overberg
asset management

Local Balanced Portfolio

Q3 2023

Investment Objective

The OAM Local Balanced Balanced Portfolio aims to improve the long-term wealth of investors by holding investments which deliver both capital growth and income, while maintaining a medium-risk investment level. Investments are extensively researched to assess their intrinsic value over the longer-term.

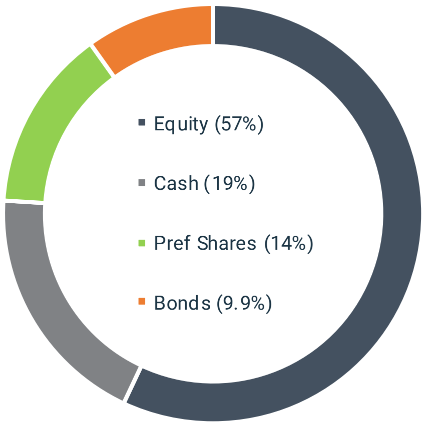
Risk Rating

1	2	3	4	5	6	7
Low risk						High risk

Technical Details

- Base currency: South African Rands
- Benchmark: 30% JSE All Share, 70% ALBI 1-3yr (2004 – 2018) 50% JSE Capped All Share Index, 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)

Asset Allocation (see through basis)



Investor Criteria

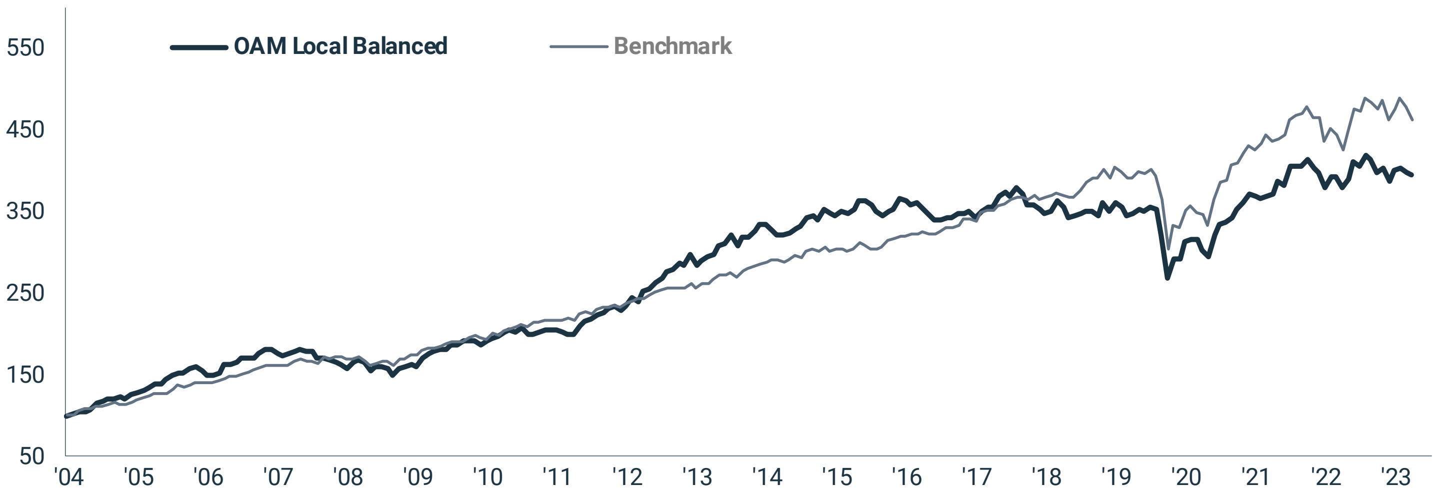
- Seek meaningful long-term capital growth and income.
- Are comfortable with a medium level of risk and short-term market fluctuations.
- Typically aim to invest for a period of 5 years or longer.

