Quarterly commentary

Camissa Islamic Equity Fund
March 2023

Camissa Asset Management

The fund was up 0.8% in the first quarter, underperforming the peer group average (up 2.4%). It is up 22.2% over the last three years, ahead of the competitor group average (up 21.1% pa). Since its inception in 2009, the fund has returned 11.0% pa.

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.

In rand terms, the local equity market was up 5.2% in the period. Industrials outperformed (up 14.5%) with Aspen (up 34.4%), Richemont (up 27.0%) and Spar (up 24.1%) particularly positive. Pick 'n Pay (down 25.6%), Pepkor (down 11.0%) and Dis-Chem (down 9.8%) underperformed.

Financials were marginally positive (up 0.4%), with life insurers up 13.3%, banks down 2.3% and listed property down 5.1%. Sanlam (up 15.7%), Hammerson (up 15.6%) and Santam (up 14.4%) outperformed, while Transaction Capital (down 61.5%), Redefine (down 13.9%) and Resilient (down 13.3%) underperformed.

Resources underperformed the other sectors (down 4.3%) driven by weak performances delivered by Amplats (down 30.7%), Thungela (down 29.5%), Northam (down 22.7%) and Implats (down 21.2%). Gold Fields (up 37.1%), Anglogold (up 32.0%) and Harmony (up 24.5%) outperformed.

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Fund performance and positioning

Key positive contributors within local equities in the quarter included our global equities, Datatec, Aspen, PPC and South 32. Northam Platinum, Anglo Platinum, Rhodes Food Group, Omnia and KAP all detracted.

Global equity contributors included Hochtief, Bayer, SKF, Siemens Energy and Micron Technology. Pfizer, Johnson Electric Holdings, Roche Holdings and Merk & Co all detracted.

Our portfolios currently have high exposure to certain PGM miners, Anglo American, Datatec, Sanlam, MTN and a diverse range of other mispriced stocks including an array of deeply discounted local stocks such as Pepkor.

Pepkor has the largest retail store footprint in southern Africa, with over 5800 stores across 10 African countries and Brazil. Their key Pep and Ackermans chains dominate the schoolwear and kidswear markets respectively in South Africa, with their massive scale enabling them to procure merchandise at a lower cost per unit versus competitors. We believe these highly cash-generative businesses, with their focus on offering basic items at low price points, will show resilience and continue to gain market share as consumers face financial strain. Additionally, Pepkor has successfully leveraged their expansive store network to become the largest vendor of cellphones in the country. For each SIM card they register on behalf of a mobile network, they receive a percentage of the value of credit loaded onto that SIM card throughout its lifetime, delivering a substantial stream of recurring cash flow for the group. As smartphone penetration rates continue to rise, we see Pepkor as well poised to benefit from the associated rise in mobile spend on data. We view Pepkor as undervalued given the strength of the business model and growth prospects.

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