LOCAL PERFORMANCE FACTSHEET

OAM Local Growth Portfolio

Technical Details

2020 Q4

- Base currency: **South African Rands**
- Benchmark: **JSE All Share**
- 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

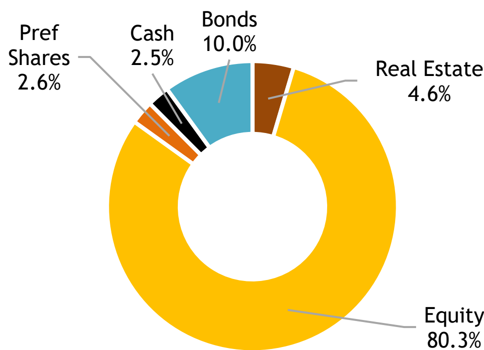
Investment Objective

- Conservative growth
- Consistent annual returns
- Low volatility

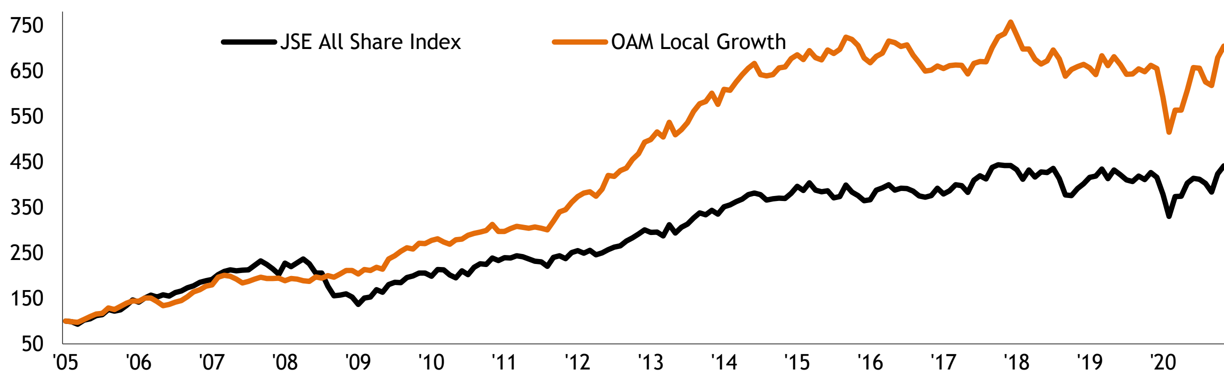
Annualised Growth (%)	OAM	JSE ALSI
Inception March 2005	**13.12**	**9.21**
10 years	8.48	6.34
7 years	2.31	3.64
5 years	-0.02	3.23
3 years	-1.26	-0.05
2020	6.41	3.44

Annualised Income Yield	1.74%

ASSET ALLOCATION



Top 5 Holdings	
NASPERS LTD	
TRANSACTION CAPITAL LTD	
ANGLO AMERICAN PLC	
FIRSTRAND LTD	
ANGLO AMERICAN PLAT LTD	
Total number of holdings	22



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

Domestic investors enjoyed strong returns in the fourth quarter (Q4) of last year, helped by rising global confidence stemming mainly from positive vaccine news and supported by accommodative monetary and fiscal policy. Across the world, equity markets were catapulted higher by a strong recovery in global trade and hopes of a powerful cyclical economic recovery. The JSE All-Share index gained 9.48% in Q4, returning the index to positive territory for the year with a gain of 4.07%. Modest as this may seem it represents quite a turnaround from the 22.53% year-to-date loss the index was nursing by the end of Q1. Among the JSE indices, the Resources 20 was the strongest performer in 2020 with a return of 16.88%, boosted by rising base metal and precious metal prices. The Industrial 25 index fared well too with a year's return of 12.40%, helped by Prosus and Naspers, which have a heavy weighting in the index. Over Q4 the indices returned 7.85% and 6.44%. The Financial 15 index outshone them both over the quarter, surging by 19.75% with banks rebounding from ridiculously cheap levels in the expectation of a recovery in domestic economic activity, although the index was still negative by 23.10% for the full year, suggesting considerable upside from current levels. Economic weakness and falling short-term interest rates provided the perfect backdrop for bonds. The All-Bond Total Return index beat the All-Share index in 2021 with a return of 8.65%. The gold price also provided strong gains with a dollar price return of 21.41% over the year. In rand terms the return would have been even greater as the rand lost 3.83% against the US currency. The rand's depreciation was surprisingly limited considering South Africa's acute fiscal challenges and weak economic outlook and owes its stability to a broad-based global search for yield. The real yields on offer in South Africa's sovereign bond market are amongst the highest in the world. The rand appreciated by a massive 12.90% versus the dollar in Q4.

The most recent economic growth data has been surprisingly strong. Following the lockdown induced collapse in Q2 when GDP fell by 51% on a quarter-on-quarter annualised basis, output rebounded in Q3 by 66% beating the consensus forecast by a wide margin. The main contributors were household consumption expenditure and exports which grew by 69.5% and 201.4%, contributing 43.8 and 38.3 percentage points to the GDP growth figure. Household consumption expenditure was powered by pent-up spending on durables, which amazingly on a year-on-year basis was up by 0.1% in Q3. Mining and manufacturing grew by 288.3% and 210.2% on the quarter but still showed year-on-year declines of 3% and 8.2%, while construction was the clear laggard with a decline of 21.6% on the year. Unfortunately, private sector gross fixed capital expenditure which provides the investment needed to sustain growth and productivity improvements over the long-term, remained tepid registering a 23% fall on the year. Agriculture was a rare bright spot showing year-on-year growth of 9.5%.

