

Camissa Equity Alpha Fund

March 2026

Invest **different**

The fund was down 1.5% in the first quarter, underperforming the average general equity fund (down 1.0%). Over a one-year period, it delivered a return of 34.0%, significantly outperforming the competitor average (up 24.4%). Over the past 10 years, the fund has returned 12.3%, materially ahead of the competitor average of 8.5% pa. Since inception in 2004, the fund has been the top-ranked general equity fund in South Africa, delivering annualised returns of 15.8% pa.

Economic backdrop

Global economic activity, already weakened by aggressive, hostile US foreign policy and persistent policy uncertainty, is now slowing further due to the severe energy supply shock triggered by the Iran conflict. Damage to energy infrastructure and the depletion of strategic reserves will have a prolonged impact on energy supply. The extent of any permanent scarring remains uncertain and will depend on the duration of the shock. Higher energy prices are raising a wide range of agricultural, manufacturing and transport costs, leading to an immediate squeeze in real incomes and a plunge in consumer sentiment. Financial conditions deteriorated materially in response to the crisis, driven by higher bond yields and weaker asset prices, but have eased recently with the sharp recovery in equity markets.

Although the US is more energy independent than many other regions, the negative impact on real incomes and depressed sentiment will weigh on activity. The US labour market is softening despite sharply lower supply from immigration, as companies delay hiring amid tariff uncertainty and AI-driven change, exacerbating skills mismatches and leading to more cautious workforce planning. Consequently, underlying US economic growth is now likely to run below potential, from a previously expected healthy pace.

China's long-term energy strategy is focused on building strategic reserves, investing in renewables, diversifying import sources and maintaining significant reliance on domestically produced coal. This means that the negative impact of the energy supply shock on China may be relatively lower and may further support external competitiveness. Export activity remains very strong, with robust growth in developing economies offsetting the adverse effects of US tariffs. This is expected to remain supported by improving cost competitiveness. The drag on GDP from the property market weakness is now less significant, as the large cumulative fall to date means activity exposure is much lower. Greater monetary and fiscal stimulus, and targeted structural state interventions have not yet succeeded in materially improving consumer confidence, although fixed investment is beginning to rebound from low levels. Government actions to curb overcapacity and excessive price competition, together with higher energy costs, may be contributing to the end of a prolonged period of deflation and weak nominal economic growth.

Both Japan and Europe remain highly sensitive to the duration of the Iran conflict, given their dependence on imported energy. Europe's manufacturing sector, already scarred by the energy shock following the Ukraine war, remains vulnerable to further competitiveness erosion, particularly from China. The Japanese economy is expected to maintain positive growth, supported by sustained labour market strengthening and gradually improving business investment. However, a more severe negative energy shock scenario could necessitate additional fiscal loosening and thus fiscal slippage from an already expansionary budget.

South Africa's terms of trade have deteriorated from very strong levels, given declines in precious metal prices and increases in imported energy prices. Consumer activity, which had begun a mild recovery as falling inflation boosted real incomes and enabled interest rates to ease, is now at risk of an early reversal. A significant increase in online betting continues to divert spending from other goods and services. A long-term, sustained lift to economic growth remains structurally constrained by the acute underperformance of transport infrastructure (albeit improving), poor service delivery from weak and revenue-hungry municipalities, entrenched government corruption, organised crime and resultant low business confidence. Disappointingly, the recent moderate increase in fixed investment from very low levels has not yet been accompanied by any meaningful job creation.

In recent years, progress has been made in reforming the economy through Operation Vulindlela and the partnership between government and business leaders targeting key priority areas for reform. Additionally, the Government of

National Unity has brought about positive leadership changes in key ministries and a renewed commitment to accelerate initiatives that address the country's structural problems - although progress remains slow.

Markets review

Global markets were negative in the first quarter, down 3.5% in US dollars. Germany, the US and France were the biggest negative contributors to this performance. The UK and Japan were the strongest contributors, gaining 1.6% and 0.5% respectively. Developing markets performed better over the quarter, down 0.1%, led by strong gains in Brazil (up 22.7%), South Korea (up 17.3%) and Turkey (13.9%). India (down 18.1%), China (down 8.9%) and South Africa (down 3.2%) led the losses.

