overberg
asset management

LOCAL PERFORMANCE FACTSHEET

OAM Local Balanced Portfolio

Technical Details

2021 Q1

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

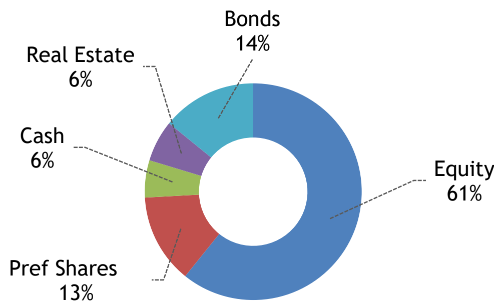
Annualised Growth (%)	OAM	Benchmark
Inception 2004	7.81	9.01
10 years	5.79	7.08
7 years	1.47	6.17
5 years	0.09	6.26
3 years	-0.53	5.34
2021 YTD	5.85	6.94

Annualised Income Yield	2.84%

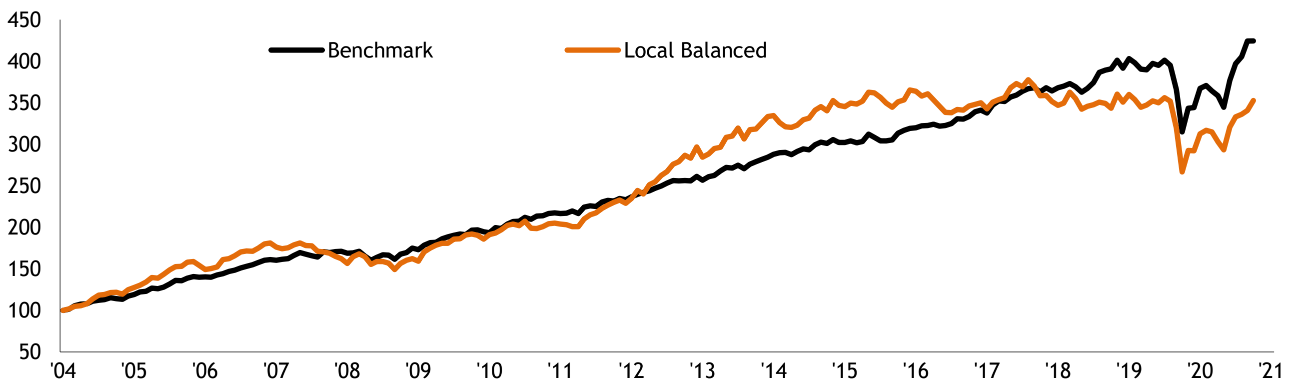
Investment Objective

- Conservative growth
- Consistent annual returns
- Low volatility

ASSET ALLOCATION
(see through basis)



Top 5 Holdings	
NEWFUNDS GOVI ETF	
TRANSACTION CAPITAL LTD	
FIRSTRAND LTD	
ANGLO AMERICAN PLC	
NASPERS LTD	
Total number of holdings	27



Reg No: 2001/019896/07 | Authorised Financial Services Provider. License No: 783

Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise as well as fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of underlying assets and other variable market factors. Past performances are not necessarily indicative of future performances.

Local Market Review and Strategy Outlook

Boosted by the strong recovery in global trade, firm commodity prices, and powerful foreign capital inflows, local equity markets maintained their winning streak in the first quarter (Q1). Local investor sentiment improved in line with the gradual recovery in the domestic economy. The JSE All-Share index gained 11.9% in Q1, led by the Resources 10 index, which increased by 15.8%. The Industrial 15 index increased by 12.2% while the Financial 15 index lagged, with a modest return of 1.7% as credit extension remained subdued. The All-Bond Total Return index performed less well than the JSE, which is to be expected in a rising market, but still gained by a solid 6.4%. In a world awash with liquidity, foreign investors were drawn to the higher yields offered by South African bonds. Safe-haven demand for gold declined in line with the improving global economic recovery, causing the dollar gold price to drop by 12.3% in Q1. Global demand for emerging market assets provided a solid tailwind for the rand, which was stable over the quarter with a moderate loss of just 1.1% versus the US dollar.

GDP grew in Q4 2020 by a stronger than expected 6.3% quarter-on-quarter annualised. Moreover, the Q3 growth figure was revised upwards from 66.1% to 67.3%. In 2020, GDP contracted by 7.0%, which although the largest decline on record was less bad than most economists had projected. However, with the country moving back to level 3 lockdown at the end of December, there was a weakening bias to economic data at the start of the year. Retail sales were especially affected by lockdown restrictions while industrial activity was undermined by power supply disruptions. Lockdown restrictions were lifted again at the beginning of March, from level 3 to level 1 amid a sharp decline in Covid infections. As a result, the most recent economic data has improved. The manufacturing purchasing managers' index surged in March from 53.0 to 57.4 significantly above the neutral 50-level which demarcates growth from contraction. The latest reading is consistent with an annualised increase in manufacturing output of around 12%. Moreover, the forward-looking new orders index powered ahead from 54.0 to 60.4 signalling continued growth in output in the months ahead.

