OAM Global Growth Portfolio[1]

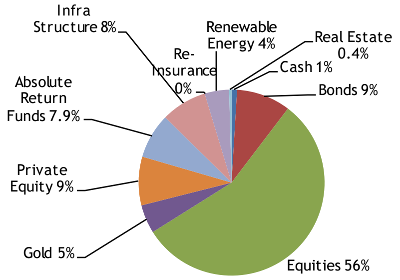
Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE Global 100 and FTSE 100
  - FTSE Global 100 is the top 100 companies deriving < 70% of revenue domestically
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash

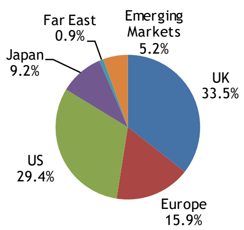
Investment Objective

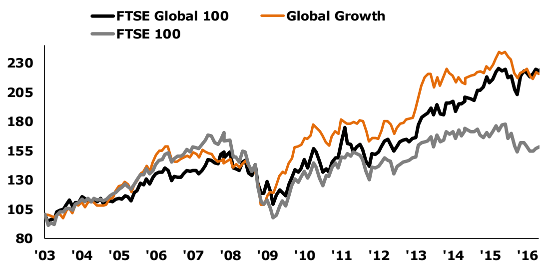
- conservative growth using medium risk strategy
- consistent annual returns
- low volatility

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





(As calculated by Overberg Jan 2017)

1) Individual portfolio representing Global Growth investment style

December 2016

	Global Growth %	FTSE Global 100 %	FTSE 100 %
Annualised Total Return	7.00	7.55	4.34
2003	10.76	15.13	13.62
2004	12.44	-0.98	7.54
2005	21.69	18.22	16.71
2006	1.34	2.21	10.71
2007	-4.11	11.35	3.80
2008	-20.88	-16.24	-31.33
2009	42.05	14.76	22.07
2010	9.81	9.92	9.00
2011	-9.17	-5.00	-5.55
2012	15.06	7.62	5.84
2013	15.43	19.01	14.43
2014	2.17	7.95	-2.71
2015	0.34	4.22	-4.93
2016	14.71	25.00	14.43
Return over	3yr: 5.55	5yr: 9.33	7yr: 6.54

*Since March 2005: All performance figures include income and are net of fees and expenses

Growth 2016	Global Growth %	FTSE Global 100 %	FTSE 100 %
January	-2.88	-1.84	-2.54
February	-0.97	1.40	0.22
March	2.65	1.80	1.28
April	-0.58	-0.71	1.09
May	0.39	1.28	-0.18
June	2.10	9.24	4.39
July	5.22	3.79	3.38
August	1.23	1.06	0.85
September	2.50	1.21	1.74
October	3.12	4.39	0.80
November	-1.29	-2.67	-2.45
December	2.61	4.12	5.29

2016 in	$-4.38%	€-1.19%	ZAR-15.64%
Annualised Income Yield	1.34%		
Best 3 Months	7.28	7.23	7.05
Worst 3 Months	-13.41	-9.14	-6.33

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Market Review

The big event in the fourth quarter (Q4) was the surprise election on 8th November of Donald Trump as the 45th US President. As unexpected as the election result so too was the reaction in global financial markets. Defying the consensus predictions of investment analysts, equity markets surged to new highs shrugging off Trump's campaign promises of trade protectionism and geopolitical polarisation. Instead equity markets discounted the business friendly aspects of Trump's policy proposals including deregulation, tax cuts and infrastructure spending and their beneficial impact on global growth. In sterling terms, the FTSE All-World index increased +6.2% in Q4 although in dollar terms by a narrower +1.0% due to dollar resurgence. In Q4, Japan's Nikkei 225 led the developed markets with a gain of +16.2% although just +0.4% for 2016 as a whole, followed by the German Dax with returns of +9.2% and +6.9% respectively, the UK FTSE 100 with returns of +3.5% and +14.4% and the US S&P 500 with +3.3% and +9.5%. Emerging markets fared less well, with the FTSE All-World Emerging Market index ($) falling -3.4% in Q4 attributed to a resumption in Federal Reserve interest rate increases and dollar strength. However, over 2016 the dollar returns of the FTSE All-World and FTSE All-World Emerging Market indices were similar at +5.8% and +5.1%.

US equity indices hit new record highs in Q4 amid confidence that the new administration will reflate the economy through fiscal policy rather than rely so much on low interest rates. The new Treasury secretary is targeting GDP growth of 3-4%. Implementation of infrastructure plans will take time but tax cuts can be delivered relatively quickly. Trump proposes a substantial reduction in the corporate tax rate from 35% to 15% and the repatriation of $1.3 trillion in overseas cash, of which some is likely to be returned to shareholders via share buybacks or increased dividends. Combined with promises of deregulation these policy proposals have lifted economic growth and inflation expectations, driving the US dollar to a 14-year high and benefiting domestic cyclical equity sectors over defensive multinationals. Small-cap stocks outperformed multinationals in Q4 for the first time since 2013. In Q4 the financial sector was the top performer with a gain of +13% helped by a combination of higher interest rates, a steeper yield curve and plans to lessen financial regulation. Shares of Goldman Sachs and Bank of America gained +48% and +41% over the quarter. Conversely bonds suffered sharp price falls with the yield on the 10-year Treasury bond rising to 2.5% compared with 1.35% in July. With unemployment falling to a new 9-year low of 4.6% in November wage inflation is likely to accelerate in 2017 prompting the Federal Reserve (Fed) to hike the fed funds interest rate in December by 25 basis points to 0.75%. Adopting a more "hawkish" tone the Fed has signalled three more rate hikes in 2017 with its median projections for the fed funds rate at the end of 2017, 2018 and 2019 at 1.4%, 2.1% and 2.9% respectively. Although the S&P 500 index trades on a lofty price-earnings (PE) multiple of 22x earnings growth is expected to accelerate due to better economic conditions with the estimated forward PE multiple falling to 17.7x.

