Quarterly commentary

Camissa SA Equity Fund

June 2024

Camissa Asset Management

The fund was up 7.2% in the second quarter, underperforming other general equity funds (up 7.3% on average). Since its inception the fund is up 3.0%.

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.

Fund performance and positioning

Positive fund contributors included Anglo American, Prosus and FirstRand. The key negative contributors included Anglo Platinum, Brait and MTN.

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.

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