Camissa Protector Fund

September 2024

The fund was up 10.9% in the third quarter, outperforming its (CPI + 4%) benchmark of 1.7%. It has returned 10.4% pa over the last five years and 8.5% pa over the last 10. Since its inception in 2002, the fund has returned 9.9% pa.

Economic backdrop

Global economic activity remains firm, but somewhat uneven. Financial conditions are gradually easing and developed market real household income is growing due to falling inflation and firm wages. The US economy in particular is growing solidly, with strong consumption underpinned by a robust labour market, healthy immigration and high aggregate household wealth.

Following a sluggish post-pandemic reopening recovery, China's economic growth (especially exports and infrastructure spending) has been weak in nominal terms given ongoing deflation. The prolonged weakness in the property market has dampened consumer confidence, contributing to disappointing consumption growth. Policymakers have now responded with more aggressive monetary and fiscal stimulus plans that are likely to boost sentiment and may improve near-term economic activity.

Europe's economy has been stagnating given its export link to China's weak economic recovery, scarring from the energy crisis and the eroding competitiveness of its automotive sector. It should benefit from any rebound in global manufacturing activity from low levels. Japan is maintaining solid economic activity, with improving business investment and increasing private consumption amid high wage growth.

Near-term South African economic activity should be somewhat boosted by a mild cyclical recovery in real consumption as consumers benefit from declining inflation and interest rates, along with 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 that this path is beset with risks.

Markets review

Global markets were positive in the third quarter (up 6.5% in US dollars), with Hong Kong (up 22.3%) and Germany (up 10.2%) outperforming. Emerging markets were also positive in the period (up 8.9%), with outperformance from China (up 23.6%), South Africa (up 16.3%) and Brazil (up 8.5%).

In rand terms, the local equity market was up 9.6% in the period. Financials (up 13.9%) outperformed the other sectors, with listed property up 18.7%, life insurers up 15.6% and banks up 13.4%. Momentum (up 28.7%), Discovery (up 27.6%) and Outsurance (up 25.0%) all outperformed, while Investec (up 2.4%) underperformed.

Industrials were also positive (up 11.5%), with particularly robust performances from Mr Price (up 33.8%) and Pepkor (up 28.6%). Aspen (down 14.9%), Mondi (down 5.8%) and Bytes (down 3.3%) underperformed.

Resources (down 1.1%) underperformed the other sectors. Implats (up 6.6%) and Harmony (up 6.0%) outperformed, while African Rainbow Minerals (down 16.6%), Sasol (down 16.0%) and Northam Platinum (down 13.8%) underperformed.

South African bond benchmark (ALBI) increased by 10.5% in the quarter, outperforming cash (up 2.1%). Globally, bonds also strengthened amid easing concerns about expected inflation. South African bonds outperformed most other markets, with significant gains in long-dated fixed-rate instruments.

At their last meeting in September, the SARB reduced the repo rate by 0.25% to 8% pa. The SARB sees risks for the inflation outlook as balanced and revised its inflation forecasts lower. Despite outperformance in the quarter, South African government long bond yields are still high in the context of well-contained inflation.

Fund performance and positioning

Very strong performances were delivered by local equities, local bonds and global equities. Within local equities, key positive contributors included Brait, Prosus, Pepkor, Famous Brands and MTN. Negative contributions were made by Northam Platinum, Sasol, Goldrush, Anglo American and Oceana.

Global equity contributed positively, with the key contributors being JD.Com, Aroundtown, Phillips, JD Sports and Corpay. Sonos, Bodycote, Mitsubishi UFJ and Nutrien all contributed negatively.

- We see a high level of upside in a diversified set of opportunities within our portfolio of local and global equities.
- The fund has a moderately high hedged equity position.
- The fund has a high (though reduced) exposure to long-duration South African government bonds due to the high real yields on offer.
- In the quarter we opportunistically increased our exposure to high-yielding, long-dated, fixed rate money market instruments.
- Our property exposure is concentrated in Dipula Income Fund, which is primarily a landlord for convenience retail properties.

We believe **MTN** presents a particularly compelling long-term investment opportunity. MTN's share price has been very weak, given the negative earnings impact from its large Nigerian business. Nigeria's currency, the naira, has sharply devalued over the last year, in response to the drastic steps taken by the Nigerian government to normalise monetary policy and follow a more orthodox macroeconomic framework. While Nigerian earnings will be down substantially this year, we expect an improving earnings outlook beyond 2024. This is due to cost reductions, effective tariff increases through bundle optimisation and the recently announced renegotiation of the onerous lease contracts in Nigeria.

Despite the current challenges, MTN's long term fundamentals and growth outlook remain very strong. As Africa's largest mobile telecommunications company, MTN is well diversified, operating in over 17 African countries that will be growing their per capita incomes rapidly in the years ahead. The business (excluding Nigeria) is exposed to several secular growth drivers such as rising data consumption, the rapid expansion of mobile money services to a large unbanked population and growing demand for enterprise connectivity. The mobile money opportunity is particularly exciting, with mobile money revenue having grown by more than 40% pa since 2015. The mobile money business model is capital light and very profitable, with the potential to be a material contributor to the cash flows of the group in the long run.

In addition to these secular growth opportunities, management is focused on improving financial returns through more effective capital spend, scaling its digital solutions businesses and corporate restructuring - all of which have the potential to add additional value over time. While there is some near-term uncertainty around the outlook for Nigeria, the current MTN price already discounts no value for Nigeria and presents the opportunity for outsized future shareholder returns.