overberg asset management

LOCAL PERFORMANCE FACTSHEET

OAM Local Growth Portfolio

Technical Details

June 2018

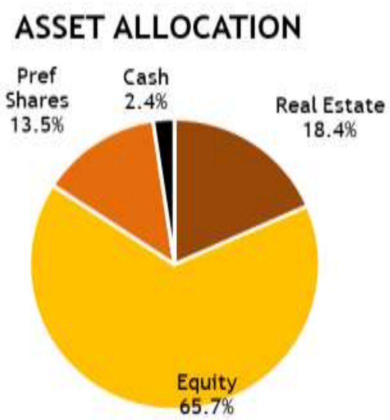
- Base currency: **South African Rands**
- Benchmark: **JSE All Share**
- Asset Allocation: **Flexible mix of equities, bonds and cash**
- Individual portfolio representing Local Growth investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

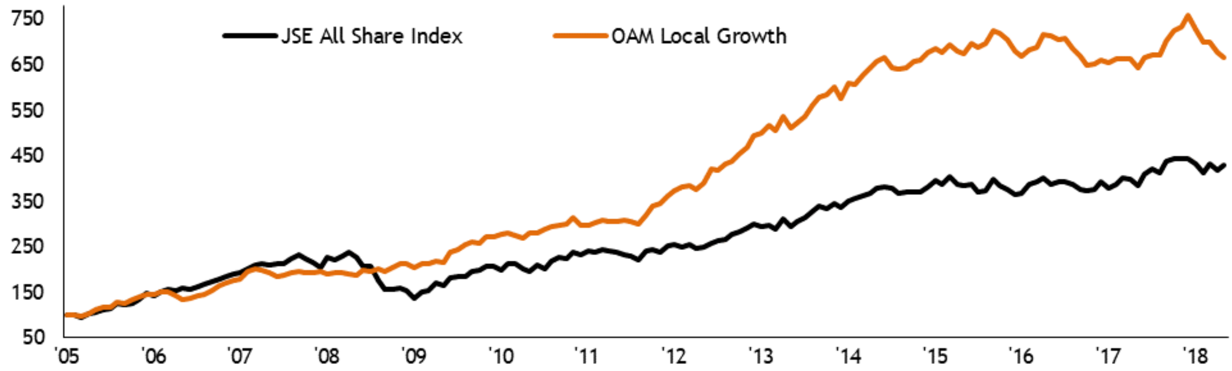
- Conservative growth
- Consistent annual returns
- Low volatility

Annualised Growth (%)	OAM	JSE ALSI
Inception March 2005	**15.26**	**10.67**
10 years	13.50	6.60
7 years	11.82	8.83
5 years	5.48	7.80
3 years	-0.45	3.60
2018 YTD not annualised	-9.19	-3.18

Annualised Income Yield	1.78 %



Top 5 Holdings	
NASPERS LTD	
DISCOVERY LTD	
RMB HOLDINGS LTD	
STOR-AGE PROPERTY REIT LTD	
BIDVEST LTD	
Total number of holdings	28



Market Review

The JSE has suffered a torrid four years. In the four years from 25th June 2014 to 25th June 2018 the JSE All Share Index has increased from 50,350 to 56,116 a return of only 11.45%. If this is bad, consider that while the JSE All Share has lost 6% since the start of the year, *more than half the investible shares on the market have dropped by 18% or more*. Of these almost a fifth have fallen by over 50%. The equity market has been a minefield.

On a compounded annualised basis the JSE All Share Index has gained just 2.75% per year well below the return on money markets. After four years of almost non-existent returns, share investors are *considering throwing in the towel but this would be a mistake*. Although returns have been extremely disappointing, **over time, equities provide the best returns, by far**, compared with all other asset classes. Bonds and cash are safer in the short-term. However, in the long-term they provide lower returns and hence less protection against inflation. Admittedly, equities can suffer extended bouts of underperformance. They can also suffer severe short-term losses, as in the 12-month periods following market peaks in April 1998, May 2002 and June 2008, when the All Share Index suffered losses of -39%, -30% and -38.5%. In each case, patient investors who stuck it out were rewarded, outperforming money market returns on an annualised basis in less than four years after the initial decline.

The equity market rarely performs as expected and so investors who try and time the market may lose out on periods of strong performance. Around 80% of the equity market's gains occur in just 20% of the time. Time in the market is more important than timing the market. In the past fifty years, there has never been a period longer than five years in which South African equities have not outperformed cash. Excluding dividends, the JSE All Share Index has gained an annualised return of just 2.75% over the past four years, less than money markets, but over the past five years the annualised return is 8.06%, marginally better than money markets, especially once dividends are included. Will the track record remain intact? To keep the track record intact, the JSE would have to rise over the next twelve months by around 45%.

This seems a stretch. However, it is not unheard of. Share price gains are always strongest in the early stages of a new economic cycle. Research by professors Elroy Dimson, Paul Marsh and Mike Staunton, published in the Credit Suisse Global Investment Returns Yearbook 2018, confirms that since 1900 the South African equity market has produced the best annualised returns worldwide. Since 1900 the real compounded annualised return, net of inflation is a world-leading 7.2%!

Why, despite South Africa's New Dawn, has the JSE continued to disappoint, unable to build on the stellar returns enjoyed in December last year? Much of the blame is placed on the first quarter (Q1) GDP numbers. GDP fell in Q1 by 2.2% quarter-on-quarter. Put in context, the figure is not so bad. It is an annualised figure. The actual quarter-on-quarter contraction was 0.54% and some pullback had been expected following the substantial 0.76% GDP expansion in the prior quarter. On a year-on-year basis GDP grew by a more respectable 1.5%. Yet, forward-looking surveys point to a far brighter outlook. The FNB/BER Consumer Confidence Index, surged from -7 to an all-time high of +26 in Q1, exceeding its previous record of +23 reached in Q1 2007. The dramatic improvement signals a considerable recovery in consumers' willingness to spend. Put in context, this is the first reading since Q2 2014 that has been above "0". The Reserve Bank (SARB) Leading Business Cycle Indicator dipped slightly in March from 108.3 to 107.4 its first decline since April 2017 but some easing had been expected given the increase in February to its highest level since June 2011. The SARB leading business cycle indicator, a barometer for expected business conditions 6-9 months ahead, remains close to multi-year highs signalling, together with other independent forward-looking business and consumer surveys, a rebound in economic activity in the second half of the year.

Policy certainty in South Africa has improved greatly under Ramaphosa, with positive news emanating from the State Budget, credit rating agencies, cabinet appointments, corruption court hearings and the re-capture of state-owned enterprises. Financial market anxiety over the ANC's resolution to support land expropriation without compensation is misplaced. In its final set of resolutions, the ANC clearly emphasised the need to accelerate the rollout of title deeds to "black South Africans in order to guarantee their security of tenure and to provide them with instruments of financial collateral." The ANC resolution stressed its focus on the "redistribution of vacant, unused and under-utilised state land." The most likely target for land expropriation will be the former homelands and government-owned land, around 30% of South Africa's landmass and home to an estimated 17 million people. The land expropriation that is envisaged would provide a massive boost to the country's GDP growth rate.

The level of optimism on the JSE is rock-bottom, which is at odds with the brightening outlook. It is worth heeding the advice of investment guru John Templeton: **"The time of maximum pessimism is the best time to buy and the time of maximum optimism is the best time to sell."** Warren Buffet, one of the greatest investment geniuses of our time, reiterated the same message with his now famous words: *"Be fearful when others are greedy, be greedy when others are fearful."*