overberg asset management

# **Local** performance factsheet

## OAM Local Cash Management Portfolios
**ZAR Rand**

**SEP 2012**

### 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. We construct cash management portfolios as an enhanced alternative to either money market funds or bank deposits. Our real return management portfolios provide better after tax returns, by generating a sizeable portion of income from dividends.

Yield is enhanced by active management across SA government and parastatal bonds, pref shares and growth assets including listed commercial property and high yielding ordinary shares.

Valuation volatility is kept at a minimal level with temporary valuation declines not expected to exceed 5% of the value of the portfolio at any point in time. This is achieved through disciplined asset allocation ranges, and diversification across asset classes and individual holdings. A small, actively managed exposure to growth assets will enhance after tax yields with a minimal increase in risk.

### Technical Details

- **FSB** approved
- Base currency: **South African Rands**
- Minimum investment: **R500 000**
- Benchmark: **Prime Interest Rate**
- Asset Allocation: **flexible mix of bonds, listed commercial properties, pref shares and ordinary shares.**

### Investment Objectives:

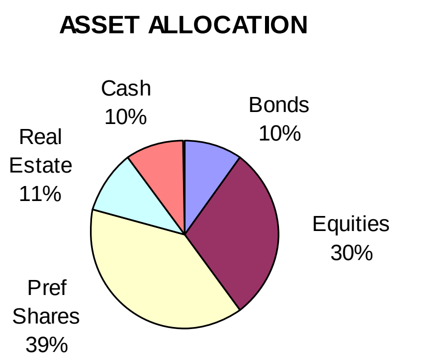
- conservative growth with income
- consistent annual real returns
- low volatility

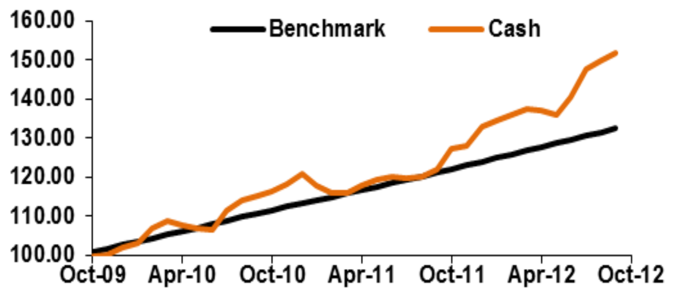
| | Cash % | Benchmark % |
|---|---|---|
| **Annualised Total Return** | 15.39 | 10.10 |
| **2010** | 17.58 | 11.42 |
| **2011** | 10.14 | 9.38 |
| **YTD** | 14.12 | 6.82 |

All performance figures include income and are net of fees and expenses

| **Growth 2012** | Cash % | Benchmark % |
|---|---|---|
| **January** | 0.98 | 0.75 |
| **February** | 1.17 | 0.75 |
| **March** | 1.10 | 0.75 |
| **April** | -0.22 | 0.75 |
| **May** | -0.76 | 0.75 |
| **June** | 3.29 | 0.75 |
| **July** | 5.00 | 0.71 |
| **Aug** | 1.43 | 0.71 |
| **Sep** | 1.43 | 0.71 |

| | % |
|---|---|
| **Annualised Income Yield** | 10.39 |




(As calculated by Overberg 30 Sep 2012)

## Commentary

Economic growth improved in the 2nd quarter to 3.2% quarter-on-quarter annualized from 2.7% in the 1st quarter. The improvement was mainly attributed to normalization in mining output which increased 31.2% on the quarter, following its strike-induced 16.8% contraction in the 1st quarter. Agriculture also grew strongly by 5.8% and construction by 4.2%. However, overall growth is likely to reduce to around 2.5% for 2012 as a whole, with the 3rd quarter tempered by weak global demand and mining disruptions following the Marikana crisis. Meanwhile household consumption demand may be pressured by rising administered costs such as municipal rates and electricity prices, and lackluster employment growth.

