overberg asset management

LOCAL PERFORMANCE FACTSHEET

OAM Local Balanced Portfolio

Technical Details

- 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

Investment Objective

- Moderate growth
- Consistent medium-term returns
- Medium volatility

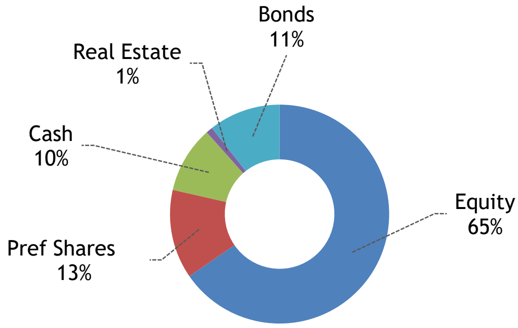
2022 Q2

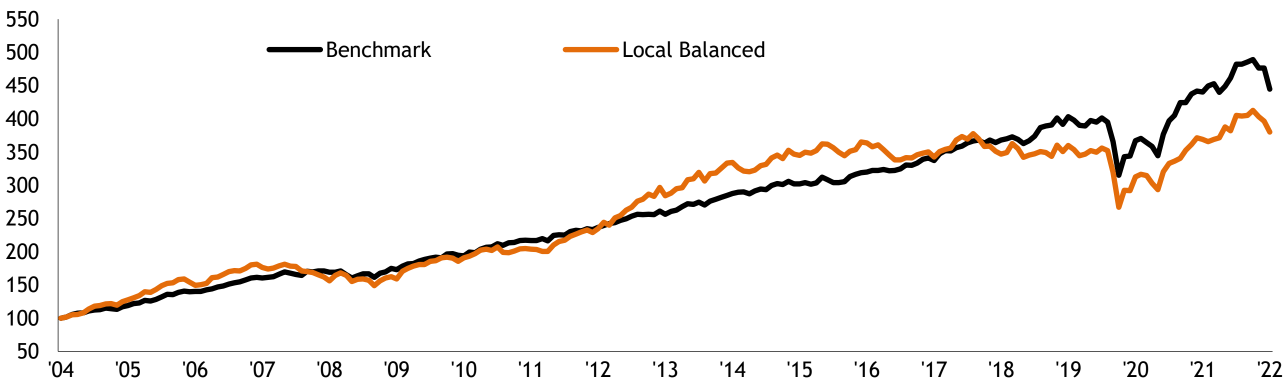
Annualised Growth (%)	OAM	Benchmark
Inception 2004	7.70	8.64
10 years	4.94	6.51
7 years	1.40	5.66
5 years	2.11	5.67
3 years	1.86	3.30
2022 YTD	-6.17	-7.79

Annualised Income Yield	2.27%

Top 5 Holdings	
NEWFUNDS GOVI ETF	
FIRSTRAND LTD	
ANGLO AMERICAN PLC	
PROSUS N.V	
GRINDROD LTD	
Total number of holdings	27

ASSET ALLOCATION
(see through basis)





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

After holding out so well in the first quarter (Q1), the JSE succumbed to global market pressures in Q2. Reverberations from Russia's invasion of Ukraine, food and energy supply shocks, surging inflation and rapid interest rate hikes finally affected the local equity market. After gaining 2.42% in Q1, the JSE All Share index lost 12.28% in Q2, resulting in a year-to-date decline of 10.16%. The Resources 20 index was the quarter's biggest casualty, nursing a loss of 21.87%, with continued Covid lockdowns in commodity-hungry China weighing on the sector. Its YTD loss was more moderate at 10.18%. The Financial 15 index fell 16.99% in Q2 but just 0.77% YTD. The Industrial 25 index was an outlier in Q2, helped by a surge in Naspers and Prosus, after management sold down the Tencent holding to narrow the shares' discounts to net asset value. The heavily weighted shares tempered the index's Q2 fall to just 2.94%, although the YTD loss remained substantial at 16.82%. Bonds failed to provide refuge from equity market losses. In line with the worldwide increase in sovereign bond yields, the yield on the RSA 10-year government bond increased over the quarter from 9.38% to 10.50%. Bond prices dropped proportionately. As a result, the All-Bond Total Return index generated a rare 3.71% loss in Q2, and 2.52% YTD. The rand depreciated a sizeable 12.71% against a surging US dollar in Q2, but a strong Q1 stemmed the rand's YTD loss to a moderate 2.52%. The US dollar gold price remained in a narrow range, ending the quarter at $1815 per ounce, down 3.46% over the quarter and up 0.83% YTD.

Economic growth exceeded expectations in Q1. Two years after the onset of the Covid 19 virus, GDP finally returned to pre-pandemic levels, with quarter-on-quarter growth of 1.9%, up from 1.2% in Q4 2021. On a year-on-year basis, GDP growth accelerated from 1.7% the prior quarter to 3.0% in Q1. Growth was widespread, with only the mining and construction sectors recording declines in output. Mining output fell 1.1% on the quarter, the weak performance aggravated by Eskom loadshedding and logistical challenges at ports and railways. On the other hand, manufacturing output increased by 4.9% on the quarter. Trade and consumer spending also made solid contributions. Stronger GDP reduced the unemployment rate from 35.3% in Q4 2021 to 34.5% in Q1.

