overberg
asset management

Local Income Portfolio

Q2 2024

Investment Objective

The OAM Local Income Portfolio is designed to increase the long-term wealth of investors by primarily holding investments aimed at maximizing income, while maintaining a moderately-low risk level. Investments are extensively researched to assess their intrinsic value over the longer-term.

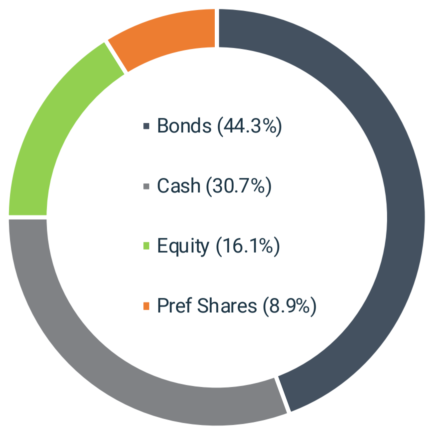
Risk Rating

1	2	3	4	5	6	7
Low risk						High risk

Technical Details

- Base currency: South African Rands
- Benchmark: Short-Term Fixed Interest (SteFI) Index
- Asset Allocation: Flexible mix of equities, bonds, preference loan stock, money market securities and cash
- Individual portfolio representing Local Income investment style
- All performance figures include income and are net of fees and expenses

Asset Allocation (see through basis)



Investor Criteria

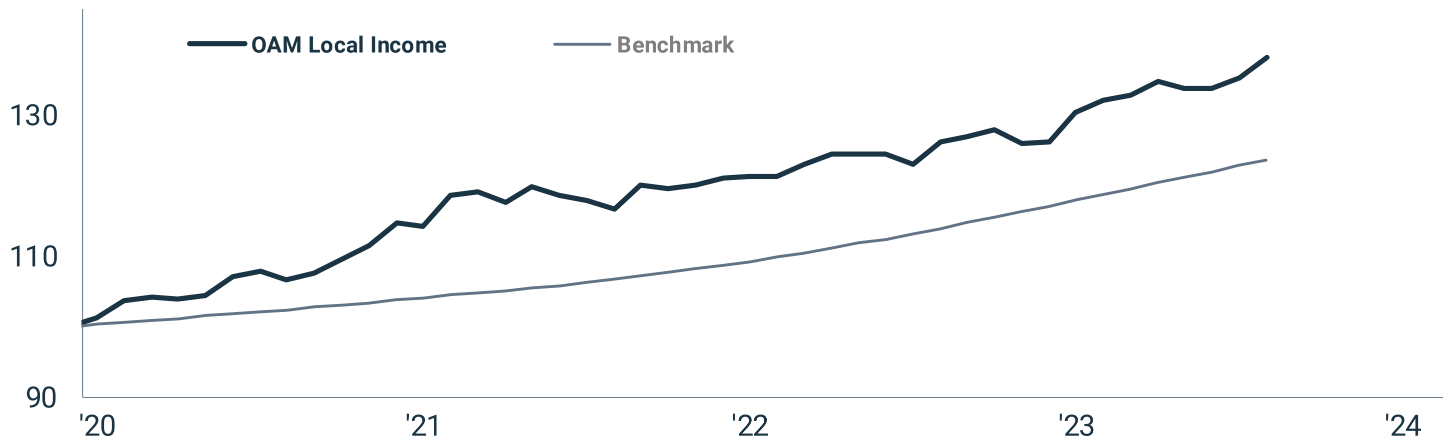
- Seek income and steady capital growth.
- Have a moderately conservative risk profile.
- Typically aim to invest for a period of 4 years or longer.

Performance

Growth	OAM*	Benchmark
Annualised (%)	ZAR	ZAR
Inception 2020	9.24	5.97
3 years	9.02	6.47
2 years	8.80	7.63
YTD	4.63	4.17
Yield**	1.60	

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

Top 3 Holdings



Local Market Review and Strategy Outlook for the quarter ended June 2024

South Africa's financial markets performed strongly in the second quarter (Q2), with the bulk of returns concentrated in June amid post-election relief and the formation of an ANC led Government of National Unity (GNU) with the DA, IFP and other smaller parties. Helped by a strengthening rand, the dollar-based MSCI South Africa index rallied 9.2% in June, outperforming the MSCI World index and MSCI Emerging Market index, which gained by 1.9% and 3.6%, respectively. The JSE All Share index gained 6.9% in Q2, reversing its Q1 loss and returning 3.7% year-to-date (YTD). The Financial 15 index was the highflyer in Q2 with a 14.4% return, gaining 5.6% YTD. The shares of banks and insurers amplified the improvement in risk appetite for domestically focused shares. The Resources 10 and Industrial 25 indices gained in Q2 by a more modest 3.2% and 4.1% respectively and 2.7% and 4.4% YTD, with a stronger rand undermining rand hedge shares. The rand strengthened in Q2 by 4.01% versus the US dollar, from R/$18.94 to R/$18.18, 0.9% stronger than the end 2023 rate of R/$18.34. Bond markets also fared well, helped by the prospect of continued fiscal prudence. The All Bond 1–3-year Total Return index gained 7.5% in Q2 and 5.6% YTD, while the 10-year government bond yield compressed from 10.61% at the end of Q1 to 10.21% at the end of Q2, albeit higher than the end 2023 closing level of 9.77%. Strong central bank buying led the gold price higher to $2323 per ounce from $2063 at the end of 2023.

