

OAM Local Growth Portfolios ZAR Rand

JUL 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:

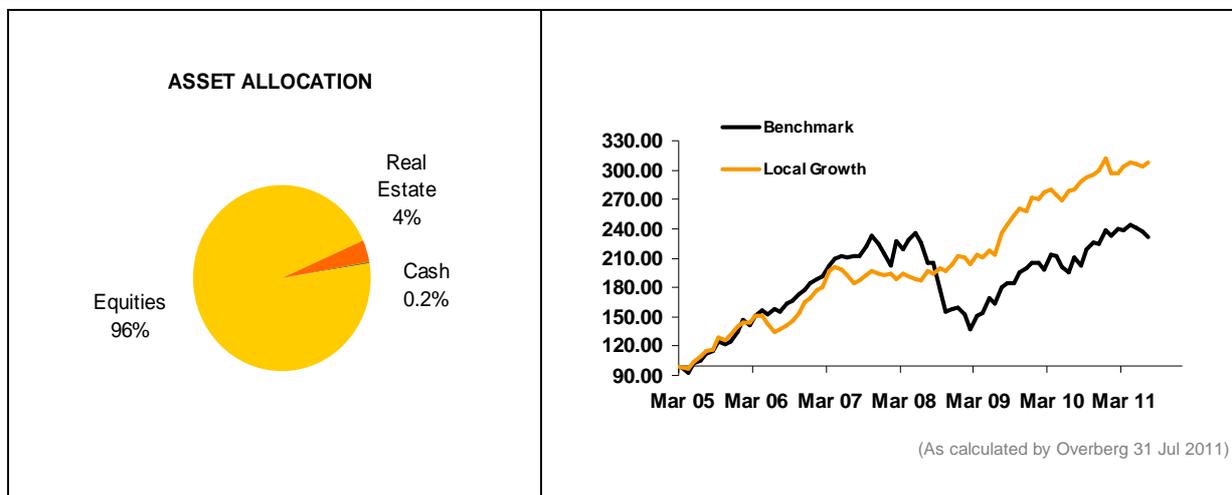
- conservative growth
- consistent annual returns
- low volatility

	Local %	Benchmark %
Annualised Total Return	19.11	11.99
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	-1.61	-2.84

*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

	%
Annualised Income Yield	3.79



Commentary

Macro-economic momentum slowed sharply in the past month. Manufacturing production increased in May by just 0.6% on the year well below the 2.4% consensus forecast. Retail sales decreased in May by 4.7% on the month with nil growth on the year compared with 10% in April and well below the 7.2% consensus forecast, the worst year-on-year reading since December 2009. Growth in private sector credit extension slowed from 6.2% in April to 5.2% in May and significantly below the 6.4% consensus forecast. The National Credit Regulator showed total lending by banks and other credit providers fell in the 1st quarter by 3.33% to R80.75 billion from R83.53 billion the previous quarter. A sluggish global economy was unable to come to the rescue with the SA Chamber of Commerce and Industry (SACCI) trade activity index falling in June to 47, below the 50 level that demarcates expansion from contraction, having been as high as 55 earlier in February.

There were some positive reports. The SA Chamber of Commerce and Industry (SACCI) Business Confidence Index (BCI) increased from 85.8 in May to 86.8 in June, averaging 86.9 in the 1st half of 2011 compared with 82.8 over the same period last year. Vehicle sales were also robust, benefiting from an easing of supply chain constraints in Japan, increasing in June by 12.6% on the year and 8.0% on the month. Encouragingly commercial vehicle sales increased 4.5% on the month while heavy commercial vehicles sales increased 20.8% and 42.9% on the year. Vehicle exports also grew strongly, increasing 23.7% on the year.

Unnervingly however the unemployment picture continued to deteriorate. Unemployment increased from 25% in the 1st quarter to 25.7% in the 2nd quarter. The Adcorp monthly employment report shows employment fell in June at an annual rate of 8.3%, the 2nd successive monthly decline. The trend is due largely to SA's rigid labour laws and their impact on the blue collar sector since in contrast professional employment increased during the same period by 21.9%. Adcorp forecasts 24.9 million man days will be lost in 2011 as a result of trade union activity, up 22% from 2010. In a worldwide study the World Economic Forum recently ranked SA as having the 7th worst labour laws in the world, contributing to the 8th highest level of industrial conflict.

Contrary to textbook economics, inflation has increased in spite of rising unemployment. Producer price inflation (PPI) accelerated from 6.6% on the year in April to 6.9% in May and again to 7.4% in June well above the 6.9% consensus forecast. Month-on-month PPI registered a much higher than expected 4.4% in June. Consumer price inflation (CPI) accelerated from 4.6% in May to 5.0% in June. In spite of rising PPI and CPI the SA Reserve Bank (SARB) kept the benchmark repo rate unchanged at 5.5% repeating the policy stance of its 4 meetings so far this year. The SARB reported a slight near-term deterioration in its inflation forecast with CPI expected to marginally breach the upper end of the 3-6% target range in the final quarter of 2011 and to average 6.3% in the 1st quarter of 2012. However, it sees the target breach as temporary due to cost push pressures and not likely to raise inflationary expectations. The effect of low base figures will reverse and return CPI back to within target in the 2nd half 2012. The SARB also emphasized that core inflation which strips out more volatile food and energy prices remains at just over 3%.

As long as the inflationary outlook remains manageable any increase in the repo rate will probably be delayed until next year. This is especially likely given the recent loss in economic momentum and relatively modest economic growth forecasts. The SARB leading indicator, which measures trends in the business cycle 6-12 months in advance, fell in May by 1.6% on the month and 0.1% on the year the 1st annual decline since September 2009. The Bureau for Economic Research forecasts a decline in growth from 3.8% in 2011 to 3.7% next year