LOCAL PERFORMANCE FACTSHEET

OAM Local Defensive Portfolio

Technical Details

2021 Q3

- Base currency: **South African Rands**
- Benchmark: **Prime Interest Rate (2009 - 2018); 25% JSE All Share, 25% ALBI (1-3y 2019-Sept'20), 15% SAPY, 35% JSET (2019-)**
- Asset Allocation: **Flexible mix of equities, real estate holdings, preference loan stock, government bonds and cash**
- Individual portfolio representing Local Real Return investment style
- All performance figures include income and are net of fees and expenses

Annualised Growth (%)	OAM	Benchmark
Inception 2009	6.03	9.14
7 years	1.85	8.87
5 years	0.36	8.34
3 years	0.36	6.75
2021 YTD	7.97	8.30

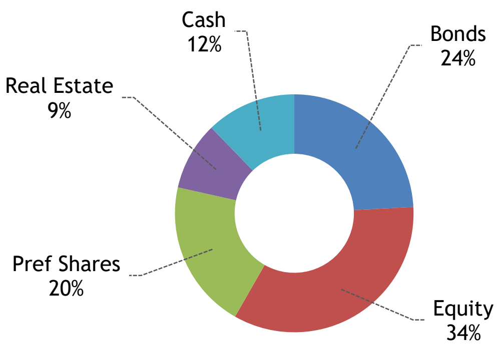
Annualised Income Yield	5.19%

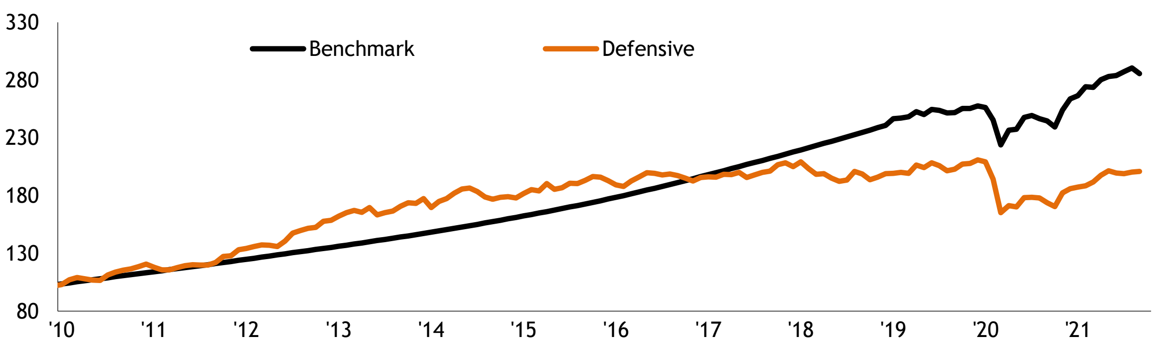
Investment Objective

- Conservative growth
- Consistent annual returns
- Low volatility

Top 5 Holdings	
NEWFUNDS TRACI 3-M ETF	
STOR-AGE PROP REIT LTD	
STANDARD BANK GROUP PREF	
REINET INVESTMENTS S.C.A	
CAPITEC BANK HLDGS PREF	
Total number of holdings	21

ASSET ALLOCATION
(see through basis)





Local Market Review and Strategy Outlook for the quarter ended September 2021

The JSE weakened during the third quarter (Q3) in line with global markets, which came under pressure from a resurgence of Covid infections, a gradual withdrawal of pandemic-era stimulus and a slowing in the pace of economic growth. The JSE All Share index lost 3.1% over the quarter, trimming its gain for the year-to-date (YTD) to 8.2%. Commodity shares were the biggest losers, due to a deluge of bad news from China's resource hungry economy. The Resource 20 index, which tends to be more volatile at the best of times, fell 9.6% giving it a slim YTD return of just 0.9%. China's woes also affected the Industrial 25 index, which dropped 5.6% although maintained a YTD return of 5.2%. Index heavyweights Naspers and Prosus succumbed to China's regulatory crackdown on Tencent, e-commerce and gaming. For once, domestic shares outperformed, helped by attractive valuations and the rebound in domestic economic activity, which boosted financial shares. The Financial 15 index surged by 12.7%, lifting its YTD return to 21.3%. As global markets became more risk averse, the rand depreciated versus the US dollar in line with other emerging market currencies, by 5.5% in Q3 and 2.5% YTD to R/$15.07. The rand's weakening bias undermined bond returns. The All-Bond Total Return index only increased by 0.5% over the quarter, lifting the gain for the year to 5.5%. A stronger dollar impacted the dollar gold price, which fell 2.4% and by 8.5% YTD, settling at $1759 per ounce.

