overberg
asset management

Onshore Global ETF Portfolio

Q4 2023

Investment Objective

The 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 profile. The investments are extensively researched to assess their intrinsic value over the longer term.

Portfolio Description

This actively managed share portfolio aims to provide a balanced investment solution across asset classes. The underlying investments include a well-diversified mix of equities, bonds, preference shares, real estate and cash. Total equity exposure is unlikely to exceed 70% of the portfolio. The portfolio predominantly comprises local index tracking exchange traded funds (ETF's) with an underlying exposure to offshore markets.

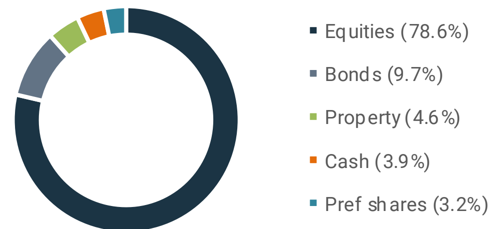
The portfolio is flexible, providing an indirect exposure to a broad range of geographies, industries, economic sectors, and currencies. The base currency is South African Rands.

Investor Criteria

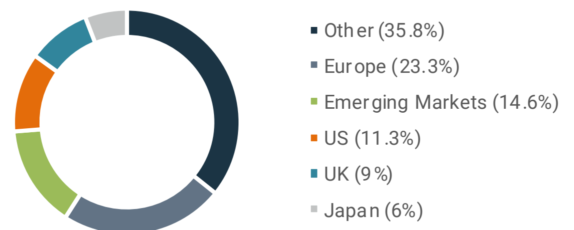
- Seek meaningful long-term capital growth and income.
- Recognise the benefits of indirect offshore exposure.
- Are comfortable with a medium level of risk and short-term market fluctuations.
- Typically aim to invest for a period of 5 years or longer.

Risk Rating

Asset Allocation (see through basis)



Global Allocation (see through basis)

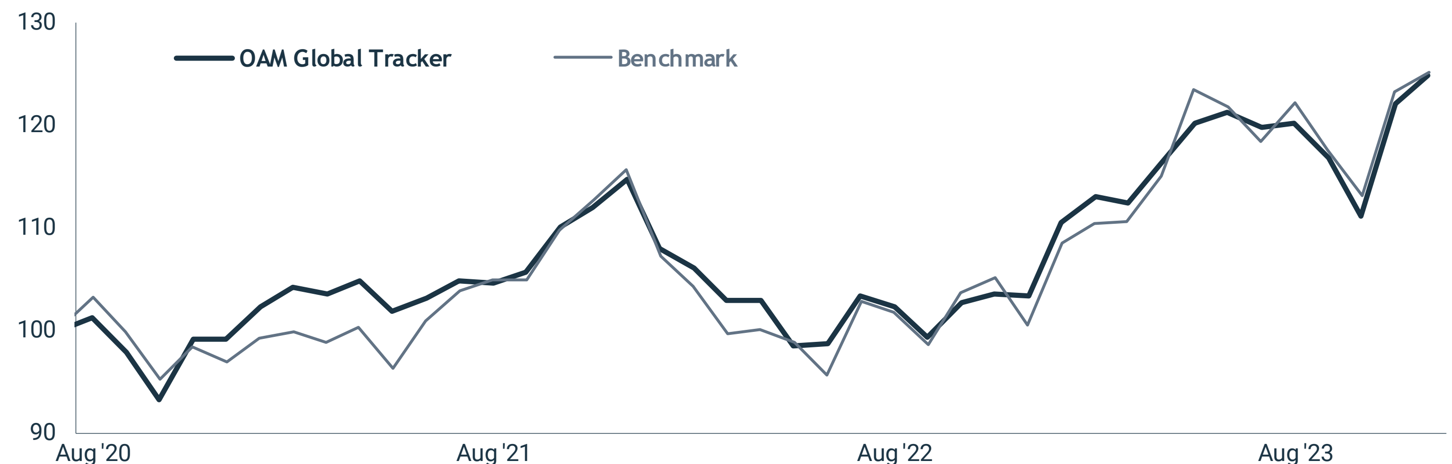


Performance

Growth	OAM*	Benchmark**
Annualised (%)	ZAR	ZAR
Inception 2020	6.68	6.77
3 years	7.98	8.91
2 years	4.33	4.02
YTD	20.66	24.60