The National Budget was also better than expected, helped by a tax windfall from the mining resources sector. Tax revenues were R100 billion higher than provisioned in the Medium-Term Budget Policy Statement delivered in October. Finance minister Tito Mboweni refrained from spending the tax windfall, committing instead to fiscal austerity. The public sector wage freeze will shave R144 billion from the state's wage bill over the next three years. Encouragingly, for the private sector, he pledged to cut the company tax rate from 28% to 27% from April 2022. While applauded by many, the credit rating agencies remain sceptical. Moody's believes the National Treasury's plans for budget deficit reduction and gross debt containment will be undermined by ongoing payments to state-owned enterprises, weak GDP growth, and unrealistic goals for the public sector wage bill.

A concern is that the Bureau for Economic Research (BER) business confidence index fell in Q1 from 40 to 35, despite the survey being carried out after the peak in the second wave of Covid infections and after the worst of Eskom's load shedding. The data indicates that seven out of 10 senior executives remain dissatisfied with prevailing business conditions. The BER consumer confidence index did not fare much better, improving slightly in Q1 from -12 to -9 but still in negative territory, which means households continue to remain cautious when it comes to spending.

President Ramaphosa's State of the Nation Address was relatively uninspiring. He spoke the right words, but his audience is growing impatient over the lack of implementation. It is almost six months since he unveiled the Economic Reconstruction and Recovery Plan (ERRP). Although the private sector is playing a larger role in this economic plan compared to previous government economic policies, implementation has been painfully slow even for the low hanging policy initiatives such as spectrum allocation, renewable energy rollout and infrastructure investment. Ideological constraints continue to stand in the way. The ERRP makes no mention of much needed restructuring of state-owned enterprises. South African Airways continues to be bailed out at huge cost to the fiscus despite the abundance of more deserving projects.

Reg No: 2001/019896/07 | Authorised Financial Services Provider. License No: 783
Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise as well as fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of underlying assets and other variable market factors. Past performances are not necessarily indicative of future performances.

overberg asset management

Due to the government's fiscal austerity, delays in mass Covid vaccination and the absence of meaningful structural reforms, South Africa's economic recovery is likely to pale compared to the V-shaped recovery enjoyed in most countries around the world. The economy is not expected to resume its pre-Covid GDP level until 2024, a whole two years after the expected recovery date across the developed world and most emerging economies. The South African Reserve Bank (SARB) forecasts GDP will grow by 3.8% in 2021, which is hardly inspiring given the 7.0% contraction in 2020, and in 2022 and 2023, growth will subside to 2.4% and 2.5%, respectively. The IMF's forecasts are even more disappointing. Its projected growth rate for 2021 is just 3.1%, which compares with a global growth forecast of 6%. In 2022, the IMF expects South Africa's growth to slow to 2%, which is dismal for a country with an unemployment rate of 32.5%.

Despite the weak economic outlook, the rand remains stable. In March, the rand was the best performing emerging market (EM) currency, appreciating by 1.9% versus the US dollar while the EM basket depreciated by 1.7%. Perhaps foreign exchange markets are encouraged that Ramaphosa scored a victory against the Radical Economic Transformation faction of the ANC at the most recent NEC meeting. It was decided at the meeting that officials facing corruption charges would have to step down from their ANC positions within 30 days. The robust trade balance has also supported the rand. The trade balance recorded two bumper monthly surpluses in January and February, lifting the year-to-date trade surplus to R41.4 billion, up from the year-ago equivalent of R10.3 billion. With export markets enjoying V-shaped recoveries and commodity prices elevated, the trade balance should remain in surplus which bodes well for the current account. After being in deficit for many years the current account recorded a surplus in the last two quarters of 2020. Strong commodity prices, a strong trade surplus and strong global demand for higher yielding emerging market currencies, are all supportive of the rand.

Amid a lack of domestic demand pressure and with a stable rand, consumer price inflation (CPI) eased further in February from 3.2% year-on-year to 2.9%, while core CPI which excludes food and energy prices due to their volatility, remained subdued at 2.6%. All readings remain well below the mid-range of the SARB's 3-6% inflation target. The SARB forecasts CPI will remain at or below 4.5% until 2023, which should allow it to delay raising the repo interest rate through 2022, especially given the positive rand environment and the subdued outlook for economic growth.

It is often the case that equity markets power ahead in the absence of solid economic growth. Other drivers are at play, including a stable currency, low interest rates and foreign investor demand. The V-shaped global economic recovery and the reopening of service sectors are catalysts for a significant rotation out of over-valued growth sectors into under-valued cyclical sectors. Emerging markets are synonymous with cyclical sectors such as commodities and industrial goods. Emerging markets tend to perform better than developed markets in global cyclical recoveries. Although South Africa's economy is a laggard in its peer group, all boats are lifted in a rising tide. However, rising equity markets do need to be vindicated by earnings growth eventually. Given the risk to earnings growth due to the weak economic outlook, we continue to remain heavily invested in so-called rand hedge shares. While domestically focused shares may fare best in the short-term, the rand hedge shares will likely overtake them in the longer-term, in the absence of meaningful structural economic reforms.

Reg No: 2001/019896/07 | Authorised Financial Services Provider. License No: 783
Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise as well as fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of underlying assets and other variable market factors. Past performances are not necessarily indicative of future performances.