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Global performance factsheet

OAM Global Growth Portfolios

GBP Sterling

AUG 2012

Introduction

Overberg Asset Management specializes in the management of individual global portfolios, tailored to the investment objectives of each client. In the current and foreseeable climate, we are building client portfolios around closed-end funds, which give low-cost access to global investment opportunities at measurable risk and alpha. Closed-end funds are publicly quoted companies, representing leading international fund managers and offering access to traditional as well as alternative asset classes - they have become the investment choice of London's "City" professionals. As an independent company, Overberg can set objective standards in its selection of closed-end funds. Your portfolio will be in the safe custody of London-based Charles Stanley stockbrokers, and managed from here in S.A. Constant availability and a quick and flexible response are fundamental to our client relationships. Clients have access to their latest investment positions via a daily update on the Charles Stanley website. We produce customised statements and investment reports to specific requirements.

Technical Details

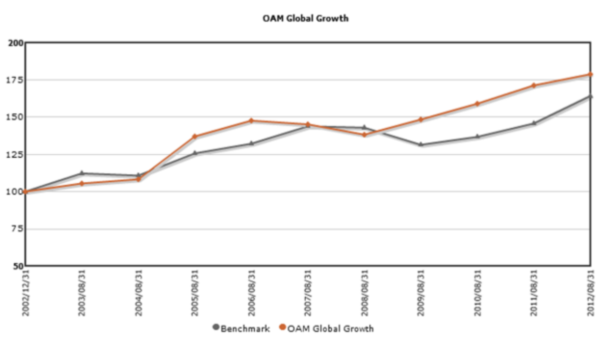
- FSB approved
- Base currency: GB Pounds
- Minimum investment: R500,000 equivalent
- Benchmark: FTSE Global 100
- Asset Allocation: flexible mix of closed-end funds, bonds and cash

Investment Objectives:

Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

	Growth %	Benchmark %
Annualised Total Return	6.20	5.43
2003	10.76	15.13
2004	12.44	-0.98
2005	21.69	18.22
2006	1.34	2.21
2007	-4.11	11.35
2008	-20.88	-16.24
2009	42.05	14.76
2010	9.81	9.92
2011	-9.17	-5.00
YTD	8.31	6.63

*Since Jan 2003: All performance figures include income and are net of fees and expenses



Growth 2012	Growth %	Benchmark %
January	4.13	2.50
February	4.82	3.41
March	0.03	0.74
April	-1.50	-2.39
May	-4.51	-3.89
June	2.82	2.76
July	1.87	2.49
Aug	0.70	1.07

	%
Annualised Income Yield	1.15
Best 3 Months	7.28 7.23 7.05
Worst 3 Months	-13.41 -9.14 -6.33

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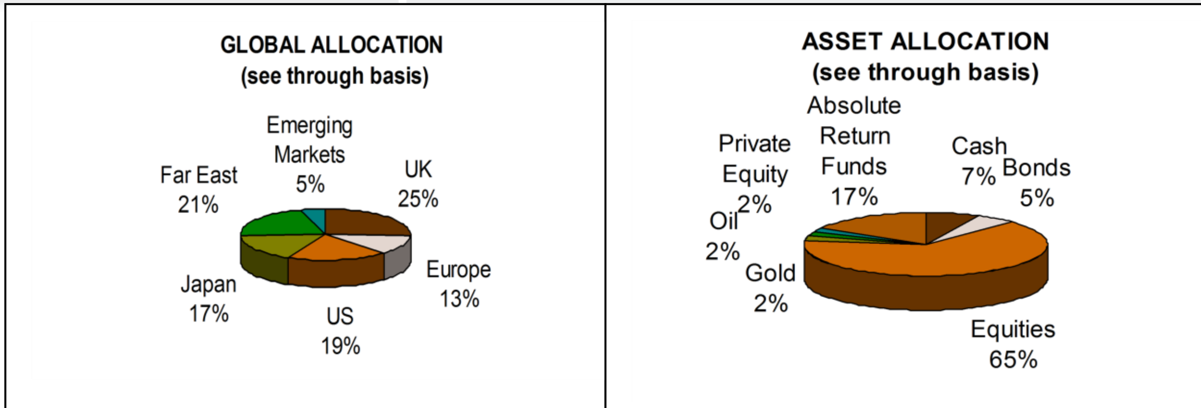