In rand terms, the local equity market was down 0.6% in the period. Resources continued to outperform (up 7.2%), boosted by robust performances from the diversified miners. The top performers included Sasol (up 112%), Glencore (up 40.4%), South32 (up 30.9%) and Exxaro (up 25.5%). Harmony (down 24.1%) and Sibanye Stillwater (down 13.5%) were the main detractors in the sector.

Financials were slightly down 0.3%, with banks up 0.7%, life insurers down 3.1% and non-life insurers down 3.5%. Positive movers included Discovery (up 9.6%), Ninety One (up 6.7%) and Investec (up 5.7%), whereas weak performances were delivered by Sanlam (down 9.7%), Old Mutual (down 7.4%) and Momentum (down 6.0%).

Industrials were down 8.7% for the quarter. Top sector performers included MTN (up 15.3%), Aspen (up 12.5%) and AB InBev (up 10.1%). Prosus (down 24.9%), Naspers (down 22.0%), Richemont (down 18.4%) and TFG (down 15.9%) all delivered weak performances.

Fund performance and positioning

Strong contributors to fund performance included Exxaro, Glencore, MTN, Omnia and the PGM miners, while Prosus/Naspers, Bytes, TFG and Datatec detracted from returns.

Positive contributors to global equity performance included Gaztransport, Hirose Electric, Carrier Global, JD.com and Bayer, while JD.Sports, Carl Zeiss Meditec and Aumovio detracted.

We see a reasonably high level of expected return within our portfolio of local equities and continue to reduce the fund's local equity position in favour of global equity, where expected returns are high. Within local equities, we have reduced our holdings in MTN, Exxaro and Glencore and increased Prosus/Naspers and Valterra. Exposure to property has been reduced, with a reduction in the Dipula position.

Stock snapshot

Local:

Mondi is a vertically integrated producer of paper and paper-based packaging, with strong market positions across its key divisions, and a structurally low-cost production base. The group's earnings are well diversified. 58% are generated from its Flexibles division, where Mondi is the global leader in sack paper, operates an extensive network of industrial bag plants, and possesses strong intellectual property in consumer-focused flexible packaging solutions. The Corrugated division, which contributes 34% to earnings, produces niche grades of paper used in cardboard boxes. It also operates its own box-based packaging solutions business, focused on the faster growth Eastern European region. The Uncoated Fine Paper division (printing paper), while facing structurally declining demand, is effectively managed to generate cash.

Mondi is a well-run business, with a disciplined focus on internal investment to enhance capacity and reduce unit production costs across its cost-advantaged mill network. The group is also strategically increasing its exposure to downstream packaging solutions, which offer higher growth and margin potential, and are inherently less cyclical and capital-intensive businesses. With industry demand currently at cyclical lows, Mondi is well positioned to benefit from a recovery in volumes, supported by the earnings contribution from its recent significant investments targeting expansion and efficiency.

Global:

Sundrug is a Japanese retailer operating the country's fifth-largest drugstore chain, alongside a rapidly expanding network of larger-format discount stores. Its core drugstore segment (60% of sales) delivers steady growth, supported by resilient demand for everyday healthcare, beauty and household essentials.

In an environment of uncharacteristic inflation and weak real wage growth in Japan, Sundrug's discount format (Direx) is particularly well positioned, as consumers increasingly trade down from traditional supermarkets to lower-price alternatives. This structural shift underpins a compelling medium-term growth opportunity, with management targeting a near doubling of the Direx store base over time.

The company's strong balance sheet, with approximately ¥30 billion in net cash, provides flexibility to fund ongoing store rollouts and pursue selective consolidation opportunities in a fragmented market. These investments are expected to generate returns comfortably above the cost of capital, reinforcing Sundrug's track record of high profitability and returns on capital. Despite these attractive fundamentals, the shares continue to trade at a meaningful discount to listed comparatives, presenting a compelling investment opportunity.

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