Performance

Growth	OAM*	Benchmark
Annualised (%)	ZAR	ZAR
Inception 2005	7.39	8.32
10 years	2.90	5.61
7 years	1.58	5.21
5 years	2.13	4.60
3 years	9.19	10.32
YTD	-2.72	-1.85
Yield**	2.42	

* Performance figures are based on a typical portfolio.
**Income yield since inception

Top 5 Holdings



Local Market Review and Strategy Outlook for the quarter ended September 2023

Local equity markets gave back their second quarter (Q2) returns in Q3. While the economy continued to narrowly avoid recession, printing a surprising 0.6% quarter-on-quarter GDP growth in Q2, most recent data suggest a mild contraction is likely. Consumers, under tremendous pressure from high interest rates and the rising cost of living, are likely to cut back on expenditure. On the production side, weakening export demand combined with infrastructure constraints, most notably caused by Eskom and Transnet, are impacting output. The JSE All Share index lost 4.70% in Q3 cutting its earlier year-to-date YTD) gain to a slight loss of 0.91%. The Resources 20 index fared worst due to falling global commodity prices and the impact of power outages and transport bottlenecks, with Q3 and YTD losses of 7.16% and 18.71%. The Industrial 25 index, helped by the heavy weighting of multinationals and rand hedge stocks, lost 7.62% in Q3 in line with weakness in global markets, but held onto a solid YTD gain of 8.86%. The Financial 15 index, helped by the endowment effect of rising interest rates, eked out a narrow Q3 gain of 0.49% but managed a YTD return of just 3.93% due to tepid credit extension. In line with rising global bond yields and the SA Reserve Bank's (SARB) monetary tightening, the SA 10-year Government Bond yield increased over the quarter from 10.51% to 10.81%, compared with 10.18% at the end of 2022. Weakening export demand and the deteriorating current account balance combined with persistent selling by foreigners of local assets, caused the rand to continue depreciating against the US dollar. The rand fell from R/$17.02 at the end of December 2022 to R18.76 at the end of June and R18.91 at the end of September, amounting to Q3 and YTD losses of 0.76% and 11.1%.

GDP defied expectations and registered positive Q2 growth, up 0.6% quarter-on-quarter, an improvement on the 0.4% increase in Q1 and the 1.1% contraction in Q4 2022, while base effects improved the year-on-year growth rate from 0.2% in Q1 to 1.6% in Q2. Contributors in Q2 included agriculture with 4.2% q/q growth, manufacturing and mining, with q/q growth of 2.2% and 1.3% respectively, and finance & business services, the largest industry in the economy with growth of 0.7%. The main detractor was transportation & communication with a q/q decline of 1.9%, led by declines in land freight and road passenger transport.

Although the GDP data provided a positive surprise, there is little confidence that there will be a pick-up in growth. BER consumer confidence, amid ongoing load shedding, elevated inflation and high interest rates, remained in negative territory in Q3 at -16, although a slight improvement on the Q2 score of -25. Consumer confidence can vary between -100 and +100, where negative readings indicate a lack of confidence. Business confidence rose slightly from 27 to 33 in Q3 but continues to be underwhelming. Business confidence can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100, extreme confidence. The Absa Manufacturing Purchasing Managers' Index sank deeper into negative territory below the neutral 50 mark in September, falling from 49.7 to 45.4, attributed to intensifying energy outages, the rising fuel price and sagging demand from key export markets. After contributing to positive GDP growth in Q2, the PMI suggests manufacturing may detract from GDP in Q3 and over coming months.