Commentary

The world economy is undoubtedly slowing down. The pace of US economic growth slowed to 1.7% year-on-year in the 2nd quarter, while the Eurozone actually shrank by 0.2% and the UK shrank by 0.5%. Moody's rating agency has even put the core Eurozone economies of Germany, the Netherlands, and Luxembourg on negative watch for possible sovereign debt rating downgrade. China's exports increased in July by just 1%, significantly below the expected 8.6% increase. Purchasing Managers' Index data for August confirm that all major economies are losing momentum, including China. Moreover, the world economy is vulnerable to further shock, with heightened anxiety over the Eurozone debt crisis and the so-called US "fiscal cliff". The view that the Eurozone may undergo some form of break-up is becoming less far-fetched, while in the US the Congressional Budget Office estimates that automatic tax increases and spending cuts in the absence of political compromise will shrink the federal deficit from 7.3% of GDP in 2012 to around 4% in 2013. This would push the US economy back into recession with serious global ramifications.

Markets have been relatively calm despite the generally poor economic news released over the northern hemisphere's summer season. This might be due to investors being far more defensively positioned this year compared with last year, thereby limiting the scope for disappointment against expectations. In fact markets seem to be reacting equally whether to good or bad macro-economic news, since the more sombre the news the greater the probability of some resumption of stimulatory monetary policy. Inflationary pressures are subsiding, providing central bankers the flexibility they need to lower interest rates and expand the monetary base through additional asset repurchase programmes (quantitative easing).

Although central bank interest rates are close to zero in developed economies, at 0-0.1% in Japan, 0-0.25% in the US, 0.5% in the UK and 0.75% in the Eurozone, there is plenty of scope for further unconventional monetary stimulus. The ECB has yet to engage its own quantitative easing programme. Its bond repurchases to date have been "sterilized" by the draining of equivalent value from excess commercial bank reserves. As a result the ECB has not yet increased the aggregate monetary base through its bond purchases but this may change. The ECB has already hinted that it may refrain from sterilising future repurchase programmes, opening the door to full-blown ECB quantitative easing.

Language adopted in the minutes of the Fed's latest policy setting meeting suggests additional quantitative easing (QE3) may occur as soon as the next Federal Open Market Committee (FOMC) meeting in the 2nd week of September. Fed chairman Ben Bernanke's speech at the Jackson Hole central bankers' summit lent further weight to this likelihood. The Fed's quantitative easing programmes so far (QE1 and QE2) have been limited to purchases of government and state-backed mortgage bonds, but there is scope for private assets to be added to these programmes, with the benefit of reducing a far broader spectrum of interest rates.

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With the benefit of hindsight central banks are actively addressing the criticisms of quantitative easing. The most obvious is that although successfully increasing the monetary base, quantitative easing has so far had limited impact on increasing actual bank lending. Policy measures are being developed to redress this shortcoming: Via subsidized loans, the BOE's "funding for lending" programme is designed to reward banks which increase lending to the private sector. Meanwhile Denmark's central bank actively punishes banks that do not lend to the private sector by levying a negative interest rate of -0.2% on excess reserves parked at the central bank by the commercial banking community. Both carrot and stick strategies are likely to be adopted by the Fed and ECB in coming months.

The Fed's QE1 and QE2 were accompanied by strong rebounds in the global economy and global equity markets. While the effect may be more subdued this time around, due to a lack of accompanying fiscal stimulus and a clear diminishing return on each subsequent quantitative easing program, QE3 is likely to lend significant support to the real economy and financial asset prices, especially if as expected the Fed's measures are supported by similar policy in Japan, the UK and for the 1st time the ECB as well.

We expect equity markets to perform strongly over the remainder of the year, supported by concerted global monetary easing. At the same time companies generally enjoy healthy balance sheets and continue to deliver better than expected earnings growth. Equity valuations are low by historic standards and especially attractive compared with the low returns offered by cash and bonds, in many cases negative in real terms and below the dividend yield of many shares.

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