Data is mixed. Retail sales increased in June by 8.3% on the year, up from 7.1% in May and well ahead of the 4.7% consensus forecast. In spite of the rebound and the recent interest rate cut however the outlook for retail sales is weighed down by high consumer debt levels, tight lending standards and rising administered costs. These headwinds are reflected in the FNB/ BER consumer confidence index which declined from +5 in the 1st quarter to -3 in the 2nd quarter. Money supply data also suggests a relatively subdued expenditure outlook. Growth in private sector credit extension (PSCE) slowed slightly from 8.7% year-on-year in June to 8.3% in July. Household credit demand remained strong, rising 0.5% on the month and 8.1% on the year, but mortgage advances grew at just 1.9% on the year, equal to its slowest growth since the data series began in 1966. Corporate credit demand remained weak, with year-on-year growth moderating from 8.6% in June to 6.2%, its weakest since September 2011. The global economic slowdown is causing companies to postpone their capital investment programs.

Growth in manufacturing production fell from a year-on-year rate of 4.4% in May to just 0.8% in June, well below the 3.2% consensus forecast. Production fell in June by 2.4% on the month, while quarter-on-quarter production fell in the 2nd quarter by 0.2%. The outlook however is somewhat better, shown by the Kagiso/ BER purchasing managers' index for manufacturing which increased from 48.2 in June to 51.0 in July, regaining the key 50 threshold that demarcates expansion from contraction. The improvement is attributed to an almost 6 point rebound to 52.2 in the new sales orders sub-index.

Fortunately inflationary pressures are dissipating. Consumer price inflation fell from a year-on-year rate of 5.4% in June to just 4.9% in July, well below the consensus forecast. Producer price inflation also decelerated from 6.6% to 5.4% in July, and is expected to fall further in coming months due to softer global demand for commodities, although any benefit may be partly neutralized by a weakening rand and drought induced pressure on global food prices.

The relatively subdued economic data and benign inflationary numbers are likely to keep the SA Reserve Bank (SARB) in an accommodative frame of mind at least for the remainder of the year and possibly until mid-2013, even enabling a rate cut if local economic growth slows sharply in the 2nd half of the year. The SARB monetary policy committee meets again from 18 to 20 September, with the majority of market participants and analysts expecting interest rates to remain unchanged following the unexpected cut in July. However, the global economy is vulnerable and conditions could deteriorate sufficiently enough to prompt a further cut in interest rates. Forward rate agreements are discounting a 40% probability of further easing in local interest rates over the next two policy meetings.

The SARB's policy will to a large extent by determined by the rand's trajectory. The rand has come under pressure since the Marikana crisis as investors reassess their view of SA risk and increased scrutiny is likely in the run up to the ANC's Manguang conference in December. Foreign investment inflows have slowed and credit rating agencies have threatened to downgrade SA's sovereign rating. At the same time the trade deficit is expanding, causing an increase in the current account deficit, expected to increase from 3.3% of GDP in 2011 to 4.7% in 2012. There is potential for the rand to fall sharply at some point, which may force the SARB to raise rather than lower interest rates. A counter-balance to potential rand depreciation is the much publicised inclusion of SA in the CITI World Global Bond Index in October.

Some positive news has also emerged from civil servant wage negotiations. Following 6 months of negotiations, unions signed a 3-year public sector wage agreement with government's Department of Public Service and Administration. The agreement is being hailed as a significant breakthrough, providing government with improved clarity in long-term budgeting while limiting the risk of wage strikes. The agreement has been welcomed by credit rating agencies, which have repeatedly warned that the trend of spiraling public sector wages could threaten SA's credit rating.

As is often the case however, the rand is likely to be governed as much by global as local developments. The anticipated increase in global monetary stimulus is likely to provide significant support to emerging market currencies, helping the rand to remain stable for the balance of the year.

The All Share index rallied to a new all-time high of nearly 36,000 over the past month. Although encouraging this translates into little more than 10% above its 2008 high and the index still trades on a price earnings ratio of 12.5 which is at least 12% below its long-term average. In spite of occasional bouts of vertigo which come with the index being at record highs, investors should expect further equity gains. Support should come from global quantitative easing, accommodative local interest rates, and continued economic growth of between 2.5-3% with annual growth in company earnings of around 12-15%.





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