



OAM Local Defensive Portfolio

Technical Details

2021 Q4

- 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

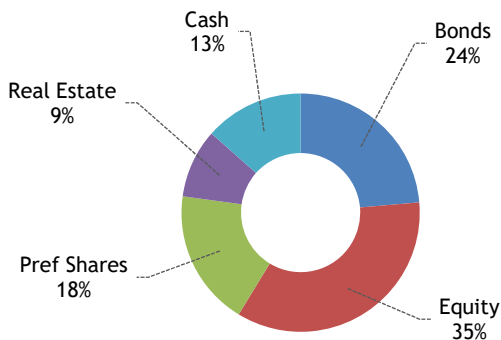
Annualised Growth (%)	OAM	Benchmark
Inception 2009	6.47	9.45
7 years	2.70	9.40
5 years	1.84	9.01
3 years	2.50	7.89
2021	15.20	14.67

Investment Objective

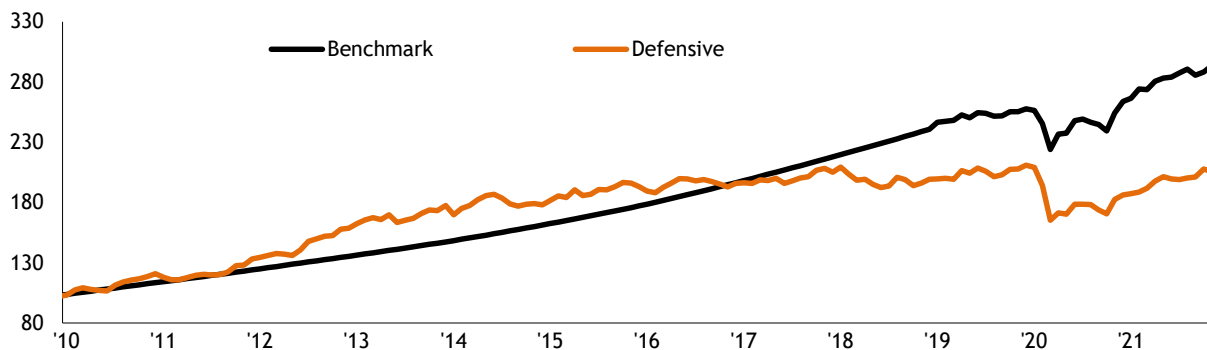
- Conservative growth
- Consistent annual returns
- Low volatility

Annualised Income Yield	5.13%
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ASSET ALLOCATION (see through basis)



Top 5 Holdings	
NEWFUNDS TRACI 3-M ETF	
STOR-AGE PROP REIT LTD	
STANDARD BANK GROUP PEF	
ANGLO AMERICAN PLC	
REINET INVESTMENTS S.CA	
Total number of holdings	20





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

Helped by a strong finish to the year, the JSE produced exceptional returns in 2021. As confidence grows in the strength of the global economic recovery, investment appetite appears to be veering towards more cyclical markets and equity sectors. This trend benefits emerging markets. South Africa, a major commodity producer with the added attraction of low valuations, is a key beneficiary and outperformed the emerging market average. The JSE All Share index surged by 14.67% in the fourth quarter (Q4), capping a 24.07% return for the full year. Commodity stocks shone in the final quarter lifting the Resources 20 index by 22.19% and 23.27% for the year. The industrial 25 index gained 16.45% in the quarter and 22.71% over the year, while the Financial 15 index gained a similar 22.71% over the year but returns were spaced differently with a relatively modest Q4 return of just 1.20%. Equity market returns were even impressive in hard currency terms despite the rand's 9.32% depreciation versus the dollar over the year from R/\$14.59 to 15.95. However, this meant that the 8.35% annual return in the All-Bond Total return Index was entirely eroded in dollar terms. The dollar gold price gained in the final quarter by 4.24% but over the year drifted by 3.49% from \$1894 per ounce to \$1827.

Equity markets are forward looking. In typical fashion they looked past the effect of July's riots, Covid lockdowns, NUMSA strike activity and energy outages, which all conspired to cut economic activity. GDP contracted in Q3 by 1.5% quarter-on-quarter and the unemployment rate recorded a new high of 34.9%. However, forward-looking confidence measures appear to be recovering. The Absa manufacturing purchasing managers' index (PMI) climbed sharply in November from 53.6 to 57.2, well above the expansionary 50-level. The survey suggests businesses are looking towards an improving environment in 2022. The IHS Markit PMI, which measures conditions across the entire private sector, regained the key 50-level in November, rising from 48.6 to 51.7. However, the outlook is clouded by a weak reading in the RMB/BER Business Confidence index, which after dropping from 50 to 43 in Q3, remained at that level in Q4, which is discouragingly below the neutral 50 mark. Business confidence is an important ingredient for much needed fixed investment, which helps spur job creation and economic growth.

