overberg asset management

Local performance factsheet

OAM Local Growth Portfolios

ZAR Rand

MAR 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	20.03	6.88
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	-2.74	0.27

*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

	%
Annualised Income Yield	4.08

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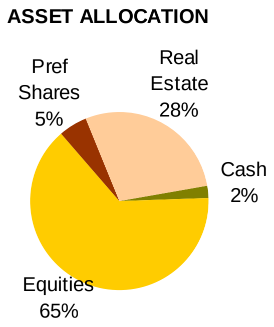

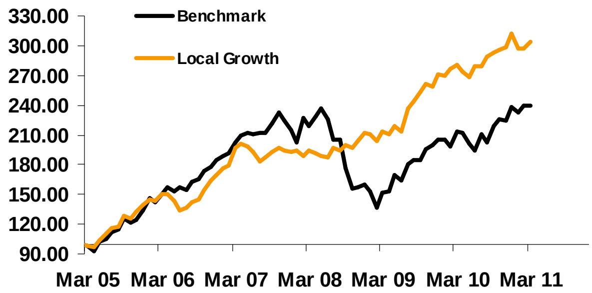

(As calculated by Overberg 31 March 2011)

Commentary

In contrast to the anemic performance of the JSE since the start of the year, economic data has shown a marked improvement. Manufacturing production increased in February by 6% on the year, a significant rebound from January's reading of 1.6% and well above the 3.1% consensus forecast. The expansion was broad based with 9 out of 10 major sectors recording growth. The positive data was supported by the Kagiso purchasing managers' index (PMI) for manufacturing which increased in March to a 13-month high of 57.2, the new sales orders index increased to 62 having hovered between 59 and 60 over the previous 2 months, and the business activity index increased to 59.7 from 51.6 in February.

March was another strong month for new vehicle sales which increased 22.8% on the year to a monthly rate of 53,478 from 43,541 a year ago. Growth rates in new vehicle sales are now nearing the pace during the previous boom in 2006-2007. The increase in demand was not confined to households, with sales of new heavy trucks and buses increasing 21.4%, suggesting an improvement in fixed investment sentiment. New light commercial vehicles, bakkies and minibuses gained 21.7%, while sales of medium commercial vehicles rose 16.8%. Exports of SA produced vehicles increased 37.4% on the year to a record high 29,254 per month. The National Association of Automobile Manufacturers of SA (Naamsa) said additional support to vehicle sales is expected from "higher levels of consumer expenditure and public sector infrastructural investment".

Employment growth is also finally joining the party. The number of people employed in the formal non-agricultural sector increased by about 110,000 or 1.2% in the 4th quarter 2010 from an estimated 8.155 million in the 3rd quarter to an estimated 8.256 million. The improving trend is gaining momentum following a loss of 77,000 in the 1st quarter 2010, a gain of 46,000 in the 2nd quarter and a gain of 23,000 in the 3rd quarter. Unemployment reduced in the 4th quarter to 24%. Meanwhile Private Sector Credit Extension (PSCE) increased in February by 5.4% on the year, up from January's 5% and the 5.2% consensus forecast. Especially positive, other loans and advances growth, viewed as a proxy for corporate credit demand, increased from 6.9% in January to 8.4% in February.

At the same time the interest rate outlook remains constructive. According to consensus forecast monetary tightening is expected to start at the end of the year with the repo rate likely to rise gradually by 300 basis points by the end of 2012. However, the market may be overestimating both the timing and extent of monetary tightening. The latest Monetary Policy Committee (MPC) statement concluded that although the risks to the inflation outlook are on the upside "these risks and underlying pressures are mainly of a cost push nature" and beyond the influence of interest rates. The SARB is aware that demand side inflationary pressures remain absent. The lift in producer price inflation (PPI) from 5.5% in January to 6.7% in February although well ahead of the 5.9% consensus forecast, is unlikely to prompt a spike in consumer price inflation (CPI). Economic output remains significantly below full capacity thereby reducing producer pricing power.

Positive macro data may lift analyst estimates for economic growth in 2011 currently expected to be 3.6%. The SARB, while emphasizing risks to growth such as high oil prices, raised its economic growth forecasts for 2011 and 2012 from 3.4% to 3.7% and from 3.6% to 3.9%. Equity valuations meanwhile are rapidly becoming more attractive in response to strong earnings growth. The historic price to earnings multiple of the All Share Index has reduced since the start of the year from over 17 to 15, currently trading on an estimated 1-year forward multiple of below 11.