*Performance figures are based on a typical portfolio.
***Performance figures are net of all fees** (including asset management, platform, trading and advisor fees).
** The Benchmark is comprised of 60% MSCI ACWI, 40% WorldBIG index (in ZAR terms)

Top 3 Holdings



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

South African financial markets were broadly positive in the fourth quarter (Q4) despite little noticeable improvement in the domestic economic outlook, although sentiment must have been boosted when the Springboks returned home with the Webb Ellis Cup. The JSE took its cue from global markets, which benefitted from stronger than expected economic growth and helpful inflation data, opening the prospect of central bank interest rate cuts in 2024 and the increased likelihood of a soft landing in the US. The Industrial 25 index, assisted by its heavy weighting in rand hedge shares and weakness in the rand, gained 5.5% in Q4, lifting its return for the full year to 14.8%. The Financial 15 index continued to benefit from elevated Reserve Bank interest rates, gaining a sizeable 10.3% in the final quarter and 15.1% over the year. Weaker commodity prices and rising costs associated with electricity outages, freight and railway delays undermined the Resources 10 index, which failed to participate in the Q4 market rally, ending unchanged over the quarter and down 18.7% for the year. The JSE All Share index enjoyed a strong finish to the year, up by 6.2% in the quarter, but returning a relatively subdued 5.3% in 2023, due to weakness in the resource sector. The rand gained by 3.3% against the US dollar in Q4 but still lost 7.5% over the full year, depreciating from R/$17.02 to R/$18.30. The RSA 10-year Government Bond yield fell sharply over the quarter in line with falling global bond yields, from 10.81% to 9.76%, and below its end 2022 level of 10.18%. Gold regained its luster as financial markets began to discount lower interest rates. The dollar price per ounce increased 11% in Q4, rising from $1861 to $2065, ahead of the end 2022 level of $1866.

The latest Q3 economic growth numbers were disappointing. GDP shrank by 0.2% quarter-on-quarter while Q2 growth was revised lower from 0.6% to 0.5%. On a year-on-year basis, GDP shrank in Q3 by 0.7%. Infrastructure constraints at Eskom and Transnet were the chief culprits, with energy, railway and port disruptions undermining production. Jason Turvey emerging markets economist at independent research firm Capital Economics summarised the economic malaise: “The big picture is that South Africa’s recovery from the pandemic has been among the worst in the emerging world, with GDP just 0.3% above its pre-pandemic peak.” Over the quarter, the primary and secondary sectors were the worst affected, including agriculture, mining, and manufacturing, which suffered quarter-on-quarter declines of 9.6%, 1.1% and 1.3%, respectively. Construction declined 2.8%, brought to its knees by the increasingly militant construction mafia. The tertiary sector, which is less dependent on the country’s infrastructure, managed modest growth in some industries including transport and communication, finance and business services, government services, and personal services.

If the economy shrinks for a second consecutive quarter, the country will technically have entered recession. Low employment growth and weak real wage growth along with high consumer borrowing costs will keep consumer confidence and household spending subdued. Infrastructure constraints and government policy uncertainty, especially ahead of the General Election later this year, will keep business confidence restrained. The quarterly RMB/BER consumer and business confidence indices eased in Q4 from already depressed levels, from -16 to -17 and from 33 to 31, respectively, although surprisingly the South African Chamber of Commerce and Industry (SACCI) monthly business confidence index increased in November to its highest since February. Forward looking activity surveys painted a mixed picture. The economy-wide S&P Global Purchasing Managers’ index (PMI) remained below the neutral 50-level, falling in December from 50 to 49, although the Absa manufacturing PMI unexpectedly increased over the same month from 48.2 to 50.9.