The South African Reserve Bank, in its latest policy meeting in November, estimates GDP growth in 2021 will register a robust 5.2% but its forecasts for 2022 and 2023 are comparatively modest at 1.7% and 1.8% due primarily to continued structural headwinds, including persistent energy outages, fiscal imbalances and insufficient structural economic reforms. Despite record high unemployment and sluggish economic growth, the Reserve Bank hiked the repo rate by 25 basis points from 3.50% to 3.75%, citing increased inflation risk. Consumer price inflation (CPI) has risen above the mid-point of the SARB's 3-6% target and accelerated again in November from 5.0% to 5.5% year-on-year. Supply chain bottlenecks and rising commodity prices caused producer price inflation to accelerate from 7.2% to 8.1%, which could spill over into consumer inflation if companies pass on their cost increases. The SARB projects the repo rate will rise steadily in quarterly increments of 25 basis points throughout 2022, 2023 and 2024, which would result in a terminal rate of 6.75%. This would not exceed the recent 2016 peak of 7.0%, an unlikely eventuality given the considerable slack in the local economy. Moreover, the unprecedented current account surplus, measuring 3.6% of GDP in Q3, and likely capital flows into emerging markets, should protect the rand from the volatility that typically raises the SARB's inflation anxieties. As base effects flush out of the system, inflation is likely to ease back over coming months, allowing the Reserve Bank to adopt a more gradual monetary policy normalisation and maintain easy settings for longer.

The fourth quarter contained numerous political and macro-economic developments, mostly positive. The ANC lost considerable support in the local government elections held on 1st November, with its share of the vote dropping to 47% compared with 54% in 2016 and 63% in 2011, indicating political and patronage losses for the ruling party. The



election resulted in a record 66 hung councils, now run by coalition, including 5 metropolises, 3 of which are run by the Democratic Alliance. Encouragingly, the ANC refused to enter coalition discussions with the EFF, signalling President Ramaphosa's growing authority over the party's more radical factions. A similar refusal to compromise with the EFF on the proposed amendment to Section 25 of the Constitution caused it to be rejected by parliament, putting to rest remaining concerns over expropriation without compensation.

Finance Minister Enoch Godongwana impressed financial markets in his maiden Budget on 11th November. The Medium-Term Budget Policy Statement (MTBPS) confirmed a R120 billion revenue overrun due to high commodity prices, which together with the beneficial restatement of GDP resulted in a reduction of the projected FY2022 budget deficit from 9.3% to 7.8% of GDP. The debt-to-GDP projection also improved, peaking at 78.1% in FY2026. The MTBPS is committed to fiscal consolidation and debt stabilisation but controlling expenditure will not be easy amid public sector wage negotiations, financial support for state owned enterprises and demand for social support measures. Pressure will mount for a permanent extension of the R350 per month Social Relief of Distress Grant. Social grants are paid to 27.8 million people, 46% of the population. Godongwana said, "A fast-growing economy will allow for greater revenue collection, making it possible for more comprehensive responses to the challenges we face."

Amongst the positive policy developments over the final quarter, the government announced the preferred bidders for the fifth round of the Renewable Independent Power Producer Procurement Programme, which will add 2500MW of capacity. The Independent Communications Authority of South Africa issued its final invitation to apply for high-demand mobile spectrum, in an auction valued at an estimated R8 billion and expected to bring numerous efficiency and cost savings to consumers and businesses. South Africa also secured R130 billion in concessionary financing at COP 26 towards accelerated decarbonisation. These incremental developments and improving fiscal outlook caught the attention of Fitch credit rating agency, which moved South Africa's sovereign risk outlook from "negative" to "stable".

Some concern has been voiced over a repeat of the 2013 "taper tantrum". When the Federal Reserve reduced its asset purchases that year, financial markets rioted, and emerging market currencies were particularly badly affected. The taper this time round has been much better telegraphed. Financial markets have already discounted the event. Moreover, emerging market currencies are now largely undervalued compared with being overvalued 8 years ago. At that point there had been excessive capital transfers into emerging markets. The reverse is true today. In 2021, the JSE suffered net foreign selling of R140 billion. Also, in contrast to 2013, emerging markets are supported by stronger terms of trade. In the 11 months to end November 2021, South Africa chalked up a massive R412.7 billion trade surplus. The current account surplus will strengthen the rand's resilience.

Following a dismal year in 2021, China's economy is expected to recover its momentum in 2022, as regulatory constraints ease and authorities step up policy stimulus. An upgrade to China's forecasts is positive for commodity prices and emerging markets generally. As the global recovery extends beyond the US, which enjoyed exceptional growth last year, capital flows will gravitate towards more cyclical markets. South Africa, which is a "high beta" cyclical economy, with an outsized stake in commodities, will benefit in this expected scenario. JSE valuations are still compelling, despite last year's 24% return in the All-Share index. The index trades on a price-earnings multiple of 12.7x cheaper than its 5-year average of 14.1x. The price-to-book ratio is also undemanding at 2.17 well below the 2007 peak of 3.07. The 3.72% dividend yield is attractive when compared with current money market rates. Money market rates will rise in line with the Reserve Bank's monetary tightening cycle. However, a stable rand, backed by capital inflows, buoyant commodity prices, and robust trade and current accounts, should enable the Reserve Bank to lag its rate hike projection, providing an added tailwind for the economy and its markets.