Inflation is gradually easing as would be expected amid weak domestic demand. In August headline consumer price inflation (CPI) registered 4.8% year-on-year, up slightly from 4.7% in July but down significantly from the recent high of 7.1% in March. Core CPI, which excludes fuel and food prices, also eased to 4.7% compared with a recent peak of 5.3% in April, while producer price inflation fell sharply from a peak of 12.7% in January to 4.3% in August. With CPI closing-in on the mid-point of the SARB's 3-6% target range the Reserve Bank paused its rate hiking cycle. The benchmark repo rate remained steady at 8.25%, where it has been since the 26th May following a rate hike of 50 basis points. However, SARB governor Lesetja Kganyago refused to rule out further rate hikes. While keenly aware that the economy is teetering on the brink of recession, he made it clear that inflation will continue to be the key driver of interest rate decisions. Inflation risks are heightened by the combination of loadshedding, chronic underperformance of key State-Owned Enterprises, looser fiscal discipline ahead of the 2024 general election, a rising budget deficit, and a weakening rand.

The sharp improvement in South Africa's budget in recent years has started to reverse, as revenues have fallen short of expectations due to falling commodity prices and falling company tax receipts. At the same time government expenditure is rising faster than projected in February's Budget projections. The public sector wage bill increase had been budgeted at 1.6% but ended up at a much higher 7.5%. The Social Relief of Distress Grant (SRD Grant), introduced as a temporary measure during Covid lockdowns, was extended in the February 2023 budget up to March 2024, but will very likely be extended for another year. After widening in the midst of the Covid pandemic to more than 10% of GDP, the budget deficit narrowed to around 4.5% of GDP at the last budget but was already back to 5% by June. Budget concerns have caused foreigners to continue selling their holdings of local bonds, reducing their holding from just over 40% to 25% over the past 5 years. The rand may also come under pressure from volatile trade data. Slower export activity has reduced the accumulated trade surplus for the year to end August to R32.95 billion compared with a trade surplus for 2022 of R193.65 billion. The current account deficit widened from 0.9% of GDP in Q1 to a deficit of 2.3% in Q2. As well as being net sellers of bonds, foreign investors were net sellers of South African shares in the year to end September to the tune of R117 billion. A volatile and depreciating rand would lead to imported inflation.

The BRICS summit, hosted in Johannesburg in August and chaired by President Ramaphosa was a historic occasion as it concluded with the expansion of membership to six more countries, leading to a name change to BRICS+. The event was successful and combined with a state visit by China's President Xi Jinping. At the same time South Africa mended its relations with the US, reducing the risk of being ejected from the AGOA Act. President Ramaphosa emphasised South Africa's commitment to non-alignment.

Loadshedding continued to be a way of life. However, since February's Budget, which gave tax allowances for solar panels, there has been a surge in private investment in energy solutions. Figures from Eskom show that installed capacity from rooftop solar panels stands at 4.4GW, quadruple their level a year ago, and equal to a tenth of Eskom's total available capacity. There has been progress with hiving off an independent National Transmission Company from Eskom with the recent approval by NERSA of two key licenses. Meanwhile, Transnet announced that global port management company, International Container Terminal Services Inc, headquartered in the Philippines, would enter a joint venture to upgrade Durban's port terminals.

In August, seven political parties, including the DA, IFP and Action SA agreed on a coalition charter to collectively challenge the ANC in next year's general election. The Multi-Party Charter is expected to gain between 30-35% of the vote, which may not be sufficient to unseat the ANC or prevent an ANC-led coalition at national level, but raises the opposition's profile and could help increase voter turnout, which would be to the detriment of the ANC.

The JSE All Share index price-to-earnings multiple increased over the quarter to 10.2x from 9.5x at the end of Q2. The rating gain came despite falling markets over the period due to an aggregate earnings decline. Earnings will remain under pressure due to the poor economic outlook. Manufacturing and mining earnings will be constrained by weak domestic and export demand, infrastructure bottlenecks and load shedding. Household spending will be subdued due to high borrowing rates and stagnating personal income growth. Upside risks to inflation will prevent the SARB from providing interest rate relief. Meanwhile, foreign selling of local assets will likely continue until after the general election, by which time there will be greater certainty over government policy direction. According to the IEC the election needs to be held between May and August next year. Based on historic precedent, the most likely month is May.