overberg asset management

Local performance factsheet

OAM Local Income Portfolios

ZAR Rand

AUG 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 (40%) and ALBI 1-3 yr Return Bond Index (60%)**
- Asset Allocation: **flexible mix of equities, bonds and cash**

Investment Objectives:

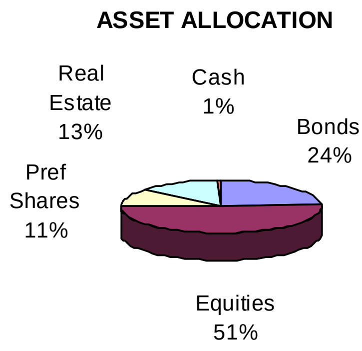
- conservative growth with income
- consistent annual returns
- low volatility

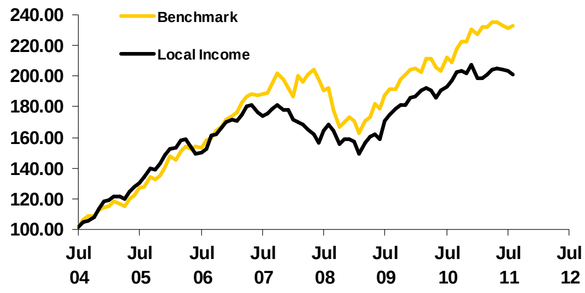
	Local %	Benchmark %
Annualised Total Return	10.21	12.53
2004 (July – December)	18.33	14.20
2005	25.71	23.16
2006	14.50	21.94
2007	4.40	12.27
2008	-10.60	-9.99
2009	16.80	18.00
2010	11.73	12.70
YTD	-3.26	1.16

*Since July 2004: All performance figures include income and are net of fees and expenses

Growth 2011	Local %	Benchmark %
January	-4.09	-1.53
February	-0.31	2.14
March	1.25	0.13
April	1.66	1.51
May	0.35	-0.16
June	-0.45	-0.93
July	-0.31	-0.63
August	-1.31	0.69

	%
Annualised Income Yield	6.09





(As calculated by Overberg 31 Aug 2011)

Commentary

Economic growth slowed in the 2nd quarter to just 1.3% quarter-on-quarter annualized, a sharp slowdown from the downwardly revised 4.5% in the 1st quarter and below the 1.6% consensus forecast. The biggest culprits were agriculture which contracted 7.8% due to abnormally wet conditions hampering the harvest, and manufacturing which contracted 7.0% exacerbated by strike activity. Growth in financial and business services fell to 2.9% from 4.8% in the 1st quarter, while growth in wholesale and retail sales reduced slightly to 4.1% from 4.4%. General government services provided the best reading with growth increasing to 5.7% from 1.8%.

Readings since the 2nd quarter indicate further deterioration. Manufacturing production decreased in July by 6.0% on the year and 6.0% on the month significantly worse than the 0.6% consensus forecast decline and the biggest decline in 2 years. Mining output also contracted 5.1% on the year. Manufacturing and mining together account for over a fifth of the economy's overall output and employment.

Business sentiment indicators corroborate the significant loss of momentum. The Purchasing Managers' Index (PMI) for manufacturing increased from 44.2 in July to 46.7 in August but for the 2nd straight month remained below the key 50 level which indicates contraction. The continuation of a sub-50 reading suggests the sharp drop during July cannot be attributed solely to the strike activity during that month. The new sales orders sub-index decreased from 48.8 to 44.6 while the expected business conditions sub-index decreased from 59.5 to 53.7 the lowest in 2 years. The SA Chamber of Commerce and Industry (SACCI) business confidence index fell in August to 98.6 a decrease of 0.4 points on the month and 4.7 points on the year, the biggest year-on-year decline since September 2009. On a year-on-year basis 6 of the 7 economic activity sub-indices showed negative readings. Meanwhile the Bureau for Economic Research/ RMB business confidence index fell in the 2nd quarter from 48 to 39 the 2nd successive quarterly decline.

Fortunately there are some bright spots in the current economy. New vehicle sale increased in August by 11.1% on the year and 12.6% on the month the fastest monthly increase since January 2011. Business demand for vehicles was especially strong, including demand for rental cars, light commercial vehicles, bakkies and minibuses. Vehicle exports were robust rising 26.7% on the year, with exports of passenger vehicles increasing 19.3%, more than reversing the 15.3% in July.

Slowing economic growth has been good news for the cumulative trade balance which in spite of a surprising large trade deficit of R3.9 billion in July, continues to remain low for the year to date at R6.4 billion, below last year's equivalent R7.5 billion. The current account deficit as a percentage of GDP is expected to reduce to 3% in 2011 providing a sound foundation for a low interest rate environment.

Economists have revised their economic growth forecasts lower over the past month in response to disappointing data, reducing the consensus growth forecast for 2011 and 2012 to the 3-3.5% range from a previous 3.5-4.0%. As a result of slowing growth, a healthy current account balance and a tame inflationary environment, the SA Reserve Bank is unlikely to raise interest rates before the start of 2012. In fact forward rate agreements on 3-month interest rates have declined sharply since August and currently attribute a more than 50% probability to a 50 basis point interest rate cut within the next 6 months.

The global and local economic growth outlook has certainly deteriorated during the 3rd quarter, and likely to prompt downward revisions to company earnings growth. The uncertain environment is however amply discounted by equity prices with the historic price earnings multiple of the All Share index at 12.2X down from over 17.0X at the start of the year. Compared with prevailing short dated interest rates equities reflect even greater value, in many instances dividend yields are above money market rates, while the equity risk premium above "risk free" bond rates is close to historic highs.