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 all fees and expenses (including asset management and financial advisor fees)

Investment Objective

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

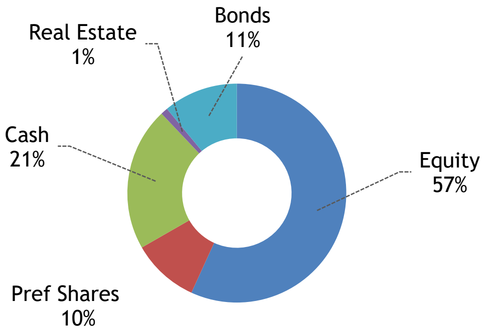
2022 Q4

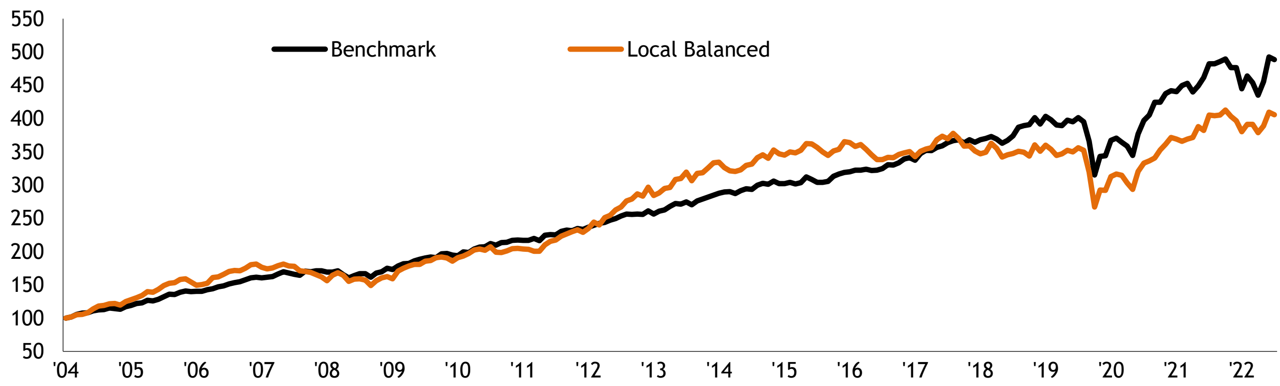
Annualised Growth (%)	OAM	Benchmark
Inception 2004	7.86	8.95
10 years	4.27	6.79
7 years	1.86	7.00
5 years	1.89	6.07
3 years	4.43	6.79
2022	0.05	1.36

Annualised Income Yield	2.15%

Top 5 Holdings	
NEWFUNDS GOVI ETF	
FIRSTRAND LTD	
ANGLO AMERICAN PLC	
INVESTEC PLC	
PROSUS N.V.	
Total number of holdings	24

ASSET ALLOCATION
(see through basis)





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

South Africa's economy and markets ended the year with a flourish, enjoying a strong fourth quarter (Q4) despite slowing export markets and falling global growth, the worst Eskom load shedding to date and growing logistics bottlenecks at Transnet, as well as rising interest rates and inflation. Local markets followed global markets higher amid relief over lower US inflation numbers and growing confidence that the world economy may have moved past the point of peak central bank hawkishness and peak bond yields. Adding to positive market sentiment, GDP numbers were far stronger than expected and the Medium-Term Budget Policy Statement indicated a strengthening fiscal position. The year ended well for president Ramaphosa with results from the ANC National Elective Conference endorsing his leadership and authority within the party, signalling support for his economic reform agenda.

