LOCAL PERFORMANCE FACTSHEET

OAM Local Balanced Portfolio

Technical Details

2020 Q3

- Base currency: **South African Rands**
- Benchmark: 30% **JSE All Share, 70% ALBI 1-3yr (2004 - 2018)**
  50% JSE All Share, 20% ALBI 1-3y, 20% SAPY, 10% JSET (2019-)
- Asset Allocation: **Flexible mix of equities, real estate holdings, preference loan stock and cash**
- Individual portfolio representing Local Growth investment style
- All performance figures include income and are net of fees and expenses

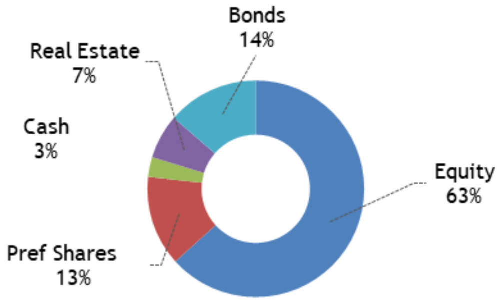
Annualised Growth (%)	OAM	Benchmark
Inception 2004	**7.06**	**8.17**
10 years	4.13	5.80
7 years	0.32	4.25
5 years	-2.95	3.39
3 years	-5.22	0.65
2020 YTD not annualised	-14.90	-10.67

Annualised Income Yield	2.88%

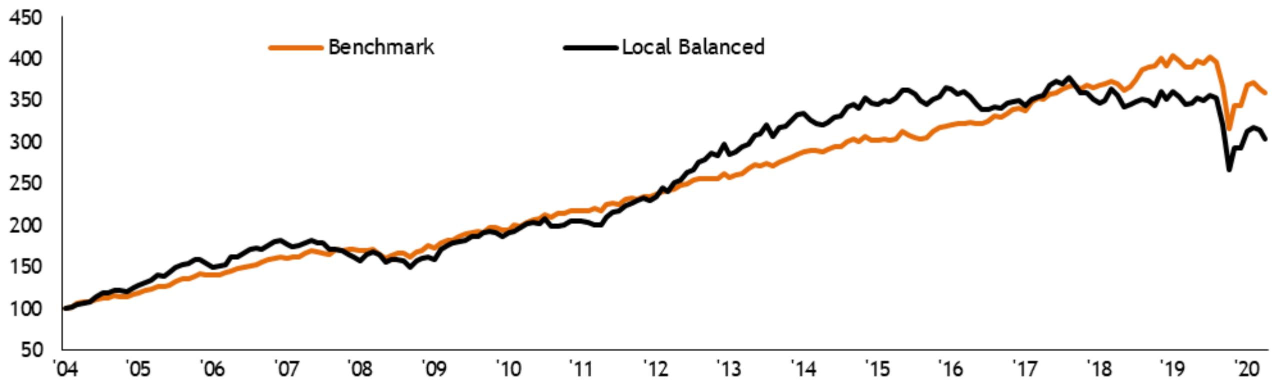
Investment Objective

- Conservative growth
- Consistent annual returns
- Low volatility

ASSET ALLOCATION
(see through basis)



Top 5 Holdings	
NEWFUNDS GOVI ETF	
ANGLOGOLD ASHANTI LTD	
FIRSTRAND LTD	
NASPERS LTD	
TRANSACTION CAPITAL LTD	
Total number of holdings	26



Local Market Review and Strategy Outlook for the quarter ended Sept 2020

It is reasonable to blame the Covid pandemic for market weakness. However, it is a global pandemic and so it is fair to make comparisons across the world's markets. On this basis, South Africa has fared badly. Hamstrung by continued policy uncertainty and a strained fiscus, the JSE underperformed not just global markets in the third quarter (Q3) but emerging markets as well, The MSCI World and MSCI Emerging Market indices increased over the quarter by 6.27% and 5.72%. Year-to-date (YTD) the world index increased by 0.37% and the EM index lost 2.93%. The JSE All Share index lost 0.64% over Q3 and 4.94% YTD, which would have looked even worse in dollar terms, given the rand's 16.45% YTD depreciation versus the dollar. The MSCI indices are dollar denominated. Among the JSE indices, the Resources 20 index contributed the strongest performance with Q3 and YTD gains of 5.15% and 8.37%, while the Industrial 25 index came in second place with a Q3 loss of 3.9% but YTD gain of 5.60%, helped by the large weighting in Naspers and Prosus. The Financial 15 index was the laggard due to the domestic focus of the index constituents, with a Q3 loss of 1.40% and a severe YTD loss of 35.7%. The sharp economic recession and aggressive monetary easing by the South African Reserve Bank provided fertile ground for bond returns, which strongly outperformed equity markets. The All-Bond 1-3 year Total Return index added a further 2.48% in Q3 notching up a YTD return of 10.26%. The gold price also offered safe refuge, with dollar-based gains of 6.73% in Q3 and 23.84% YTD, lifting the price per ounce to $1.887.

In the nine months to end September, the JSE All Share index may have only lost 4.9%, which seems a modest loss, but this figure belies the tremendous volatility which took place along the way. Over the period, the Covid pandemic wreaked havoc on the economy and the markets. The second quarter (Q2) suffered the full brunt of the virus, with GDP dropping by an unprecedented 51% quarter-on-quarter annualised. While agriculture, fishing and forestry, deemed essential services, grew by 15.1%, the construction, manufacturing and mining sectors fell by 77%, 75% and 73%. Household consumption dropped 50% and gross fixed capital formation, which measures investment in the economy, collapsed by 60%.

