overberg asset management

Local performance factsheet

OAM Local Income Portfolios

ZAR Rand

FEB 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 (40%) and ALBI 1-3 yr Return Bond Index (60%)**
- Asset Allocation: **flexible mix of equities, bonds and cash**

Investment Objectives:

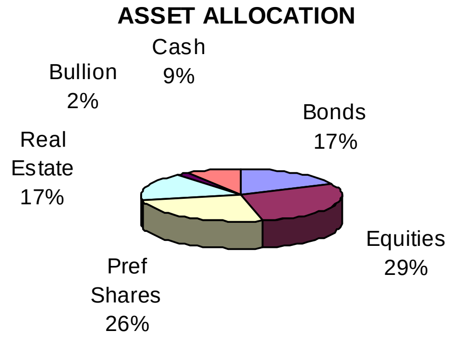
- conservative growth with income
- consistent annual returns
- low volatility

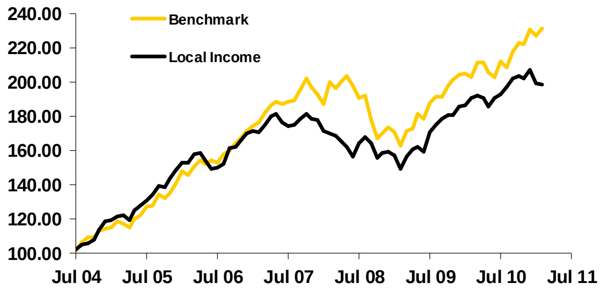
	Local %	Benchmark %
Annualised Total Return	10.82	8.20
2004 (July – December)	18.33	14.20
2005	25.71	23.16
2006	14.50	21.94
2007	4.40	12.27
2008	-10.60	-9.99
2009	16.80	18.00
2010	11.73	12.70
YTD	-4.38	0.57

*Since July 2004: All performance figures include income and are net of fees and expenses

Growth 2011	Local %	Benchmark %
January	-4.09	-1.53
February	-0.31	2.14

	%
Annualised Income Yield	5.69





(As calculated by Overberg 28 February 2011)

Commentary:

The economy grew in the 4th quarter by 4.4 % quarter-on-quarter annualized from 2.6% in the 3rd quarter beating the 4.2% consensus forecast, with all sectors showing expansion. The agriculture, mining and manufacturing sectors led the expansion with respective growth rates of 12.5%, 17.1% and 4.1% while the construction sector lagged with growth of 0.2%. The strong finish at the end of the year boosted overall economic growth for 2010 to 2.8%. The consensus forecast for 2011 growth is higher at 3.5%. Meanwhile new vehicle sales increased strongly in February by 13.5% on the month and 25% on the year. Vehicle exports increased 77% on the year. However, other economic data has been disappointing. Growth in Private Sector Credit Extension (PSCE) slowed in January to 5.01% on the year from 5.56% in December and well below the consensus forecast 5.88%. Household credit extension fared reasonably well accelerating from 6.9% to 7.5% but company credit extension increased only marginally from 1.2% to 1.3%.

The overall slowdown in PSCE should reduce pressure on the SARB to raise interest rates. Consumer price inflation (CPI) data also supports the case for a continuation of loose monetary policy. Although CPI increased in January to 3.7% on the year from 3.5% in December this was in line with consensus forecast and due mainly to food price inflation which increased 2.3% on the month and administered price (as determined by governmental or other governing agencies) inflation which increased to 9.6% on the year from 8.5% in December. CPI excluding administered prices increased only slightly from 2.6% to 2.7% while CPI for services decreased from 5.1% to 4.7%. In the absence of unexpected rand depreciation, there is unlikely to be a pronounced increase in CPI, which given the economy's below trend growth trajectory suggests the repo rate will remain at its current low level during 2011.

As expected the State budget was more equity than bond friendly, targeting economic growth at the expense of fiscal prudence. The projected budget deficit was raised higher than previously estimated to 5.3% of GDP. Longer dated government bond yields increased following Finance Minister Pravin Gordhan's announcement that state funding would rise in the 2012/2013 fiscal year from R139 billion to about R145 billion. The yield spread of the 2026 RSA bond over the 2015 RSA bond increased 20 basis points on the day of the budget announcement to 1.20%, exceeding the previous record high 117% reached in July 2010. However, the stronger rand of the past few weeks is likely to encourage foreign buyers of longer dated bonds, which should limit further widening in the yield spread. Meanwhile the National Treasury is sticking to its 3-year plan of reducing the budget deficit to below 4% of GDP.

Encouragingly the International Open Budget survey which is published every two years placed SA in the top spot out of 94 countries for transparency and accountability in its national budget process, up from 2nd place in 2008. SA scored an open budget score of 92 out of 100 compared with an average across all countries of 42. In further positive news credit rating agency Standard & Poor's upgraded SA's long-term sovereign debt outlook from "negative" to "stable" although warned that increasing public debt levels could reduce budget flexibility. The move followed a similar upgrade by Fitch credit rating agency. Unfortunately the accolades for SA's budget process are in stark contrast to the country's mining legislative framework. The Fraser Institute annual mining survey showed SA declined further in the global rankings as a mining destination, dropping from position 61 to position 67 out of 79 destinations. The decline is due mainly to a poor showing in the Policy Potential index which gauges mining executives' views on government mining policies. On this measure SA scored 23.4 out of 100, only marginally ahead of Zimbabwe with 22.4.