It is surprising that South Africa's financial markets were not weaker during the past quarter, considering the looting frenzy across KZN and Gauteng in the week 10-17th July. The crisis prompted futurist and scenario planner Clem Sunter to increase the probability of his "Low Road" scenario, in which the country descends into anarchy, from 30% to 50%. Studies have shown that historically there is a very high chance of civil unrest within 14 months of a pandemic, especially in poorer countries with high unemployment. South Africa's unemployment rate surged to 34.4% in Q2, from 32.6% the previous quarter. The number of unemployed jumped by 584,000 to 7.8 million, employment fell by 54,000 to 14.9 million and the labour force increased by 530,000 to 22.8 million. The expanded definition of unemployment, including people who have stopped looking for work, increased from 43.2% to 44.4%. Youth unemployment, between ages 15-24 hit a record high 64.4%. Despite the disappointing employment data, total employee compensation was 2.8% higher in Q2 than two years earlier in Q2 2019, prior to the pandemic. This helps explain the resilience of the economy, which according to high frequency business survey data, appeared to rebound rapidly from July's chaos. After slumping to a contractionary sub-50 reading of 43.5 in July, the Absa manufacturing purchasing managers' index (PMI) rebounded in August to 57.9 indicating a healthy recovery path. The IHS Markit PMI, which measures economic health across the entire private sector, jumped from 46.1 to 49.9 confirming a return to economic stability.

Although July's events will inevitably affect Q3 GDP data, the economy outperformed expectations in Q2. GDP grew by a stronger than expected 1.2% quarter-on-quarter and 19.3% year-on-year, boosted by strong agricultural and export sectors, which grew output on the quarter by 6.2% and 4%, respectively. However, the recovery was not broad based. Four sectors contracted over the quarter, including manufacturing, construction, the finance, real estate and business services sector, and government services. The construction sector is the furthest way from recovering its pre-pandemic level, at 20% below Q4 2019 output, while mining has already exceeded its pre-Covid peak, helped by the surge in global commodity prices. The trade, catering and accommodation sector remained weighed down by ongoing lockdown restrictions and social distancing, although the sector should start to recover swiftly under adjusted level 1 lockdown, in place since 1st October. International visitors will pick-up with the recent relaxation of travel bans. On 7th October the UK finally removed South Africa from its "red list", so that fully vaccinated travellers returning to the UK no longer have to spend 10 days in quarantine. Unfortunately, capital investment continued to lag, reflecting the depressed appetite for new investment which predated the pandemic. In the first half (H1) of the year, gross fixed capital formation was only 1,1% higher than the very depressed H1 2020 and July's unrest may have a lasting impact on investment confidence.

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The global commodity boom has bolstered the trade balance. In the year to the end of August, the trade surplus surged to R332 billion compared to R135 billion in the same period last year. The current account balance moved from a surplus of 4.3% of GDP in Q1 to 5.6% in Q2. Merchandise exports, which include agriculture, mining and manufacturing, increased to a new all-time high in Q2. The economic outlook was lifted further when Stats SA revised its GDP figures. Under the revisions, the economy was 11% larger in 2020 than previously estimated with GDP raised from R4.9 trillion to R5.5 trillion, GDP contracted in 2020 by 6.4% rather than 7.0%. The revised estimates make a sizeable contribution to improved economic and fiscal ratios.

South African Reserve Bank (SARB) governor Lestja Kganyago said the large current account surplus, domestic fiscal consolidation and tame inflation rate are key factors which should help the economy and the rand weather the storm of rising US interest rates. The SARB highlighted that relative to the Fed taper tantrum of 2013, South Africa was now far better prepared for the removal of US quantitative easing and monetary policy normalisation. Despite the social unrest, the rand has remained remarkably stable. With so little expected in the way of good news, the currency tends to discount the worst-case scenario so that when events occur such as July's social unrest, a muted response can be expected. A stable rand, weak domestic demand conditions and benign consumer price inflation (CPI), which dropped from 5.2% year-on-year in May to 4.6% by July, should allow the SARB to lift its repo interest rate in gradual increments. The repo rate has remained at 3.5% for seven consecutive policy meetings since July 2020 after dropping a cumulative 275 basis points since the onset of the pandemic. A historically low interest rate offers a pillar of support for the economy.

The SARB forecasts CPI will stay anchored at 4.2% in 2022 and 4.5% in 2023 and has revised its GDP forecast upwards to 5.3% this year from a previous 4.2%, despite an expected quarter-on-quarter slowdown in Q3. However, growth forecasts in 2022 and 2023 are disappointing, at 1.7% and 1.8%, down from the previous forecasts of 2.3% and 2.4% and more akin to the slow growth that prevailed prior to the pandemic than a step change to a higher growth trajectory. A faster growth trajectory requires bolder and more urgent structural reform. Transnet announced that it is seeking private investment to expand its facilities in Durban and Coega, and Denel has announced it will sell assets and reduce its operating divisions by two-thirds, indicating a gradual but encouraging step towards restructuring and partial privatisation of state-owned enterprises.

The current valuation of the JSE is extremely low. The price earnings ratio is 11.6x, not much higher than the low of 9.4x on 19th March 2020 and well below the 5-year average of 14.1x. The price-to-book ratio stands at 1.87, only slightly above the 25-year low of 1.70 plumbed in 1998 and well below the high of 3.07 reached in 2007. The dividend yield is also compelling at 4.05%, well above current money market rates. Admittedly, the market's low valuations are partly attributed to the recent derating in Naspers and Prosus, and mining shares, which together make up a sizeable portion of the JSE All Share index. Notwithstanding these effects, the market is undeniably cheap and appears to be discounting negligible potential for good news. The upcoming local government elections on 1st November will likely boost President Ramaphosa's authority within the ANC and galvanise his reformist drive. Similarly, July's civil unrest should act as a catalyst for change. The JSE is cheap, providing investors with a comfortable margin of safety against systemic risk events and at the same time significant upside potential if, as expected, the pace of structural reforms begins to pick up.

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