Quarterly commentary

Camissa Stable Fund
March 2022

The fund was up 2.7% in the first quarter [ahead of its (CPI + 2%) benchmark of 1.6%] and up 17.4% over the past year, mainly due to positive performance from our yield assets and local equities. Since its inception in 2011, the fund has returned 8.8% pa.

Economic backdrop
The Russian invasion of the Ukraine and the resultant united and coordinated response by Western governments to impose substantial economic sanctions on Russia has caused an acute global supply shockwave. We now have very high commodity prices, supply chain frictions (that were beginning to normalise after the severe pandemic impacts), inflation and a decline in business sector confidence. It is not possible to predict how this conflict is resolved and its ultimate duration.

Some of the important long-term impacts of the war include: structural changes to the European energy ecosystem (which is overly reliant on Russia), an acceleration of de-globalisation trends (shifts towards less efficient but more stable regionalised supply chains) and changes to China-USA economic and political relations.

Developed economies were growing at above pre-crisis trend rates until recently, despite waning fiscal stimulus, due to very healthy consumer spending stemming from robust labour markets, accumulated savings from lockdown periods and surging wealth levels. This initial strength together with some additional fiscal stimulus targeting consumer energy cost relief, means that positive growth should be maintained. European near-term economic growth has been most negatively impacted due to an exceedingly high gas price and a dampening of business and consumer sentiment.

Chinese economic growth has now slowed due to: property market activity rebasing to a lower level because of cyclical excesses unwinding following regulatory interventions, supply constraints and targeted urban COVID-19 lockdowns. Chinese government interventions in many areas of its economy - aligned with longer-term planning (and congruent with sustainably high longer-term growth) - are proving disruptive in the short term. These interventions are targeting more inclusive and less financially risky growth, corporate monopoly positions, carbon emission reduction and technological independence.

The outlook for emerging economies differs widely, with varied exposures to global supply chain bottlenecks, high energy and agricultural prices, strong mining commodity prices, a moribund tourism industry and differing impacts from the stewardship of the pandemic crisis and efficacy of vaccine rollouts. In particular, some poorer economies are facing extremely high current food and energy inflation, which is leading to increased socio-economic instability risks.

Enduring global economic trends may be visible only when fiscal support and monetary stimulus tapers off more meaningfully, when supply chains are functioning more normally, when the acute effects of the military conflict have receded and when the longer-term impact of the military conflict is clearer.

Although South African economic growth has rebounded as expected, the local economy will continue to produce only moderate expansion from here, despite continued strength in the primary sectors (mining and agriculture). Scarring from years of state mismanagement and the recent pandemic lockdowns is highly evident in consumer spending, manufacturing capacity and fixed investment. In addition, there is a risk that future less buoyant commodity prices (particularly platinum group metals, iron ore and coal) will result in an even weaker outlook.

South Africa continues to battle with very high unemployment and a large unskilled population, which increases social instability risks - particularly in the face of increasing inflation. Growth continues to be hampered by unstable and inadequate electricity supply, underperformance of key transport infrastructure, weakened and revenue-hungry municipalities, as well as chronically low business and investment confidence. For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy.

While economic revival plans are well articulated, they still rely too heavily on implementation from weakened state institutions, do not draw sufficiently on private sector co-operation and remain hampered by political unwillingness to take unpopular but necessary actions. Recent actions to liberalise private sector electricity production, the conclusion of a long-delayed telecommunication spectrum auction and early steps towards enabling private sector access to freight rail network are modest moves in the right direction. Additionally, actions to rebuild crime fighting and tax collection capabilities continue to bear fruit - albeit at a slow pace as a result of capacity challenges.

Market review
Global markets were weak in the first quarter (down 5.0% in US dollars), with the UK (down 0.1%) outperforming, and Germany (down 11.1%) and France (down 9.2%) underperforming. Emerging markets were also weak in the quarter (down 1.2%) with highly varied performances: Russia (extreme weakness), China (down 14.2%) and South Korea (down 9%) were poor, whereas Brazil (up 34.8%) and South Africa (up 20.5%) performed relatively well.

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Asset Management

In rand terms, the local equity market was up in the quarter (up 3.8%). Financials outperformed (up 20.2%), with banks up 25.2%, life insurers up 16.7% and listed property down 1.3%. Nedbank (up 33.2%), Standard Bank (up 30.1%) and First Rand (up 30.0%) outperformed, while Ninety One Plc (down 14.5%), Quilter (down 12.9%) and Coronation (down 11.8%) underperformed.

Resources stocks were very strong again (up 19.0%), with Kumba (up 49.1%), Exxaro (up 44.9%) and Sasol (up 37.1%) outperforming. Despite being up, Impala Platinum (up 2.3%) and Northam Platinum (up 4.1%) underwhelmed.

Industrials underperformed (down 13.9%), with standout positive performers: The Foschini Group (up 20.3%), Bidvest (up 20.1%), Vodacom (up 18.9%) and Truworths (up 17.4%)). Very weak performances were delivered by Prosus (down 39.2%), Naspers (down 32.7%) and Richemont (down 21.6%).

Fund performance and positioning
Strong performance from yield assets (both bonds and property) together with positive contributions from local equities, were the main contributors to performance. Within local equities, the key positive contributors in the quarter were Anglo American, Omnia, Anglo Platinum and Sanlam. Prosus contributed negatively.

The key negative contributors in the quarter were Prosus, Quilter and Curro. Positive contributors were Anglo American, Omnia, Anglo Platinum and Sanlam.

Our global equity holdings contributed negatively to performance, despite a very strong January. Detractors included SKF, Bodycote, Associated British Foods, Siemens and Evonik. Bayer, Inpex, Nisshinbo and Kinder Morgan all contributed positively.

Our portfolios currently have high exposure to PGM miners, Prosus, Omnia and a diverse range of other mispriced stocks, including an array of deeply discounted local mid-cap stocks.

- We have a high exposure to South African government bonds due to very attractive real yields on offer.
- We remain guarded on corporate credit exposure with relatively low credit exposures, mainly in short-term credit instruments of well-capitalised companies.
- We remain highly selective within listed property, with a preference for logistics properties
- We maintain a high level of equity market hedging, given generally high market levels, to enable high gross exposure to our high conviction stock picks

We maintain a high weighting in Prosus, which has both a strong balance sheet and a very bright, long-term future through its underlying exposure to online Chinese economic activity (via Hong Kong-listed Tencent). Tencent's prospects remain 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). Very elevated levels of pessimism are currently priced into the Prosus share price resulting in extremely attractive upside.

Invest with us **Website** www.camissa-am.com **Client service** 0800 864 418 **Email** clientservice@camissa-am.com **Fax** 088 021 671 3112