The South African Reserve Bank (SARB) kept its benchmark repo interest rate fixed at 8.25% at its last policy meeting of the year on 23rd November, unchanged since May when it was raised by 50 basis points. However, SARB Governor Lesetja Kganyago gave little indication that interest rate cuts were forthcoming, assessing that: “While our baseline inflation forecast has improved, risks to the inflation outlook are still assessed to the upside.” The SARB reduced its headline and core CPI forecasts for 2024 from 5.1% to 5.0% and from 4.7% to 4.6%, respectively, within its 3-6% inflation target but still above the 4.5% midpoint. The latest inflation figures for November suggest rand weakness, and persistent energy and food inflation are keeping price pressures elevated. Headline CPI was 5.5% year-on-year compared with 4.7% in July, while core CPI, which excludes food and energy prices, was 4.5% up from 4.4% in October. The SARB will likely err on the side of caution, providing monetary policy stimulus only after the world’s major central banks have taken the lead in cutting interest rates.

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The SARB raised its GDP forecast for 2023 slightly higher from 0.7% to 0.8%, at the same time lifting its forecasts for 2024 and 2025 to 1.2% and 1.3%, respectively, in large part due to an expected decrease in load shedding. According to its accompanying policy statement, "Energy and logistical constraints are still binding on economic activity and generally increase costs. We expect electricity supply to increase gradually over the medium-term however, helping to raise our forecast for output growth in 2024, 2025 and 2026." Businesses and households are rapidly increasing their contribution to the grid via renewable energy supply, with rooftop solar panels already comprising 10% of the country's energy capacity.

The country's sluggish growth is partly due to cyclical effects such as weakening export markets and high interest rates, but business leaders are increasingly laying the blame on President Ramaphosa's government, notably its lack of badly needed structural reforms, weak governance and ingrained corruption. State capacity is collapsing. While the severity of the electricity crisis shows signs of moderating, the burgeoning water crisis and Transnet's logistics crisis are both rapidly becoming as large as the Eskom debacle. Organised crime is rising at an alarming rate. South Africa has been ranked seventh in the world this year in the GI-TOC Criminality index, from 19th in 2022. The NPA has yet to achieve a single state capture conviction. The likelihood of South Africa being removed from the Grey List at FATF's next review seems remote at this stage. 2024 is the election year, bringing the country's politics into sharp focus. Greater energy and coordination from the opposition, with the Multi-Party Charter signed in August and new parties including Rise Mzansi and Change Starts Now, should encourage increased voter turnout, to the detriment of the ANC. The ANC is nonetheless expected to hang onto national power, probably via a small party coalition. However, opposition parties stand a realistic chance of winning provincial leadership in Gauteng and KZN, in addition to the Western Cape. This could provide momentous improvement for the country's key municipalities and metros, which have been suffering accelerating decay in recent years.

The litany of challenges facing the country is well documented and understood by investors. It is no surprise therefore that foreign investors were net sellers of South African listed shares in 2023 to the tune of R143.5 billion while South African pension funds have their maximum 45% allowance invested overseas. With the bad news mostly discounted, the JSE is cheap. The JSE All Share price-earnings multiple is 10.9x, showing a steady derating over the past three years, from 22.9x to 12.5x and 11.9x at the end of 2020, 2021 and 2022, respectively. The JSE currently trades at a 20% discount to the emerging markets benchmark compared with its historical average premium of 20%. At the same time, the rand is among the most undervalued emerging market currencies. While shares are cheap and the currency attractive, the country needs a catalyst to unlock this value. Reduced load shedding and political change at key metros may provide a lift to business, consumer and investor sentiment, but other key state-owned enterprises are rapidly creating new headaches, and stresses on the fiscus, which means foreign investors may well continue to look elsewhere in the emerging market universe for the foreseeable future.

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