OAM Local Growth Portfolio

Technical Details

Sept 2018

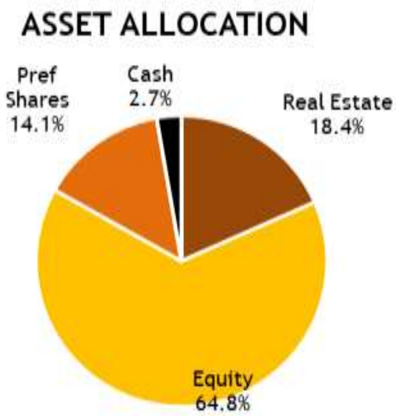
- Base currency: **South African Rands**
- Benchmark: **JSE All Share**
- Asset Allocation: **Flexible mix of equities, bonds and cash**
- Individual portfolio representing Local Growth investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

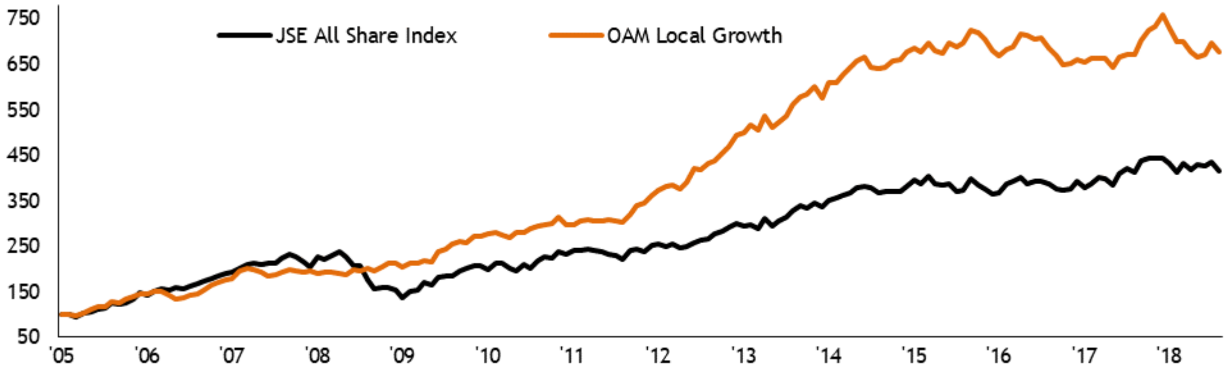
- Conservative growth
- Consistent annual returns
- Low volatility

Annualised Growth (%)	OAM	JSE ALSI
Inception March 2005	15.11	10.22
10 years	12.95	8.86
7 years	12.26	9.42
5 years	3.80	4.82
3 years	-1.01	3.44
2018 YTD not annualised	-7.63	-6.38

Annualised Income Yield	1.73 %



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



Market Review

Although shares produce the best returns over the long-term, they are subject to greater volatility. Asset managers have differing views on how much should be invested in shares, although they all agree on one thing: that one's investments should never be restricted to a single asset class. ***Diversification is key, it is the cornerstone of portfolio construction***.

Overberg portfolios are well diversified across asset classes. Asset class diversification tempers the volatility of the equity portion of an investment portfolio. Real estate investment trusts (REITs) provide excellent portfolio diversification. Historically, South African REITs suffer less than half the volatility of shares, helping to stabilise performance during difficult equity market conditions. Moreover, they provide an attractive and secure income stream, currently ranging from 7-12%. The REIT sector has provided consistently strong investment returns. <u>REITs have been the top performing asset class in South Africa in six of the past fourteen years</u>. The SAPY REIT index has beaten equities, bonds and cash in each of those six years. In 2016 the SAPY REIT index returned +14.7% compared with the All Share return of +2.6%.

Domestically focussed REITs are extremely cheap when compared with bond yields. Historically, REITs yield less than the government bond yield as they provide an element of growth. Many of the smaller domestic REITs are yielding over 10%, a whole 200 basis points above the yield on the R186.

While comforted by the lower volatility and high-income distributions provided by REITs, which form a substantial portion of Overberg portfolios, we remain strongly committed to predominantly share-based weightings, especially in growth-oriented portfolios. Admittedly, it has been a difficult year for shares. **More than a third of shares on the JSE have dropped in excess of -20%**. However, we are pleased to report that we have avoided all the shares topping the list of poor performers, including Tiger Brands, Aspen, Mediclinic, MTN and Woolworths. Moreover, our clients' portfolios hold some of the standout top-performers, those which have shown solid share price growth despite the overall market decline. A core holding, Transaction Capital, has enjoyed share price growth of +7.25% since the start of the year (to 12th October) in stark contrast with the -12.23% fall in the All Share Index.

Over the past five years the JSE All Share index has returned only +21%, equivalent to a compound annualised return of just +3.8%, almost half the return on money markets. This marks the worst 5-year period of performance for South African equities in over 50 years. Weak share market performance is attributed to the protracted business cycle downturn, which the Reserve Bank has described as being the longest since 1945. However, current market pricing is extrapolating an indefinite continuation of the poor economic stewardship that characterized the Zuma era. This seems unreasonable considering Ramaphosa's growing authority and the increasing impetus of his policy initiatives. Overwhelmingly negative sentiment has led to a dramatic over-pricing of market risk, which <u>we feel presents share investors with a once-in-a-generation opportunity.</u> Our clients' portfolios are well positioned to benefit from the expected rebound in domestic economic activity and accompanying rally in South African equities.