overberg asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Growth Portfolios

GBP Sterling

FEB 2016

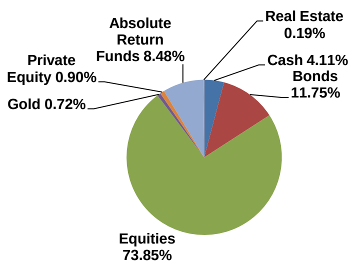
Technical Details

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

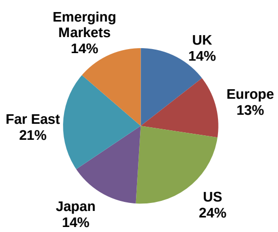
Investment Objectives:

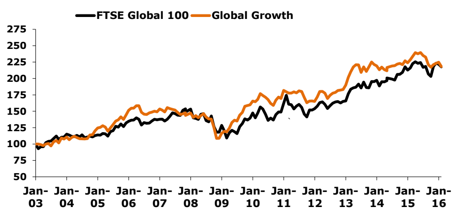
Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





(As calculated by Overberg 29 Feb 2016)

	Growth %	Benchmark %
Annualised Return	6.03	6.20
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
2012	15.06	7.62
2013	15.43	19.01
2014	2.17	7.95
2015	0.34	4.22
2016 YTD	-3.83	-0.47

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

Growth 2016	Growth %	Benchmark %
January	-2.88	-1.84
February	-0.97	1.40
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		

2015	$-9.90%	€-10.13%	ZAR-6.35%

Annualised Income Yield	1.32
Best 3 Months	7.28 7.23 7.05
Worst 3 Months	-13.41 -9.14 -6.33

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.

Quarterly Commentary 29 February 2016

In the fourth quarter (Q4) global equity markets recovered most of the steep losses incurred during the previous quarter. Global sentiment was improved by a stabilisation in China's financial markets and a continued gradual recovery in the US, Eurozone and UK economies. Having fallen -6.9% in Q3 the US S&P 500 index rallied +6.5% in Q4 although it was still down -0.7% for the year as a whole. The Shanghai index surged +15.9% in Q4 the top performing market over the quarter resulting in a positive +9.3% gain for the year. Other major equity indices showed a similar pattern. The German Dax and Japan's Nikkei 225 enjoyed respective gains of +11.2% and +9.5% in Q4 restoring positive returns for 2015 of +9.6% and +9.1%. The UK FTSE 100 index was less fortunate due to its heavy weighting in poorly performing oil and commodity sectors, returning only +3.0% in the quarter and -4.9% for the year. In spite of its stellar improvement in economic outlook India's Sensex index was flat in Q4 at 0.0% and lost -4.9% for the year. Overall, despite the strong recovery in the final quarter, global equity markets fared poorly during 2015 with the FTSE All-World ($) index losing -4.1% although this was better than the FTSE All-World Emerging ($) index which lost -9.6% over the year.

The economic recovery in the US was maintained despite GDP growth slowing from 3.9% in Q2 to just 2.0% in Q3. The Federal Reserve (Fed) forecasts the rate of GDP growth will pick-up to 2.4% in 2016 and 2.2% in 2017. The economy appears to be on a sustainable recovery. Spare capacity in the labour market has declined steadily since the 2008/09 global recession pushing the unemployment down to 5.0% compared with 10% in 2009. Resulting wage pressure is likely to bring about higher inflation. The Fed forecasts that its preferred inflation measure, the core personal consumption expenditure index, will rise from 1.3% in 2015 to 1.6% in 2016. The improving economic outlook justified the Fed's first interest rate increase since 2006. After being at almost zero for seven years the fed funds rate was hiked 25 basis points from 0-0.25% to 0.25-0.50%. The Fed had broadcast its intentions to hike rates for so long that financial markets reacted positively once the rate decision was finally delivered. Moreover, the pace of monetary tightening is likely to be slow. The Fed is projecting the fed funds rate will only rise by a cumulative 1% in 2016. Although the economic recovery appears sustainable there are some concerns. Corporate debt defaults are rising causing a widening in high yielding bond spreads. At the same time corporate profit margins are starting to decline from peak levels due to rising wage pressure and falling productivity. As a result the S&P 500 index does not appear especially cheap on a 16.0x estimated forward price-earnings multiple.

In 2015, the UK's FTSE 100 index declined for a second consecutive year. The equity lagged other global markets due to its heavy exposure to the mining resources and oil sectors. The market performance seems at odds with a fairly robust economy. Although UK GDP growth slowed from 0.7% in Q2 to 0.5% in Q3 investment spending and consumer spending were strong, with the services sector making up for weakness in manufacturing and construction. According to the Bank of England (BOE) the economy is expected to expand at a steady 2.4% rate up until 2020. While unemployment has fallen to 5.2% the pace of wage growth has diminished from the annual rate of 3.1% in the three months to end September to 2.4% in the same period to end October. Meanwhile consumer price inflation is subdued at just 0.1%, which suggests the BOE will break with tradition and delay in following the Fed in hiking interest rates. Although the economy is showing solid growth it is highly dependent on the consumer and service sector which may add to the central bank's reluctance in raising rates. However, UK equities could remain under further pressure in the first half of 2016 due to further expected weakness in resource and oil sectors. The planned referendum on EU membership, the “Brexit” vote, could add further uncertainty to the UK equity market. Given these concerns the FTSE 100 index is unlikely to be re-rated as it currently trades on a 14.6x estimated forward price-earnings multiple, over 20% higher than the 10-year median of 11.7x.