Incredibly, despite the carnage, the unemployment rate fell in Q2 from 30.1% to 23.3%, but this is only because 5.2 million people dropped out of the denominator, as they gave up looking for work. The number of payrolls in the country dropped by 2.2 million to 14.1 million, lifting the expanded definition of unemployment from 39.7% to 42%, the highest of any country in the world. Of the 14.1 million lucky enough to still have jobs, only 81% received salaries and of these 21% endured salary cuts. Unlike developed economies, which during Covid were awash with massive fiscal transfers of wealth to households and struggling businesses, massive liquidity expansion and credit growth, South Africa's Private Sector Credit Extension (PSCE) fell off a cliff. Even after lockdowns were eased, PSCE growth continued to decelerate, falling in August to 3.9% year-on-year down from 5.1% in July. The two main components, household and corporate credit growth, slowed from 3.2% to 3.0% and from 6.7% to 4.6%, constrained by rising joblessness, weak real income growth, a deterioration in credit standing, and a reluctance by banks to take on credit risk.

With domestic demand collapsing, at least the trade balance turned into surplus, registering elevated back-to-back surpluses in July and August, of R37.9 billion and R38.9 billion, the latter being the second largest on record. In the year to end August, the trade surplus lifted to R134 billion, good news for the current account. Weak domestic demand also contributed to the benign inflation figures. Consumer price inflation slowed in August from 3.2% to 3.1% year-on-year, capping 21 straight months below the midpoint of the South African Reserve Bank's 3-6% target range. Emboldened by the relatively stable rand and the swift and aggressive policy easing by the world's central banks, the SARB cut the benchmark repo rate by a further 25 basis points at its July policy meeting. The repo rate has been cut by an accumulated 300 basis points since the start of the year to 3.5%. It is the lowest repo rate since its introduction in 1998, bringing the prime rate down to 7%.

There have been other positive developments, notable in the recovery of business survey data. The ABSA manufacturing purchasing managers' index (PMI) ticked up in September from 57.3 to 58.3, the highest level since the data series began and its 5th straight month above the expansionary 50-level. The sub-index measuring expected business conditions in six months' time increased from 63.4 to 64.5, in contrast to the highly contractionary level of 27.3 recorded in April. The RMB/BER Business Confidence Index rallied from its all-time low of 5 in Q2 to 24 in Q3, although this is still disappointing, given that a fully satisfied business community would result in a score of 100. The FNB /BER Consumer Confidence Index lifted off its 35 year low of -33 recorded in Q2 but only slightly, recording a score of -23 in Q3.

A key victory against corruption was achieved at the National Executive Committee at the end of August, in which it was decreed that officials will automatically have to stand down from government posts and senior ANC positions if charged with corruption. Working closely together, the Hawks, NPA and SIU have made numerous corruption related arrests including those linked to the Bosasa scandal, with more imminent arrests relating to the VBS Mutual Bank scandal expected. Ramaphosa appears to be cementing his authority, which is once again lifting optimism that he may finally get serious about adopting and implementing urgently needed structural economic reforms.

Despite considerable resistance from within the ANC, the government arranged a $3.4 billion loan from the IMF through its unconditional Rapid Financing Instrument. This could be a precursor of a formal budget support package from the IMF, which would come with onerous conditions and enforced structural reforms. In this eventuality the ANC would have no choice but to put its ideologies aside. Energy market reform has been encouraging. New electricity capacity of 14,000 MW was gazetted in September, comprising 2,000 of emergency power, which is likely to be gas powered, and 11,800 MW renewable energy, almost double the 6,000 of renewable capacity created since 2011. The new capacity will be sought from the private sector with bid documents to be issued in December.

More broadly however, structural economic reforms still remain conspicuously absent despite assurances given at the Nedlac meeting. There was no mention made at the Nedlac meeting of state-owned enterprise (SOE) reforms and to much dismay, a further R10.4 billion was earmarked for the business rescue of SAA over and above the R16 billion allocated to the failed airline in February's budget. The reluctance to let go of SAA despite all the obvious benefits speaks volumes of the political and ideological resistance within the ANC to structural economic reforms. It was hoped that the Covid crisis would engender greater urgency in economic reforms, given the country's rapid fiscal deterioration. Finance Minister Tito Mboweni projected a 6.8% budget deficit in the 2021 financial year. The revised figure is 14.6%. According to the National Treasury's projection, the debt to GDP ratio is expected to rise from 65.6% in February this year to a peak of 87.4% in FY 2024 but this may be too optimistic as it is premised on public sector wage cuts, cuts in support for state-owned enterprises, and cuts in social benefits. Without Mboweni's firm hand on budgeted expenditure and without growth enhancing reforms, the debt to GDP may surge irretrievably to 140% by FY 2024.

Despite Ramaphosa's increased authority and grip on power, he appears reluctant to implement structural economic reforms, which would be the answer to creating economic growth and jobs. We are shifting from out earlier optimistic stance founded on Ramaphosa's New Dawn. While there are still pockets of exceptionally well managed companies in South Africa, linked to solid investment opportunities, domestic investors should increasingly take refuge in global equity markets, both to diversify risk and to capture the better earnings potential in the world economy. Investors may consider exceeding the prudential investment guideline of 30% allocation to overseas investments. In local portfolios, there should be an increased emphasis and weighting to multinational dual listed and rand hedge shares.