Unfortunately, GDP performance may drop back in Q2, due to severe flooding damage in KwaZulu Natal, increased strike activity, persistent loadshedding, and a deteriorating trade outlook. The accumulated trade surplus for the year to end May measured R104.37 billion and the Q1 current account surplus increased to 2.2% of GDP, up from 1.9% in Q4 2021, but these healthy data points will come under pressure from slowing global demand and falling commodity prices. Business and consumer confidence levels have dropped back. The FNB/BER consumer confidence index fell from an already depressed -13 in Q1 to -25 in Q2, and the business confidence index fell from 46 to 42. The South African Chamber of Commerce and Industry index and the Reserve Bank's leading business cycle indicator both mirrored the decline in confidence. The manufacturing and economy-wide purchasing managers' indices both fell over the quarter, but declines were more modest than expected and the indices remain above the neutral 50-level, signalling continued albeit slower expansion.

Growth will slow but there is no recession on the horizon. Indeed, high frequency economic data indicate continued expansion, despite the headwinds in Q2. For instance, local and export vehicle sales climbed year-on-year by a robust 7.6% and 18%, respectively in June. Credit expansion gained traction compared with Q1. Private sector credit expansion gained in April and May by 5.99% and 5.34% on the year, compared with 3.12% and 3.62% in January and February. Retail sales grew in April by 3.4% on the year, up from 1.3% growth in March. Domestic demand appears to be normalising as the Covid threat retreats. On 22nd June, the health department repealed the country's remaining Covid-related restrictions including the mandatory wearing of face masks.

Citing rising inflation, the South African Reserve Bank hiked its benchmark repo interest rate by 50 basis points from 4.25% to 4.75% at its policy meeting in May, causing the prime lending rate to increase from 7.75% to 8.25%. In its forecasts, the Reserve Bank predicts consumer price inflation (CPI) will breach its 3-6% target range in Q2 but then fall to 5.9% by end 2022, dropping to 5.0% in 2023 and 4.7% in 2024. It forecasts GDP will grow by 1.7% in 2022, from its earlier forecast of 2.0% made in March. Economic expansion is expected to recover to 1.9% in 2023 and 2024. Indeed, CPI did accelerate from 5.9% in April to 6.5% in May. And with producer price inflation also gaining sharply from 13.1% to 14.7% on the year, it is inevitable that the Reserve Bank will continue its monetary tightening path. A further 50 basis point rate hike is likely at the next policy meeting on 21st July.

Although inflation has breached the Reserve Bank's target range, runaway inflation is unlikely. Subdued domestic demand, fiscal austerity and currency strength have helped South Africa buck the global inflation trend. A current account surplus and rapidly narrowing fiscal deficit should keep the rand on a steady path. In June, S&P credit rating agency upgraded its outlook for South Africa's credit rating from "stable" to "positive" due primarily to the improved fiscal outlook. Rand stability will reduce the pressure on imported inflation, while subdued domestic demand will dampen services and core inflation (excluding food and energy prices). Core inflation only increased modestly in May from 3.9% to 4.1%. It is remarkable that South Africa's inflation is now substantially below that of the US, UK and Eurozone. Against a relatively benign inflation outlook, the futures market is pricing in a total 175 basis points of rate hikes over the next 12 months and a further 50 basis points in the following year. This would bring real monetary policy back into positive territory, whereby the repo rate exceeds the inflation rate. However, this terminal policy rate would be far from restrictive and unlikely to tip the country into recession. The closely watched bond market yield curve remains steep. This is healthy and indicates continued economic expansion even after the Reserve Bank's monetary tightening.

While Eskom load shedding worsened during the quarter, the SOE announced 18 winning bids for renewable projects in Mpumalanga on land leased from the power utility, expected to generate an additional 1800 MW. The ANC released its policy discussion documents, outlining the party's plans for the next 5 years. The documents indicate a clear ideological shift towards private sector participation, with significant emphasis on economic renewal. Disappointingly however, the document clung to the principle of cadre deployment, the key culprit in weakened service delivery and the hollowing out of institutional capacity. Indeed, outgoing Director General Dondo Mogajane confirmed that 170 of the country's 257 municipalities are in financial distress, requiring assistance from the National Treasury. More constructively, the National Prosecuting Authority made a series of high-profile arrests related to ongoing corruption and fraud investigations and Mr. Zuma's arms deal corruption trial is finally due to commence on 15th August.

The JSE is extremely cheap, trading on a 10.8x price-earnings multiple. This is well below the long-term average of 14.5x. The idiosyncratic risks facing the country, including Eskom, corruption, institutional decay and political factionalism, are heavily discounted and therefore pose limited downside for equity prices, unless a recession takes hold. In our opinion, there is little chance of recession and therefore company earnings will continue rising although at a slower pace. With economic fundamentals gradually improving in a post Covid environment, backed by a current account surplus and improving fiscal outlook, the equity market should continue to deliver positive returns over the following 12-24 months in line with earnings growth.