overberg asset management

LOCAL PERFORMANCE FACTSHEET

OAM Local Defensive Portfolio

Technical Details

2022 Q1

- 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	6.41	9.36
7 years	2.33	9.24
5 years	1.72	8.72
3 years	2.77	7.24
2022 YTD	0.85	1.26

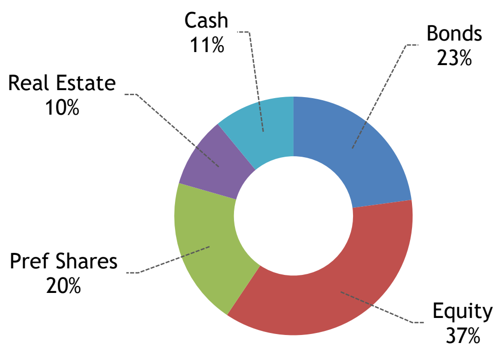
Annualised Income Yield	5.03%

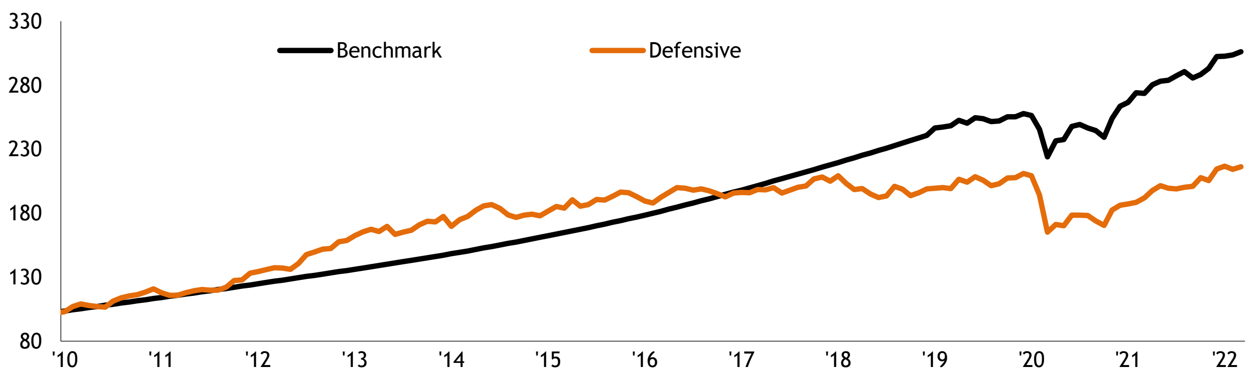
Investment Objective

- Conservative growth
- Consistent annual returns
- Low volatility

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

ASSET ALLOCATION
(see through basis)





Local Market Review and Strategy Outlook for the quarter ended March 2022

The JSE performed remarkably well in the first quarter despite rising global interest rates, growing anxiety over inflation and the impact of Ukraine's invasion on oil prices and market sentiment. Local shares continued last year's solid performance, underpinned by robust global growth and trade activity, and rapidly rising commodity prices. While most equity markets around the world dropped in the first quarter (Q1), the JSE provided a rare oasis of growth. The JSE All Share index gained 2.42%, buoyed by a 14.97% return in the Resources 20 index. The mining windfall spilt over into stronger domestic demand and increased credit expansion, which lifted the Financial 15 index by a substantial 19.58% over the quarter. On the other hand, further pressure on Naspers and Prosus shares, which are heavily weighted in the Industrial 25 index, caused that index to shed 14.30%. The equity market gains were even more impressive in US dollar terms, as the rand strengthened by 8.60% in Q1, from R/$15.93 to 14.56. An improving fiscus and attractive interest rates for investors, facilitated a decent 1.86% return in the All-Bond Total Return index. As expected, the dollar gold price was underpinned by inflation anxiety and the war in Ukraine, ending the quarter with a 5.50% gain.

The global backdrop of solid trade and economic growth, as the world gradually moves past the Covid threat, is extremely positive for emerging markets. Commodity exporters are in the sweet spot. Disruptions to commodity exports from Russia and Ukraine have been a further boon to South Africa's economy. Trade surpluses of R4.1 billion and R10.6 billion were recorded in January and February, signalling another current account surplus in 2022. The current account surplus was 3.70% of GDP in 2021. Firmer commodity prices assisted Finance Minister Enoch Godongwana. He delivered a well-received 2022 Budget. The FY 2022 consolidated budget deficit forecast, which had been projected last year to reach 9.3% of GDP, was revised down to 5.7%/GDP. Revenues will rise sharply owing to tax payments from mining companies. The peak sovereign debt/GDP projection was lowered from 77.8% to 75.1%. The peak is expected in FY 2025. The credit rating trajectory may be reaching a turning point. Moody's rating agency changed its outlook for South Africa from "negative" to "stable", observing that the country's "fiscal position has markedly recovered from the pandemic thanks to government's fiscal consolidation measures and positive external developments."

