

The fund was up 3.9% in the second quarter, outperforming its (CPI + 4%) benchmark of 1.6%. It has returned 8.5% pa over the last five years and 7.4% pa over the last 10 years. Since its inception in 2002, the fund has returned 9.5% pa.

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.

South African bonds increased by 7.5% in the quarter, outperforming cash (up 2.1%). Foreigners were buyers of South African government bonds in the period. Globally, bonds weakened amid expectations that inflation is declining more gradually. South African bonds outperformed most markets with significant gains occurring post the local election results.

At their last meeting in May, members of the monetary policy committee unanimously voted to keep the repo rate unchanged at 8.25%. The SARB changed its rhetoric on the inflation outlook and now views inflation risks as broadly balanced, having previously been more cautious. Despite outperformance in the quarter, South African government long bond yields are still high in the context of well-contained and declining local inflation.

Fund performance and positioning

Strong performances were delivered by bonds and local equities in the second quarter, while global equities detracted. Within local equities, key positive contributors included Anglo American, Sanlam, Prosus and FirstRand. Negative contributions were made by Anglo Platinum, Brait, MTN, Metair and Ninety One.

Global equity contributed negatively, with key detractors being Walt Disney, Sonos, Panasonic, Continental and Corpay. Koninklijke Philips, Sumitomo Mitsui and Evonik all contributed positively.

- 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 Dipula Income Fund, which is primarily a landlord for convenience retail properties.

Currently, the fund has high exposure to PGM miners, Prosus, MTN and a diverse range of mid-cap stocks including Datatec and Omnia. We also hold a position in SPAR

SPAR, a feature of the local retail landscape since 1963, is appreciated for its convenience, its quality products and its community-focused business model. With close to 2 000 stores, SPAR is the second largest grocery retailer in South Africa by store count. It differs from its competitors in that virtually all of its stores are owned and operated by independent entrepreneurs who are essentially SPAR franchisees, with SPAR serving primarily as a wholesaler and distributor. This model directly incentivises store owners, who have the freedom to run their stores as they see fit, tailoring stock offerings to suit local community needs. The business model has proven resilient over decades, delivering strong store sales performance despite fierce competition.

The group has experienced a sharp share price decline last year, following the disruptive implementation of a new IT platform in SA and as foreign debt has ballooned, with the rand's weakness, and foreign interest rates have spiked. The foreign debt was used to finance the purchase of some European operations, some of which have floundered. We are, however, encouraged by the progress made by new management to address these issues and refocus on core strengths. We believe the current share price undervalues SPAR's future cashflow prospects.

Disclaimer

The Camissa unit trust fund range is offered by Camissa Collective Investments (RF) Limited (Camissa), registration number 2010/009289/06. Camissa is a subsidiary of Camissa Asset Management (Pty) Limited [a licensed financial services provider (FSP No. 784)], the investment manager of the unit trust funds. Camissa is a member of the Association for Savings and Investment SA (ASISA) and is a registered management company in terms of the Collective Investment Schemes Control Act, No 45 of 2002.

Unit trusts are generally medium to long-term investments. The value of units will fluctuate and past performance should not be used as a guide for future performance. Camissa does not provide any guarantee either with respect to the capital or the return of the portfolio(s). Foreign securities may be included in the portfolio(s) and may result in potential constraints on liquidity and the repatriation of funds. In addition, macroeconomic, political, foreign exchange, tax and settlement risks may apply. However, our robust investment process takes these factors into account. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Exchange rate movements, where applicable, may affect the value of underlying investments. Different classes of units may apply and are subject to different fees and charges. A schedule of the maximum fees, charges and commissions is available upon request. Commission and incentives may be paid, and if so, would be included in the overall costs. Camissa has the right to close the portfolio to new investors in order to manage it more effectively in accordance with its mandate. Additional information is available free of charge on our website or from Client Service.