Quarterly commentary

Camissa Protector Fund

December 2022

The fund was up 6.4% in the final quarter, outperforming its (CPI + 4%) benchmark of 1.9%, and up 1.7% in 2022. Over the last five years it has returned 8.3% pa (ranked third over this period) and since its inception in 2002, has returned 9.6% pa.

Economic backdrop

US economic activity is growing moderately from healthy levels despite headwinds from sharply rising interest rates, waning fiscal stimulus, slowing residential investment, notably higher consumer inflation and concerning geopolitical tensions. The US labour market has been resilient thus far and household balance sheets remain robust, although consumer confidence has declined. The US dollar strengthened considerably last year as the Federal Reserve Bank lead globally with interest rate hikes to tackle high inflation.

Europe's economy is weakening, with higher inflation (due to high energy prices exacerbated by a weaker currency) and very low consumer confidence. Although the war in Ukraine continues to impact (primarily via the sanctions on Russia raising energy and agricultural product prices), success in reducing gas consumption and securing alternative energy sources, coupled with a very mild winter period, has helped to prevent a deeper contraction. German manufacturing and exports, particularly automotive production, should benefit from easing global supply chain frictions and recovering production in the constrained semi-conductor sector.

Japanese economic activity has seen solid recent recovery due to the complete 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. As with Germany, Japanese manufacturing and exports should benefit from easing global supply chain frictions and reduced semi-conductor lead times.

Chinese economic activity, particularly consumption, is finally recovering from the self-enforced slowdown from prolonged urban pandemic lockdowns, which are rapidly being unwound. Property market activity, while still very weak, is slowly benefitting from some policy easing. Chinese government policy has shifted more towards promoting growth after the economy, in 2022, posted the lowest annual growth rate since the 1970s.

The outlook for other developing economies differs widely, with varying exposures to high commodity prices (energy, metals and agricultural prices), persistently weak tourism activity and the closure of Chinese borders. Some poorer economies in particular are facing extremely high food and energy inflation, which is leading to increased socio-economic and fiscal instability.

After a very moderate rebound from the COVID lows last year, the outlook for the South African economy has weakened due to sharply worsening electricity and logistics constraints - despite continued strength in the primary sectors (mining and agriculture). With a large, unskilled population, South Africa continues to grapple with excessively high unemployment levels. This exacerbates social instability, particularly in the face of rising food and transport prices. Growth is also severely constrained by an inadequate and acutely unstable electricity supply, underperformance of transport infrastructure, weakened 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 commodity prices (particularly platinum group metals, iron ore and coal) will result in even weaker prospects.

Market review

Global markets were positive in the final quarter (up 9.9% in US dollars), with Germany (up 25.7%) and France (up 23.2%) outperforming. Emerging markets were also positive in the period (up 9.8%), with outperformance from Turkey (up 62.9%), South Africa (up 18.5%) and South Korea (up 17.8%), while Brazil (up 3.3%) and India (up 2.1%) underperformed. 2022 was a very weak year for global equity markets (down 17.7% overall).

In rand terms, the local equity market was up 15.2% in the period. Resources outperformed (up 17.6%) with Harmony (up 38.2%), Anglogold (up 31.9%) and Kumba Iron Ore (up 26.9%) particularly positive. Sasol (down 5.7%), South32 (up 6%) and Sibanye (up 6.5%) underperformed.

Industrials were also positive (up 17.0%) driven by robust performances from Richemont (up 30.4%) and Naspers and Prosus (up 25.1% and 24.2% respectively). Other standout positive performers included AB Inbev (up 24.2%) and Tigerbrands (up 23.9%). Weak performances were delivered by Telkom (down 35.3%), Spar (down 19.3%), Foschini (down 14.1%) and Dischem (down 8.9%).

Financials underperformed the other sectors (up 13.9%), with listed property up 19.3%, banks up 15.0% and life insurers up 4.3%. Investec (up 53.9%), Growthpoint (up 29.0%) and NEPI Rockcastle (up 27.2%) outperformed, while Sanlam (down 5.6%), Quilter (up 2.9%) and Remgro (up 3%) underperformed.

The local market was positive for the year (up 3.6%). Financials were up 10.2%, resources were up 7.1% and industrials were down 3.1%.

SA bonds increased by 5.7% in the quarter, outperforming cash (up 1.6%). Foreigners were sellers of SA government bonds in the period. Globally, bonds strengthened amid declining medium-term inflation expectations.

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At their last three meetings, the SARB increased the repo rate by 0.75% increments, bringing the rate up to 7%. While South African inflation has been below many developed markets recently, it is still above the SARB's target band and interest rates are likely to continue normalising higher in response, but at a more moderate pace. The SARB will, however, be conscious of the very weak local economy and our relatively low inflation trajectory. Amid unusually high intra-quarter volatility we initially reduced fund weight and duration as bond yields moved lower earlier in the quarter and then increased fund weight and duration later in the quarter post the negative market reaction to the political uncertainty around the presidency.

Fund performance and positioning

Positive performance from equities (including strong foreign stock selection) and a positive contribution from yield assets were the main contributors to performance. Within local equities, positive contributors included Prosus, Northam Platinum, Anglo American, Grand Parade Investments and Oceana. Negative contributors included Telkom, Omnia, Libstar and Sanlam.

Our global equity holdings contributed positively to performance and key contributors included Siemens, Siemens Energy, Prudential, Associated British Foods and Timken. Amazon, Walt Disney, Ballard and Koninklijke Philips detracted.

- We see a high level of upside in a diversified set of opportunities within local equities. Our portfolios currently have high exposure to Prosus, PGM miners, Anglo American, Datatec, Sanlam, MTN and a diverse range of other mispriced stocks, including an array of deeply discounted local mid-cap stocks.
- We have high exposure to long duration South African government bonds due to the very high real yields on offer.
- We remain guarded on corporate credit exposure, with relatively low exposures mainly in short-term credit instruments of well-capitalised companies.
- Our global equity exposure has increased over the past few quarters but remains lower than permissible limits due to the more attractive potential returns seen locally.
- We maintain a reasonable level of equity market hedging.

MTN is Africa's largest Mobile telecommunications company and is well diversified, operating in over 17 countries on the continent. It is exposed to several secular growth drivers such as rising data consumption, the rapid expansion of mobile money services to the large unbanked population on the continent and growing demand for enterprise connectivity. The mobile money opportunity is particularly exciting, having grown by more than 50% per annum since 2015, and still considered nascent with a sizeable runway for growth. The mobile money business model is capital light and lucrative, with the potential to be a material contributor to the value of the group in the long run. In addition to these secular growth opportunities, management is focused on improving financial returns through reducing costs, scaling its digital solutions businesses and corporate restructuring - all of which have the potential to unlock additional value. Despite these attractions, we estimate the company trades at a low single digit earnings multiple, creating the opportunity for outsized shareholder returns.

We continue to maintain a high weighting in Prosus, which remains undervalued. Its key asset, Hong Kong-listed Tencent, has a very bright, long-term future through its exposure to online Chinese economic activity. Tencent's prospects are excellent, even as it navigates the current period of high and abnormally front-loaded regulatory interventions (many of which are sensible and will lead to healthier and more sustainable future growth).

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