The JSE rallied in Q4 with strong gains across the major indices, helping to neutralise the year's losses. All indices increased over the final quarter of the year. The All Share, Resources 20, Industrial 25 and Financial 15 indices increased by 14.6%, 17.6%, 16.7% and 12.5%, respectively, stemming losses so that for 2022 returns were -0.9%, -0.2%, -0.4% with a gain of 4.9% for the Financial 15 index, as bank shares benefitted from rising interest rates. Despite a brief hiatus in November when the rand fell sharply after the Phala Phala farm incident panel report recommended parliament pursue a formal investigation, the currency strengthened in Q4 by 5.8% versus the US dollar, trimming its loss for the year to 6.9%. The rand ended 2022 at R/$17.04 compared with R/$15.94 at the start of the year. The rand's performance was commendable considering the US dollar index gained 8.2% on the year. In dollar terms the JSE All Share's annual performance compared well with major global indices, falling 7.3% compared with the dollar based MSCI World and MSCI Emerging Market indices, which fell by 19.8% and 22.4% on the year.

GDP growth surprised to the upside in Q3. Quarter-on-quarter annualised growth (QoQ) recovered to 1.6% ahead of the 0.4% consensus forecast, and a dramatic improvement from the 0.7% contraction in Q2. Year-on-year growth recovered from 0.2% in Q2 to 4.1% in Q3, assisted by the statistical base effect of Covid related weakness in the comparative period. The recovery in tourism helped. The agriculture sector grew by a tremendous 19.2% QoQ and despite intense load shedding and transportation constraints, mining and manufacturing both grew by 2.1% and 1.5%, which indicates the private sector is successfully making its own arrangements for essential infrastructure. Firm commodity prices and strong demand in the automotive sector helped. Local vehicle sales were buoyant and continued to post robust year-on-year (YoY) gains in October and November of 11.4% and 18.2%, while vehicle export sales grew 16.1% and 64.7%. Construction also firmed in Q3 by 3.1% QoQ although the sector remains the furthest from recovering its pre-pandemic level. South Africa's largest industry, finance and business services, grew by a solid 1.9%.

Finance Minister Enoch Godongwana delivered an impressive Medium-Term Budget Policy Statement (MTBPS) on 26th October. Gross tax revenues are expected to be around R83.5 billion higher in FY22/FY23 than projected in the February 2022 budget, helped by firm commodity prices. The Treasury projected its budget deficit will reduce from 4.9% of GDP in 2022/23 to 3.2% in 2025/26. MTBPS 2020 predicted that in 2024/25, government debt would be 90.4% of GDP. This has since been adjusted significantly lower every year and now stands at 70.4%, a material downward revision of 20 percentage points. However, expenses continued to mount. A R30 billion bailout was allocated to Denel, Sanral, Transnet and KwaZulu Natal to deal with flooding damage. The Covid social relief of distress grant (SRD), introduced as a temporary measure in May 2020, was extended until March 2024. The Minister said 7.4 million people currently receive this grant. Godongwana said the National Treasury would take over "between one-third and two-thirds" of Eskom's R400 billion debt burden but was vague on specifics.

The improving fiscal outlook enabled sovereign credit rating agencies, Moody's and Fitch to keep their rating outlooks at "stable" and S&P Global to keep its outlook at "positive" but these readings belie the non-investment grade/speculative territory that ratings are already in. There is room for disappointment based on the outcome of public sector wage agreements, calls to make the SRD grant permanent and Eskom's debt solution. The spectre of grey listing by the Financial Action Task Force also looms large. South Africa has been found wanting in all 11 of the FTAF's effectiveness measures to combat money laundering and the financing of terrorism. A grey listing could inflict reputational damage on the country's financial system, possibly sparking capital outflows while raising transactional, administrative and funding costs.

