Camissa Islamic High Yield Fund

December 2024

The fund was up 3.1% in the fourth quarter, ahead of the competitor group average (up 2.0%). During 2024, the fund returned 12.2%, outperforming the benchmark (up 8.5%). It is up 8.2% over the last three years, outperforming its benchmark (up 7.2% pa). Since its inception in 2019, the fund has returned 8.0% pa.

Economic backdrop

Global economic activity remains firm, but somewhat uneven. Financial conditions have gradually eased and developed market real household income continues to grow due to falling inflation, resilient employment and firm wages, whilst manufacturing activity has been weak and faces the risk of increased protectionism. The US economy is outperforming, with strong labour market, meaningful increases in aggregate household wealth and increasing business confidence and investment.

China's economic growth has been weak in nominal terms given ongoing deflation. The very weak property market has meaningfully dampened consumer confidence, contributing to disappointing consumption growth. Policymakers are responding with more aggressive monetary and fiscal stimulus and structural interventions that may improve near-term economic activity.

Europe’s economy has been stagnating given its export link to China’s weak economy, scarring from the energy crisis and the eroding competitiveness of its automotive and chemical sectors. It should benefit from any rebound in global manufacturing activity from low levels. Japan is maintaining solid economic activity, driven by rising private consumption, strong wage growth and enhanced business profitability and investment. Additionally, a healthy increase in long-term inflation expectations is supporting the normalisation of monetary policy.

Current South African economic activity is being somewhat boosted by a mild cyclical recovery in real consumption as consumers benefit from declining inflation and interest rates, together with recent once-off cash withdrawals from the two-pot retirement dispensation. Nevertheless, economic activity is constrained by acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and 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 attempting to address the country’s structural problems. Consequently, following the dramatic economic decline of the last 15 years, there is room for optimism that the economy may stabilise and the country may potentially be setting on a more constructive path. Yet, 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 a modestly higher growth trajectory will take an extended period of time to engineer and this path is beset with risks.

Markets review

Global markets were slightly negative in the fourth quarter (down 0.1% in US dollars), with France (down 10.1%), the UK (down 6.8%), Hong Kong (down 4.9%) and Japan (down 4.1%) underperforming. Emerging markets were also negative, down 7.8% for the period, with underperformance from Brazil (down 19.7%), South Korea (down 17.7%), India (down 10.6%) and China (down 7.7%). Overall, however, 2024 was a very positive year for global equity markets, that were up 19.2%.

In rand terms, the local equity market was down 2.1% for the fourth quarter. Resources were down 10.1%, underperforming the other sectors. Sasol (down 28.2%), Kumba (down 18.6%) and Sibanye (down 16.1%) all underperformed, while Thungela outperformed (up 21.8%).

Financials were down 1.8% in the quarter, with banks down 3%, listed property down 0.8% and life insurers up 2.8%. Outsurance (up 17.2%), Quilter (up 15.8%) and Discovery (up 14.3%) outperformed, while Ninety One (down 12.3%), Hammerson (down 9.2%) and Standard Bank (down 8.5%) underperformed in the sector.

Industrials were only slightly negative (down 0.5%), with particularly robust performances from Tiger Brands (up 24%), Pepkor (up 20.2%) and Mr Price (up 10.4%). Conversely, AB InBev (down 17.8%), Bytes (16.6%) and Aspen (down 15.5%) underperformed.

The local market was positive for the year (up 13.4%). Financials were up 21.6%, industrials were up 17.3% and Resources were down 7.2%.

Fund performance and positioning

A positive performance from local equities combined with a positive contribution from Sukuks, were the key factors underpinning performance in the fourth quarter. Positive contributors included the fund's exposure to materials companies and select industrial shares. Our portfolios currently have high exposure to sukuks, nominal exposure to materials and globally diversified South African industrial companies.

Stock snapshot

Altron has generated significant value for our investors, delivering total returns in excess of 400% over the past five years. Over this time, the business has undergone substantial restructuring, shedding non-core manufacturing assets and experiencing extensive leadership changes. The group offers a broad range of services, largely focused on capital light information technology related solutions, such as vehicle tracking and fleet management services via the well-known Netstar brand, through to proprietary software solutions tailored to the healthcare and financial services industries.

Altron provides technology that enables doctors to communicate with medical aids, ensuring claims are assessed in a timely manner and payment solutions facilitate the easy flow of money between counterparties. Moreover, IT hardware, software, and consulting services are offered to companies like Vodacom, McDonalds and Sasol. These services range from assisting customers with cloud migration and managing their IT infrastructure, to ensuring top-tier security protocols. South Africa generates roughly 90% of group revenues.

The new Netstar management team have implemented several measures that have significantly improved the business's performance. This has included reducing client churn, increasing the number of pre-fitted devices that are successfully converted to active customers, lowering the cost of customer acquisition and broadening the scope of services offered. The payment solutions business, which typically services small, underserved businesses, continues to expand its product offering, successfully increasing its client base. While implementing these revenue-boosting initiatives, costs have been effectively managed resulting in significant profit growth being delivered.

Altron has negligible net debt on the books and remains well placed to continue pursuing value accretive growth opportunities in their areas of expertise.