overberg asset management

Local performance factsheet

OAM Local Growth Portfolios
ZAR Rand

JUN 2011

Introduction

Overberg Asset Management specializes in the management of individual portfolios, tailored to the investment objectives of each client. As an independent company, Overberg can set objective standards in its selection of investments. Your portfolio will be in the safe custody of Investec stockbrokers, and managed from here. We produce customised statements and investment reports to specific requirements. Constant availability and a quick and flexible response are fundamental to our client relationships.

Technical Details

- **FSB** approved
- Base currency: South African Rands
- Minimum investment: R500,000
- Benchmark: **JSE AllShare**
- Asset Allocation: **flexible mix of equities, bonds and cash**

Investment Objectives:

- conservative growth
- consistent annual returns
- low volatility

	Local %	Benchmark %
Annualised Total Return	19.19	12.45
2005	39.51	34.28
2006	21.14	28.47
2007	14.39	16.23
2008	7.13	-25.27
2009	28.32	28.63
2010	15.05	16.09
YTD	-2.62	-0.79

*Since March 2005: All performance figures include income and are net of fees and expenses

Growth 2011	Local %	Benchmark %
January	-4.77	-2.24
February	-0.19	2.78
March	2.32	-0.21
April	1.44	1.96
May	-0.53	-0.82
June	-0.78	-2.15

	%
Annualised Income Yield	3.89

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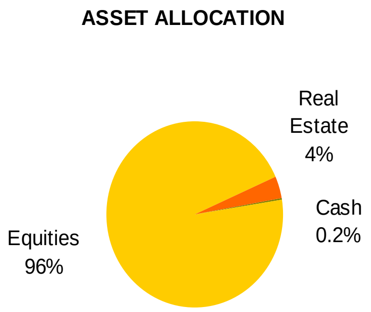

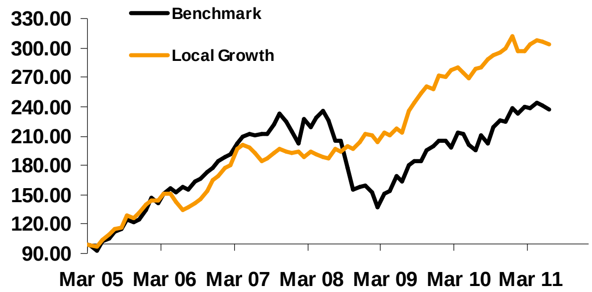

(As calculated by Overberg 30 Jun 2011)

Commentary

Local and provincial elections provided the main news during May with the ANC's share of the party vote reduced to 62% down from 66% previously owing to loss of support from minority groups. DA support increased from 15% to 24% following an increase in non-white support. White voters now account for less than half the DA vote with an estimated 6% of black voters among its supporters. The significant increase in voting across racial lines is a positive outcome but at the same time raises the risk of the ANC trending towards "black nationalism" away from its traditional non-racial policy values.

In early June the Competition Tribunal approved Wal-Mart's acquisition of 51% of Massmart. The conditions applied were not deemed too onerous especially as most of them were offered by the parties to the transaction. The outcome will be positive for the SA consumer and for the rand which gained strongly following the announcement. In contrast to Walmart's vote of confidence the SA economy is muddling through a period of slowing momentum, mirroring the global economy and explaining the contradictory nature of recent economic data. Gross Domestic Product (GDP) increased during the 1st quarter by 4.8% well above the 4.2% consensus forecast, largely attributed to the manufacturing sector which grew 14.5% and contributing nearly half of the economy's overall expansion. A report compiled by the African Development Bank, Organisation of Economic Co-operation and Development, and the United Nations forecasts SA's economy will grow 3.6% this year and 4.3% in 2012, above the Treasury's respective growth estimates of 3.4% and 4.1%.

The SA Reserve Bank (SARB) Quarterly Bulletin for the 1st quarter was also surprisingly upbeat. Growth in household spending increased to 5.2% from 4.8% the previous quarter helped by a 5.4% increase in disposable income from 5.0% previously. Household debt increased slightly but debt service costs reduced from 7.2% to 6.9% of disposable household income, its lowest in over 5 years. Meanwhile Gross Fixed Capital Formation (GFCF), the main measure of investment, increased by 3.1% from a previous 1.5%.

However confidence indicators have not been as supportive. In contrast to the surprisingly high 9.8% increase in retail sales in April the Bureau for Economic Research/ Rand Merchant Bank Business Confidence Index fell sharply in the 2nd quarter to 48 from 55 in the 1st quarter attributed to a sharp deterioration in confidence among retailers and wholesalers. The Kagiso Purchasing Managers' Index (PMI) for manufacturing fell to 55.1 in May from 56.4 and the PMI employment index remained below 50 at 48.7 although encouragingly the forward looking PMI expected business conditions index did rebound from 58.1 to 66.7.

While economic data has been mixed the slowdown should be temporary in nature. Meanwhile valuations on the JSE are attractive in terms of both price-earnings multiples and equity risk premiums. Following the range-bound market of the past 6 months equities are likely to rally strongly in the 2nd half of the year helped by attractive valuations and robust earnings growth. Interest rates should also be supportive. Recent economic data including weak credit extension numbers may deter the SARB from raising its benchmark repo interest rate prior to year-end in spite of the market's expectation for a 25 basis point hike in November. An early rate hike is becoming increasingly less likely following the sharp drop in oil and other commodity prices and the continued strength in the rand. Moreover remaining inflationary pressures are being attributed by economists, including those at the SARB, to "supply-side" shocks beyond the influence of monetary policy.