The general election went ahead without violence or disruption and the ANC accepted its defeat. President Ramaphosa was re-elected and formed a centrist GNU with the DA, IFP and 7 smaller parties, which excluded the EFF and MKP. The election results and the structure of the new government should ensure continuity of economic reform policy. The Bureau of Economic Research (BER) argued that the full implementation of Operation Vulindlela reforms could boost real GDP growth by 1.5 percentage points by 2029, lifting growth to 3.5% compared with the BER's 2% baseline forecast. Vulindlela has played a key role in opening up railways and ports to the private sector. The BER concluded that we do not need new initiatives or policies, what is needed is implementation. The newly formed cabinet includes a number of positive changes, with the DA's involvement imposing checks and balances on the ANC and ensuring economic and policy stability, which should lead to improved business confidence. Of the 32 ministerial positions, 11 went to the ANC's GNU partners, including six to the DA, two to the IFP and one each to the PAC, FF+ and PA. The DA has the capacity to assert itself, especially in the Agricultural Department, in Communication and Digital Technologies, Public Works and Infrastructure, Home Affairs, Basic Education, and Forestry, Fisheries and the Environment, where it will lead the respective departments. The ANC also placed capable individuals in charge of the Police Department, Department of Trade, Industry and Competition, and Electricity and Energy, paving the way for greater policy reform implementation.

The current policy of fiscal prudence will continue, with Enoch Godongwana reappointed as Finance Minister. For the financial year ended March 2024, South Africa achieved a primary budget surplus, for the first time in 15 years amounting to R31.6 billion, or 0.4% of GDP. This means that income was more than expenditure, excluding interest, which is crucial in bringing debt under control. The government is committed to reducing the current 74% debt-to-GDP ratio. As well as maintaining a strict approach to funding state-owned enterprises, faster GDP growth would also be helpful in reducing the country's indebtedness.

The severity of loadshedding has eased. The 5th July marked 100 days without loadshedding, the longest continuous period since 2020. Eskom's energy availability factor, as a percentage of maximum energy generation, improved from 53% in Q1 to 64% in Q2, attributed to several major units returning to operation. At the start of July, Eskom commissioned unit 5 at Kusile power station, adding a further 800MW to the grid. At the same time demand from the grid has eased as businesses and households have increasingly resorted to self-generated renewable energy solutions. The removal of licensing thresholds for new power generation projects and tax incentives for rooftop solar, have led to a surge to 5GW in installed rooftop solar capacity. Kgosientsho Ramokgopa, head of the newly configured Ministry of Electricity and Energy, said "Let's show the country and the rest of the world that we can do it. We are going to be the leaders on this continent in relation to renewable energy." Bank of America forecasts South African GDP could grow by 2% in the medium-term if Eskom maintains momentum and keeps the lights on.

In Q1, GDP shrank by 0.1% quarter-on-quarter, having expanded by 0.3% in Q4 2023. On a year-on-year basis growth slowed from 1.4% in Q4 to 0.5% in Q1. The unemployment rate also worsened from 32.1% in Q4 to 32.9% in Q1. Growth is expected to show a recovery in Q2 with the benefit of more reliable electricity supply, some improvement in port and rail logistics, and a lifting of political uncertainty. In April, both manufacturing and mining production gained year-on-year by 5.3% and 0.7%, respectively, compared with declines in March of 6.5% and 4.8%. The purchasing managers' survey data is a bit mixed, however. The Absa manufacturing purchasing managers' index (PMI) drifted from 54.0 in April to 45.7 in June, below the expansionary 50-threshold. The Standard Bank Whole Economy PMI fell from 50.4 in May to 49.2 in June. The PMIs may have been affected by delays in negotiating the GNU, which suggests some improvement in PMI data is likely over coming months. Business and consumer confidence data signal a pick-up in household and investment spending. The FNB/BER business confidence and building confidence indices increased between Q1 and Q2 from 30 to 35 and from 27 to 35, respectively. The consumer and retail confidence indices increased from -15 to -12 and from 34 to 39. The most recent South African Reserve Bank leading business cycle indicator increased a sizeable 2.4% in April, with eight out of the ten components showing an increase, led by the number of job advertisements, the number of building plans approved and the commodity price index for the country's main export commodities. Credit growth picked up in May with private sector credit extension increasing by 4.3% year-on-year, up from 3.9% in April. However, vehicle sales decreased by 14.0% on the year, reflecting high interest rates and constrained household finances.

Consumer demand should receive a boost in the second half of the year from the "two-pot" retirement reform, which will increase members' access to the savings "pot" of their retirement funds. This frontloading of available consumer income is likely to boost consumption expenditure. There is scope for the SARB to cut interest rates, which should also boost domestic demand, as well as business spending. In his latest policy statement on 30th May, SARB Governor Lesetja Kganyago saw inflation stabilizing at the 4.5% objective in Q2 2025, earlier than the end of 2025, which had been predicted at the previous meeting in March. The revision is premised on better-than-expected CPI releases in March and April. With year-on-year headline and core CPI holding steady at 5.2% and 4.6% in May, there is a strong likelihood the SARB will cut its benchmark repo rate, currently at 8.25%, to 7.75% by year-end and to 7.25% in 2025. Real interest rates are high relative to the recent past and compared with other emerging markets.

The GNU coalition bodes well for a continuation of gradual economic reforms, and with other parties providing oversight, more efficient implementation, and greater policy stability. Business confidence is likely to improve, paving the way for much needed investment spending and increased productivity. At the same time, the economy stands to benefit from the broadening global economic recovery, increased trade volumes and export demand. There is scope for significant capital spending, making up for the years of prolonged economic stagnation and crumbling infrastructure. In the words of Dean Macpherson, the newly appointed Minister for public works and infrastructure, his vision is to transform South Africa into a "massive construction site." An investment led growth model would repair the country's infrastructure and at the same time create much needed employment. Provided the GNU can hold, South Africa's equity market, which trades at a 20% discount to emerging markets, should re-rate from current oversold levels.