overberg asset management

Local performance factsheet

OAM Local Growth Portfolios

ZAR Rand

APR 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	20.01	5.32
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	-1.34	2.23

*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

	%
Annualised Income Yield	3.95

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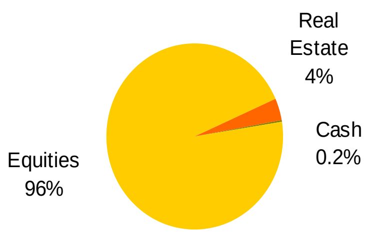
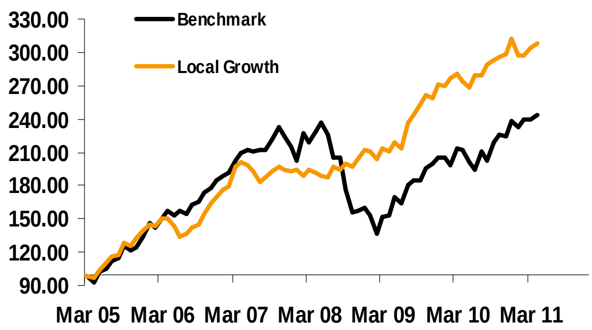
ASSET ALLOCATION





(As calculated by Overberg 30 April 2011)

Commentary

As in the rest of the world SA has suffered a recent decline in economic growth momentum. However, the slowdown was anticipated given the rapid increase in oil prices, petrol levies and other administered prices such as electricity and municipal rates. In some respects the slowdown has been less pronounced than expected. Manufacturing production slowed in March to 4.6% on the year, down from 5.7% in February but above the 4.1% consensus forecast. The Kagiso purchasing managers' index (PMI) for manufacturing fell slightly in April to 56.4 from a 13-month peak of 57.2 in March, but remained well above the 50 threshold which demarcates expansion from contraction. The business activity sub-index fell slightly from 59.7 to 58.4 while the new sales orders sub-index declined from 62 to 61.1, but both continue to reflect robust manufacturing demand and production. Growth in retail sales increased in March by 5.1% on the year, below the 5.5% registered in February. Encouragingly however, 6 of the 7 categories showed year-on-year growth.

Growth in private sector credit extension also slowed in March to 5.1% from 5.4% in February. Borrowing by companies fell 0.6% on the month, keeping the increase on the year unchanged at just 2.7%. Mortgage advances slowed to 2.9% on the year from 3.4% in February. The median house price increased in April by 3.4% on the year slightly up from 2.9% in March, but the month-on-month increase slowed for the 2nd successive month to 0.3% from 0.8% in March, which is negative in real terms. On the other hand credit extended to consumers increased 0.8% on the month and 7.4% on the year, up from 7% in February.

Overall there is no question that the economy is running well below full capacity which strengthens the case for a delay in raising interest rates. Below trend economic growth and slow money supply growth would suggest rates stay at current levels for a prolonged period. Consumer price inflation has also been constructive, increasing slightly in April to 4.2% from 4.1% in March but below the 4.4% consensus forecast. More impressively however, on a monthly basis CPI increased 0.3% showing a sharp retreat from the 1.2% month-on-month gain in March. The biggest contributor to April's monthly inflation increase was the transport category in particular the petrol price up 5.6% on the month and 16.3% on the year, but likely to retreat in line with oil's sharp price decline in recent weeks. So-called "administered prices" which include state controlled utility prices also showed continued upward pressure. Excluding administered prices, CPI increased in April by only 3.1% on the year which suggests rising inflation is due mainly to rising state prescribed prices and costs, beyond the influence of interest rate policy.

The Reserve Bank acknowledges that upward pressure from inflation is coming from factors beyond its control, notably food and fuel prices, as well as administered prices. As expected the Monetary Policy Committee left the repo rate unchanged in May at 5.5% in spite of raising its consumer price inflation forecast for 2011 from 4.7% to 5.1% and for 2012 from 5.7% to 6%. It is surprising therefore that following the Monetary Policy Committee meeting the Forward Rate Agreement curve increased by between 10-30 basis points across the range of forward rates beyond 3 months. The shift in the yield curve reflects the market's growing conviction of a 25 basis point interest rate hike before year-end as opposed to post year-end as previously expected. However the forward rate curve has often been wrong in the past.