It is possible that the Q3 GDP rebound was a mechanical rebound and may not be sustainable. This depends on the level of economic scarring and the extent to which job losses become permanent. The data is mixed but on balance suggests that the rebound is sustainable. In Q3, inventories declined sharply subtracting 20.5 percentage points from the headline GDP figure, which indicates a reservoir for future growth as inventories are replenished. New vehicle sales increased in October by 4.1% month-on-month contributing to a solid 42.1% increase on a 3-month-on-3-month basis. New passenger vehicle sales were especially encouraging, rising by 18.3% on the month while new vehicle exports increased by 17.9%, exceeding 30,000 units for the first time since February. Admittedly, the Absa manufacturing purchasing managers' index (PMI) declined from 60.9 in October to 52.6 in November, but a pullback had been expected from the highest reading on record. The IHS PMI, which measures all private sector activity across manufacturing and services sectors, was surprisingly strong in December despite the second wave of Covid infections, only slipping on the month from 50.3 to 50.2 and still above the expansionary 50-level. The RMB/BER Business Confidence Index rose from 24 in Q3 to 40 in Q4, its highest level since Q2 2018, backed by improving sentiment across all sectors and up dramatically from the all-time low of 5 recorded in Q2. Unfortunately, the Consumer

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Confidence Index, only improved modestly from -23 to -12 in Q4 and remains in negative territory, which indicates most consumers are still pessimistic.

Interest rates remain low by historic standards, which should support investment expenditure and consumer spending. The Reserve Bank has kept the repo rate at 3.5%, which means the prime bank lending rate is at 7%, the lowest since the 1960s and considerably below the level of 10.5% which prevailed just three years ago. By contrast in 1984 the prime rate was at 25%. However, banks seem reluctant to lend and moreover there appears to be little appetite for credit. Private sector credit extension registered a depressed 3.4% year-on-year growth in November, a very slight improvement on October's 3.2% figure. There is little prospect of the Reserve Bank lifting interest rates and it may even drop them further given the absence of domestic demand and lack of inflationary pressure. The Reserve Bank forecasts consumer price inflation will average 3.9% in 2021 and 4.4% in 2022, remaining below the mid-point of its inflation target of 3-6%. Moreover, the rand is stable, helped by considerable cross border capital flows into emerging markets. With short-term interest rates in developed economies anchored at zero and longer-dated bonds earning negative real interest rates, there is tremendous appetite for higher yielding emerging market debt. South African government bonds offer among the highest yields of all emerging markets. Furthermore, the country's trade surplus surged from R71.4 billion in Q2 to R453.6 billion in Q3, which helped eradicate the current account deficit. The current account increased to a surplus of R297.5 billion in Q3, equivalent to a sizeable 5.9% of GDP, the highest since Q3 1988.

Alas the country's twin deficits make for more sober reading. They are structural impediments to the economy's growth and prosperity and have been exacerbated by the Covid pandemic. Finance Minister Tito Mboweni made bold promises in his Medium-Term Budget Policy Statement (MTBPS), pledging to limit growth in the public sector wage bill to 1.8% in the current financial year and to an average 0.8% over three years. As a result, the budget deficit would drop from a projected 15.7% of GDP in FY 2021 to 10.1% in 2022 while sovereign debt is projected to stabilize at 95% of GDP. These figures are impressive but as Milton Friedman said, "One of the great mistakes is to judge policies and programs by their intentions rather than their results." Credit rating agencies Moody's and Fitch both expressed their concern over implementation as well as the lack of economic growth drivers generally, by cutting the country deeper into junk status.

Yet, the downgrades had little effect on the rand. Foreign appetite for the country's bonds continued unabated, perhaps comforted by the country's relative success in its management of the Covid crisis and the inroads made against corruption with several high-profile arrests including of ANC secretary general Ace Magashule. President Ramaphosa provided encouragement with his Economic Reconstruction and Recovery Plan, which embraces private sector participation. The plan contrasts his predecessor's "radical economic transformation" but is bedeviled by an absence of state-owned enterprise reforms. In fact, the elephant in the room, South African Airways was granted yet another bailout at the MTBPS of R17 billion, while another R23 billion was allocated to Eskom.

Foreign capital was drawn to South Africa as part of a global rotation into emerging market assets. The appeal of emerging markets is expected to gain momentum in 2021 as vaccination allows the world to return to normal. A strong cyclical global recovery is anticipated, boosted by ultra-accommodative monetary policy from the world's major central banks and a continuation of massive global fiscal support. Commodity prices should make further gains, helped by strong demand from China and a Biden presidency, which promises enhanced infrastructure spending. The outlook for continued dollar weakness is also supportive of commodity prices. Emerging equity markets are likely to outperform developed markets in 2021, which bodes well for the JSE, regardless of the economy's unique challenges. In other respects, South Africa is well positioned to come out of the pandemic early. It is one of just two countries in Africa, the other being Senegal, with facilities for vaccine manufacture. Local vaccine production and a sound healthcare distribution system backed by previous experience in combatting AIDS should ensure a rapid vaccination rollout.

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