overberg asset management

Local performance factsheet

OAM Local Growth Portfolios
ZAR Rand

SEP 2011

Introduction

Overberg Asset Management specializes in the management of individual portfolios, tailored to the investment objectives of each client. As an independent company, Overberg can set objective standards in its selection of investments. Your portfolio will be in the safe custody of Investec stockbrokers, and managed from here. We produce customised statements and investment reports to specific requirements. Constant availability and a quick and flexible response are fundamental to our client relationships.

Technical Details

- **FSB** approved
- Base currency: South African Rands
- Minimum investment: R500,000
- Benchmark: **JSE AllShare**
- Asset Allocation: **flexible mix of equities, bonds and cash**

Investment Objectives:

- conservative growth
- consistent annual returns
- low volatility

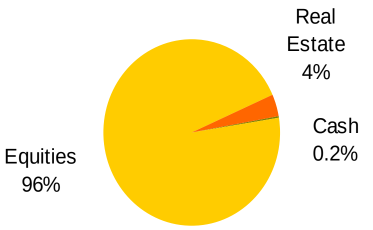
	Local %	Benchmark %
Annualised Total Return	18.21	10.97
2005	39.51	34.28
2006	21.14	28.47
2007	14.39	16.23
2008	7.13	-25.27
2009	28.32	28.63
2010	15.05	16.09
YTD	-3.63	-7.61

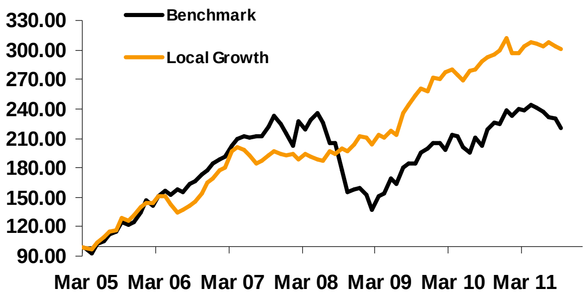
*Since March 2005: All performance figures include income and are net of fees and expenses

Growth 2011	Local %	Benchmark %
January	-4.77	-2.24
February	-0.19	2.78
March	2.32	-0.21
April	1.44	1.96
May	-0.53	-0.82
June	-0.78	-2.15
July	1.04	-2.06
August	-0.97	-0.65
September	-1.09	-4.29

	%
Annualised Income Yield	3.65

ASSET ALLOCATION





(As calculated by Overberg 30 Sep 2011)

Commentary

Economic data enjoyed a rebound during the month. Manufacturing increased sharply in August by 5.6% on the year well above the 0.6% consensus forecast and largely reversing the 6.2% decline in July. The month-on-month increase registered 7.6% the biggest since April 2008, attributed mainly to improved production in motor vehicles, parts and accessories. The data was corroborated by an unexpected increase in the Kagiso Purchasing Managers' Index from 46.7 in August to 50.7 in September, well above the 46.2 consensus forecast and significantly higher than the 44.2 registered in July. The PMI measures the percentage of purchasing managers reporting a month-on-month improvement in business conditions. Readings above 50 indicate expansion. The business activity sub-index increased from 46.4 to 53.4 recovering the ground it lost since July.

The Investec Hard Number Index (HNI), which measures the state of the SA economy, maintained constant momentum in September signaling a pick-up in economic growth in the 3rd quarter. The HNI benefited from an acceleration in the number of bank notes in issue to well above 10% annualised, providing a healthy indication of consumer spending intentions. Another HNI component, vehicle sales also showed strong growth in September reversing the 2nd quarter decline. The demand for commercial vehicles is especially encouraging signaling a willingness of businesses to add to production capacity.

However, producer price inflation (PPI) accelerated from 8.9% in July to 9.6% in August well above the 9.0% consensus forecast and the highest since December 2008. PPI increased a whole 1.0% on the month. Electricity, mineral and food prices were the biggest culprits, likely to be exacerbated by the rand's recent decline. While the oil price has decreased in US dollar terms over the past 2 months this may be more than offset by the rand's 15% depreciation against the dollar over the past month. Petrol prices have increased 16% in the year to date and likely to rise further during the 4th quarter. Consumer price inflation (CPI) registered 5.3% in August, unchanged from July and below the 5.5% consensus forecast. However, CPI is expected to rise following the sharp rand depreciation in September. In spite of inflationary pressures, the SA Reserve Bank left the benchmark repo rate unchanged at 5.5% as expected. The accompanying press statement described a deteriorating economic outlook and reduced growth forecasts for 2011 and 2012 from 3.7% to 3.2% and from 3.9% to 3.6% respectively. In spite of reduced forecasts, further monetary easing may be compromised as "the depreciation of the rand poses a potential upside risk to the inflation outlook."

Unfortunately the Adcorp Employment Index painted a fairly dismal picture, showing SA's employment decreased in August by 2.1% on the year, the 4th successive monthly decline. By sector, manufacturing employment decreased 19.9% followed by construction and mining with employment declines of 16% and 9.3%. Private sector employment only increased in the retail and financial sectors by 3.7% and 3% while public sector employment came to the rescue with a gain of 6.2%. The bright spot in SA's employment statistics is provided by job creation in the informal sector. In contrast to the decline in nationwide employment, the informal sector employed an additional 16,917 people in August. Informal sector employment has increased from 3.4 million in 2000 to 6.2 million workers today, now comprising 37.2% of all people employed. A key reason is that the informal sector is unencumbered by SA's rigid labour laws, perhaps a valuable lesson on fixing the economy's unemployment.

Perhaps taking note the South African Clothing and Textile Workers Union adopted an entry-level wage model, reaching a landmark agreement with the clothing and textile industry. The new agreement allows companies in the sector to hire new workers at a wage rate 20-30% below the existing industry minimum wage. The measure could be a significant milestone in encouraging hiring, if it is adopted by other unions. The Congress of South African Trade Unions (COSATU) has so far been fiercely opposed to the entry-level wage model but may be persuaded by this precedent, if successful during its 3-year trial period.