional supply from new competitors and poor pricing discipline by the industry. Further, inadequate regulatory enforcement has allowed unscrupulous blenders to produce cement that fails to meet quality standards, undercutting the price from vertically-integrated manufacturers. These factors have eroded margins, delivering sub-economic returns for the industry. PPC has adapted to these challenges to remain cash generative. It has also exited territories where it had inadequate scale and thereby significantly deleveraged their balance sheet.

The recent appointment of a new executive team, with a strong operational track record, should be positive for prospects. There is scope to correct practices that leak economic value, particularly via cutting costs and a renewed distribution strategy. PPC retains a market-leading position in Zimbabwe, where operations have delivered a commendable performance over the last few years despite environmental challenges.

A notable competitive advantage for PPC is their operational flexibility. Although demand is unlikely to change materially in the short term, they are better positioned then competitors to respond to potentially improved demand dynamics, with the option to restart mothballed operations with negligible capital investment expenditure. We view PPC as attractively valued, with significant upside optionality should conditions improve.

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