Despite the litany of risks the rand held steady, underpinned by the country's public finances and positive trade balance. Subdued domestic demand and robust exports translated into an accumulated trade surplus of R191 billion in the year to end November. The current account also remained in surplus although it slipped from 1.6% to 0.3% of GDP between Q2 and Q3. Attractive bond yield spreads also helped stabilise the rand. The 10-year government bond yield ended the year at 10.21% versus its starting level of 9.34%. The rising repo rate also helped. The Reserve Bank (SARB) hiked the repo rate by another 75 basis points at its November policy meeting, the 7th straight hike and the 3rd consecutive 75 bps hike, lifting the rate to 7.0%. However, inflation appears to be heading lower. The improving inflation outlook suggests the SARB may only hike the repo rate by another 75 bps and in more gradual instalments to a terminal rate of 7.75%. CPI has reduced from a peak of 7.8% in August to 7.4% in November and PPI from 16.6% to 15.0% over the same period.

The ANC elective conference was a resounding success for president Ramaphosa and his reform drive. As expected Ramaphosa was re-elected to lead the ANC for a second term, despite the Phala Phala scandal, winning 56% of the vote compared with 51% in December 2017. His allies secured four of the top seven government posts, including ANC chairperson (Gwede Mantashe), secretary general (Fikile Mbalula), second deputy secretary general (Maropene Ramokgopa) and treasurer general (Gwen Ramokgopa). Moreover, more than two-thirds of the newly elected 80-member ANC National Executive Committee (NEC) are allied to Ramaphosa. Several cabinet members were not re-elected to the NEC, paving the way for a much needed cabinet reshuffle, that may add impetus to economic reforms.

Reforms have progressed at a glacial pace so far, but prospects are improving. There is hope that structural reforms at key state-owned enterprises will accelerate, in particular at Eskom and Transnet and that expenditure on key infrastructure will increase. The Just Energy Transition (JET) aimed at lowering carbon emissions was published in November and may act as a catalyst of investment and stronger GDP growth. The JET, which aims to reduce the country's carbon emissions by 17% by 2030 will rely on budgeted expenditure of R1.48 trillion over five years, mainly on electricity but also on new energy vehicles and hydrogen. Expenditure is to come mainly from the private sector, and be partially funded by the $8.5 billion pledged at COP26 by France, Germany, the US and EU.

Forward looking economic surveys are holding up surprisingly well. The ABSA manufacturing purchasing managers' index (PMI) has recovered from its sub-50 reading of 48.2 in September, rising to 50.0 in October and 52.6 in November and the economy-wide S&P Global PMI also recovered steadily over the same period, from 49.2 to 49.5 to 50.6. Both PMIs are now above the neutral 50 level signalling further expansion. RMB/BER confidence indicators are also moving in the right direction. Consumer confidence improved from -20 in Q3 to -8 in Q4, up from -25 in Q2. Business confidence has slipped slightly from 39 in Q3 to 38 in Q4 but remains stable. However, latest retail sales figures reflect the impact of high inflation, interest rates and fuel prices on household disposable income. Post Covid pent-up demand is also becoming sated. Retail sales fell in September and October by 0.4% and 0.6% YoY. Household demand, which comprises more than 60% of our economic consumption.

The OECD forecasts South Africa's GDP will grow by 1.7% in 2022, slowing to 1.1% in 2023 before picking up to 1.6% in 2024. While avoiding the recession predicted in the US, Europe and UK, the growth rate needs to accelerate to avoid repeats of the civil unrest that erupted in KwaZulu Natal in July 2021. Although the unemployment rate reduced from 33.9% in Q2 to 32.9% in Q4, it remains dangerously high especially with youth unemployment exceeding 50%. A catalyst for stronger growth lies in unleashing private sector infrastructure investment. Hopefully Ramaphosa will live by his announcement at the ANC elective conference when he said in his closing address that, "This conference has made a clear call for greater urgency and greater action…. We need to do much more and we need to do it much faster…. We need to resolve the load shedding….

We also need to remove the obstacles to faster economic growth and job creation." China's rapid improvement in economic outlook, after swiftly removing its Covid restrictions, may also be a catalyst for stronger growth given the likely boost to commodity demand. With the JSE trading below its 14.5x long-term average at a current multiple of 12.8x and with room for upside surprises for economic growth, prospects look reasonable for JSE returns in 2023.