The UK economy grew by an estimated 2.2% in 2016 far better than expected in the aftermath of the Brexit vote. However, the government forecasts GDP growth will reduce to 1.4% in 2017 due to the impact of lower trade flows, and reduced consumer and investment spending. There are challenges ahead for the UK economy especially after the government triggers Article 50 to formally leave the EU. A weaker economic outlook and lower tax receipts mean the budget is no longer expected to return to surplus by 2020. In Q4 sterling fell to a 31-year low of £/$1.21 versus the US dollar down from £/$1.48 prior to the Brexit vote. A weaker exchange rate has bolstered export competitiveness but raised inflation expectations pushing the 10-year Gilt yield to 1.4% up from 0.5% in June. The Bank of England (BOE) expects inflation to meet its 2% target by mid-2017 and peak at 2.75% in 2018. However, when reducing the benchmark interest rate in Q3 last year from 0.5% to 0.25% BOE Governor Marc Carney said he was prepared for a temporary overshoot of the central bank's inflation target. In a positive development for the economy there are signs that the government is moving away from its reliance on low interest rates towards pursuing fiscal stimulus. Chancellor of the Exchequer Phillip Hammond pledged £23 billion for a National Productivity Investment Fund in order to promote productivity and stimulate the economy. The increase in inflation expectations and possibility that the zero interest rate policy may be coming to an end boosted bank shares. The bank sector increased +15.9% in Q4 beaten only by the mining sector with a gain of +16.1%. Although the economic outlook is uncertain corporate earnings are expected to be buoyed by sterling weakness and resurgent financial, mining and oil sector earnings. Aggregate earnings are expected to rise by a solid 12% in 2017 placing the FTSE 100 index on an estimated forward PE of 14.5x.

The FTSE Europe Ex-UK ($) index lost -0.5% in Q4 extending its loss for the year to -3.0%. Eurozone economic growth remains lacklustre with GDP growth expected to register 1.5% in 2016 amid weak investor and consumer confidence. The ECB forecasts GDP growth will pick-up slightly to 1.7% in 2017 but acknowledges that inflation remains a long way off its target of just less than 2% predicting it will take until 2019 before it reaches 1.7%. The ECB extended its quantitative easing programme from its expiry date in March 2017 until the end of December 2017 although lowered its monthly asset purchases from €80 billion to €60 billion per month. Political risk is rising in the region with the growing threat of an anti-establishment vote upsetting the German federal election expected in September and the French election, the first round of which is due in April. In Italy's referendum voters rejected constitutional reform prompting the resignation of Prime Minister Matteo Renzi. Spain broke its political deadlock after opposing parties allowed Mariano Rajoy to return to power in a coalition government. Spain's economy outshone the Eurozone average in 2016 with expected GDP growth of 3.2% although this may slow to around 2.7% in 2017. Like the US and UK bank shares performed best during Q4 with Deutsche Bank and French bank Societe Generale both rising +52% during the quarter. Despite lacklustre economic growth Eurozone corporate earnings should benefit from the weakening euro. Earnings are projected to grow by 13% in 2017 resulting in an estimated forward PE of 14.7x.

Japan's GDP grew a surprisingly strong 2.2% in Q3 last year although subsequently this figure was revised lower to 1.3%. However, economic momentum is picking-up boosted by a strengthening in consumer and investment spending. There are signs that wages are also rising, seen as a vital precursor to a sustainable increase in inflation. The yen has weakened sharply since the US election from ¥/$105 to 115 which should provide an additional boost to economic momentum. However, the Bank of Japan is likely to maintain its ¥80 trillion per year quantitative and qualitative easing (QQE) programme of asset purchases until there is clear evidence that inflation returns sustainably to positive levels. The improving global growth outlook and weaker yen helped the Nikkei 225 index gain +16.2% in Q4, the top performing developed market over the period, although for the year gains were barely positive at +0.4%. The better economic outlook combined with a weakening yen and improving corporate governance should support solid earnings growth of 15% in 2017 resulting in an undemanding PE of 15.3x, well below the long-term average of 26.02x.

The FTSE Emerging Markets ($) index fell in Q4 by -3.4% with the benefit of the current upswing in commodity prices undermined by the strengthening US dollar and Trump's proposals for trade protectionism. Many emerging market economies hold high levels of dollar denominated debt. China's economy grew by an estimated 6.7% in 2016 supported by government spending, a strong property market and monetary stimulus. Monetary stimulus may reduce in 2017 in response to rising inflation but fiscal support in the form of infrastructure spending is likely to be maintained. India's strong economic momentum was affected during Q4 by the government decision to withdraw high denomination bank notes from circulation. Although impacting growth over the short-term India's currency reform reflects strong policy resolve and will improve the economy's long-term prospects by clamping down on the black economy and raising tax revenue. India's economy is likely to re-establish its position as the fastest growing emerging market in 2017.

Clients' portfolios were traded more than usual during Q4 taking advantage of likely policy changes under a Trump-led Republican government. In particular portfolios were made less defensive with a greater bias towards cyclical equity sectors including banks, financials and mining. In addition, biotech exposure was added to portfolios on an expected re-rating of the sector with prospects for less rigid regulation and pricing controls. In 2017 we expect a revival in global growth driven by stronger US activity and a recovery in some emerging market economies helped by rising commodity prices. There has been a rotation from bonds into equities and among equity sectors from defensive towards cyclical stocks. This fundamental shift should have further to go if the world economy gathers speed towards 2018.