In aggregate Eurozone company earnings declined in 2015 by -1.0% marking the fifth straight year of nil growth. However analysts expect a solid improvement in 2016 boosted by lower input costs, a weaker euro and rising profit margins. In addition, economic growth is likely to gain momentum helped by the weakening oil price, a recovery in bank lending and consumer spending, and easier monetary policy. GDP growth is expected to rise from an estimated 1.5% in 2015 to 1.8% in 2016. At the end of last year the ECB cut its deposit rate to -0.3% and extended its €60 billion per month quantitative easing (QE) programme for a further six months to end March 2017. The extended QE programme is attributed to persistently low inflation which remains stuck at just 0.1% well below the central bank’s 2% target. Although less than financial markets had hoped for the extra monetary stimulus should provide considerable support to Eurozone equities. In Q4 the FTSE Europe (excluding UK) index increased 7.5% in sterling terms despite poor company earnings and the Volkswagen scandal. However, earnings growth of 8% is forecast in 2016 and with the profit margin cycle still in its early stages Eurozone equities appear to offer good value on a 14.4x estimated forward price-earnings multiple.

Japan’s economy narrowly avoided recession after Q3 GDP growth was revised upwards from -0.8% to +1.0% attributed to a pick-up in capital expenditure. GDP growth of 1.5% and 1% is expected in 2016 and 2017. However, inflation remains a long way off the Bank of Japan’s (BOJ) 2% target. With inflation at 0.1% the BOJ extended it timeframe target to the second half of fiscal 2017 and enhanced its quantitative and qualitative easing programme. In contrast to the lacklustre economic recovery company earnings growth has been robust helped by the weakening yen and rising profit margins. In addition there has been a marked shift in corporate governance. The listing of Japan Post in Q4 was the largest since NTT was privatised in 1987 reflecting the change in Japan’s corporate culture. Priority is being given to shareholders through share buybacks and rising dividend payments. There was relative calm in Japanese equity markets following the Fed’s rate hike as monetary policy divergence should encourage further weakening of the yen/dollar exchange rate in turn sustaining export recovery and corporate profitability. Meanwhile, there are plans to raise the minimum wage and expectations for a stimulus package equivalent to $30 billion. Rising profit margins and shifting corporate governance combined with continued economic reforms, central bank and fiscal stimulus provide a solid foundation for equities. Given the positive outlook, Japanese equities remain attractive on a 13.3x estimated forward price-earnings multiple.

After five years of underperformance emerging market equities appear to offer good value on an estimated 11x forward price to earnings. However, headwinds remain amid continued uncertainty about China’s economy and the prospect of further tightening in US monetary policy. Emerging markets have high levels of dollar denominated debt which are becoming increasingly costly to service with the appreciating dollar and rising interest rates. China’s equity market crashed to a low point in August last year after the yuan was devalued and although it rallied strongly in Q4 it has reacted badly since the start of 2016 to a further round of devaluation. China’s transition from investment-led to consumer-led growth still remains uncertain despite five interest rate cuts and numerous fiscal stimulus measures. China’s industrial profits are on a downtrend, corporate debts are high and there is substantial excess capacity in a number of industries. Elsewhere, Brazil has suffered considerable economic collapse. GDP contracted in Q3 by -4.5%, inflation exceeds 10%, interest rates are at 14.5%, and with government spending out of control the budget deficit has risen to 9% of GDP. However, it is a mistake to generalise about emerging markets. India’s outlook remains bright with 7.4% GDP growth in Q3 which should be sustainable during 2016 and 2017. India is implementing market friendly structural reforms, and with inflation under control the central bank reduced interest rates by 1.25% last year and may cut rates further in 2016.

In 2016 we expect the global economy to grow moderately with improved growth in the US, Eurozone and Japan offsetting weakness in Asia, China and Latin America. However, the outlook for equities is complicated by relatively high valuations and by the Fed’s monetary policy normalisation. Although the fed funds rate will still remain low by historic standards the adjustment from years of quantitative easing and zero interest rates is unprecedented and no economists or analysts are quite sure what the ramifications will be to global liquidity. There are already signs of financial distress, 2015 finished with $90 billion of debt defaults the highest since 2009 and could rise further if oil and mining companies succumb to continued pricing pressure. At the same time there are warning signs that equity markets have reached levels of exuberance with global mergers and acquisitions reaching $5.0 trillion in 2015 exceeding the 2007 record of $4.6 trillion. Exuberance traditionally marks the peak in equity bull markets. We are confident that the defensive positioning of our portfolios is correct, allowing them to withstand any downturn in equity markets and to exploit the weakness and lower prices which will follow.