Camissa Protector Fund
June 2023

The fund was up 0.7% in the second quarter, underperforming its (CPI + 4%) benchmark up 1.9%. Over the last five years it has returned 9.0% pa (ranked third over this period) and since its inception in 2002, it has returned 9.6% pa.

Economic backdrop

Global economic activity has decelerated from higher post-lockdown rebound growth levels but is proving reasonably resilient in the face of very rapid monetary tightening.

US economic growth has moderated from higher levels due to headwinds from sharply rising interest rates, less buoyant residential investment and notably higher consumer inflation. Despite subdued business sentiment, business fixed investment growth has been positive. US consumers remain strong, despite their low measured confidence levels, given a surprisingly resilient labour market.

Europe's economy remains weaker, with persistently higher energy prices and low consumer and business confidence. While there have been some positive effects from the alleviation of global supply chain issues and reduced semiconductor lead times, the manufacturing and export sectors have not experienced the anticipated level of rebound given the weaker than expected economic recovery in China.

Japanese economic activity has been solid, with improving private consumption, business investment and continued export growth - all against a backdrop of an extremely loose monetary policy, a very weak yen and weak exports to China. Recent wage settlements in Japan, which continue to be higher than expected, may be a harbinger of structurally stronger domestic consumption and the first healthy price inflation for many decades.

The Chinese economy's recovery has fallen well short of expectations after the lifting of prolonged pandemic lockdowns. Although contact-intensive service industries are experiencing a robust rebound, the property market, manufacturing sector and export industries remain very weak. Near term growth prospects are still strong and could be boosted by government stimulus measures.

Economic growth in South Africa is severely constrained by an inadequate and acutely unstable electricity supply (at least for the next few years), 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 and a large and unskilled population with high unemployment, we remain pessimistic regarding the structural growth rate for the local economy. This is despite signs of some incremental government moves towards economic reforms. Additionally, the economic contribution from the mining sector benefiting from high commodity prices is now much weaker.

Markets review

Global markets were positive in the second quarter (up 7.0% in US dollars), with Japan (up 9.0%) and the US (up 8.7%) outperforming. Emerging markets were also positive in the period (up 1.0%), albeit weaker than developed markets, with outperformance from Brazil (up 22.2%) and India (up 12.4%). Turkey (down 10.6%), China (down 9.6%) and South Africa (down 4.7%) underperformed.

In rand terms, the local equity market was up 0.7% in the period. Financials outperformed (up 5.9%) with life insurers up 7.2%, banks up 5.8% and listed property up 0.7%. Reinet (up 14.2%), FirstRand (up 13.4%) and Remgro (up 10.0%) were particularly positive. Transaction Capital (down 54.3%), Growthpoint (down 5.8%) and Capitec (down 5.4%) underperformed.

Industrials were positive (up 3.7%), with Bytes (up 56.5%), Textainer (up 34.6%) and Richemont (up 13.1%) outperforming, while Spar (down 25.4%), MultiChoice (down 22.6%) and Tiger Brands (down 16.6%) underperformed.

Resources underperformed the other sectors (down 6.4%) driven by weak performances delivered by Implats (down 23.5%), Sibanye (down 20.8%), African Rainbow Minerals (down 13.7%) and Northam (down 13.3%). Gold Fields (up 10.4%), Glencore (up 8.7%) and Harmony (up 8.3%) outperformed.

South African bonds decreased by 1.5% in the quarter, underperforming cash (up 1.9%). Foreigners were buyers of South African government bonds in the period. Globally, bonds weakened amid increasing medium-term inflation expectations. South African bonds underperformed other emerging markets as local geopolitical developments reduced expectations for the economy’s prospects.

At their last meeting in May, the SARB increased the repo rate by 0.5%, bringing the rate up to 8.25%. Despite a relatively benign expected inflation trajectory, the SARB remained hawkish and focused on upside risks to inflation. South African government long bond yields remain very high despite a credible SARB’s extensive efforts towards countering inflation.

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Camissa Asset Management

Fund performance and positioning

A positive performance contribution from global equities was tempered by negative performance contributions from local equities and yield asset classes. Within local equities, the key negative contributors included Northam Platinum, Metair, Anglo Platinum, Libstar and Ethos Capital. Positive contributors in the second quarter were MTN, Sanlam, Curro, Reinet and Omnia.

We see a high level of upside in a diversified set of opportunities within local and global equities.
We have high exposure to long-duration South African government bonds due to the very high real yields on offer.
Our property exposure is concentrated in specialist warehousing and convenience retail (through Fortress, Equites and Dipula Income Fund).

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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