Recent economic data and sentiment surveys have been upbeat. The Reserve Bank's leading business cycle indicator, after posting successive monthly declines around last July's riots, has shown a sustained improvement over the latest three months. Purchasing managers' indices have also recovered into expansionary territory. The manufacturing PMI has risen incrementally each month from December to March, now at levels signalling solid growth in manufacturing activity and the economy-wide IHS Markit PMI has followed a similar pattern, now firmly above the neutral 50-level. While consumer confidence remains depressed, with the Bureau of Economic Research index languishing at -13, the business confidence index improved from 43 in Q4 2021 to 46 in Q1 2022. GDP grew in Q4 by 1.2% quarter-on-quarter, a turnaround from the 1.7% contraction in Q3, capping 4.90% growth in 2021. Credit extension is picking up with banks relaxing lending standards amid increased credit demand from businesses and households. Year-on-year growth in private sector credit extension has been steadily improving, from 2.46% as recently as last November to 3.62% in February. Closely watched domestic new vehicle sales are performing well with year-on-year growth of 16.5% in March, which Alex Boavida vice-chair of the National Automobile Dealers Association called "staggering".

The Reserve Bank, emboldened by a recovery in domestic demand, continued its gradual return to pre-pandemic interest rates, with two further 25 basis point interest rate hikes in January and March, lifting the repo rate to 4.25% and the prime lending rate to 7.75%. The SARB increased its projected GDP growth rate for 2022 from 1.7% to 2.0% and for 2023 from 1.8% to 1.9%. Although it lifted its end 2022 inflation projection from 4.9% to 5.8%, this remains within the 3-6% target range. Consumer price inflation has been relatively contained, coming down from 5.9% in December to 5.7% in both January and February. With strong trade and current account balances keeping the rand stable combined with a lack of domestic demand pressure, the outlook for inflation and interest rates is relatively benign compared with most developed market economies. The SARB is likely to maintain a gradualist approach to normalising interest rates.

It is difficult to reconcile positive market performance and improving fiscal and economic data with the dismal state of the country's municipalities and the world's highest inequality, compounded by yet another deterioration in the unemployment rate. The jobless figure climbed from 34.9% in Q4 2021 to 35.30% in Q1 2022, the highest unemployment rate in the world. For this to change will require bold economic reforms. President Ramaphosa gave a more authoritative speech in this year's State of the Nation Address. He said, "The state of the nation is linked inextricably to the state of the economy" and "We all know that government does not create jobs. Business creates jobs." The president pivoted away from the ANC's traditional state-led development model, instead making repeated refences to the role of business and the private sector. The change in ideology needs to be proven through implementation. There has been progress in this regard. A sixth round of the Renewable Independent Power Producer Procurement Programme is due to be announced, providing another 2600 MW of renewable energy. The mobile spectrum auction finally went ahead as planned in March, which will facilitate broadband infrastructure across the country. The Infrastructure Fund was established with an initial R100 billion, with a pipeline of projects in water and sanitation, energy, transport, communications, agriculture and processing, and human settlements. The Transnet National Ports Authority has been unbundled as a separate entity, to facilitate investment in ports and transport. In his speech at the 4th SA Investment Conference Ramaphosa conceded that state-owned enterprises had been a huge drain on the fiscus over the years and that "our reform process is aimed at bringing this to an end." In the SONA, he said the Presidential SOE council was making recommendations on which state-owned enterprises would be retained, consolidated or disposed of.

Although president Ramaphosa will undoubtedly be distracted over coming months by the upcoming ANC elective conference in December and the preceding provincial elective conferences, his grip over the party and government is becoming steadily stronger and with that the likelihood of structural reforms. Combined with the backdrop of solid global growth and buoyant commodity prices, the outlook remains positive for local financial markets. Earnings momentum is expected to continue accelerating over the coming 12 months and broaden beyond the resource sector. In the longer-term, domestic demand should recover more meaningfully with further easing of Covid restrictions and with the spill-over from rising export volumes. The SARB is expected to keep to a gradual course of interest rate hikes and credit extension is likely to continue recovering in line with improving domestic demand. Despite strong recent performance, South African equity valuations remain historically cheap versus their emerging market peers and extremely cheap relative to developed markets. The JSE All Share index trades on an undemanding price-earnings multiple of 12.3x, not much higher than its PE of 12.1x at the peak of the Covid crisis in March 2020, and down sharply from the year ago level of 23.67, due to strong earnings growth and the sharp de-rating of Naspers and Prosus. Investors are likely to be rewarded again in 2022.