

## OAM Global Growth Portfolios GBP Sterling

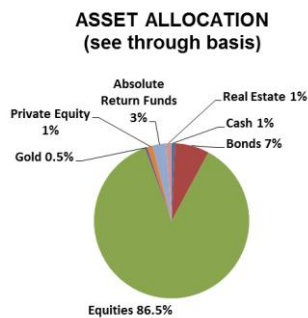
MAR 2013

### Technical Details

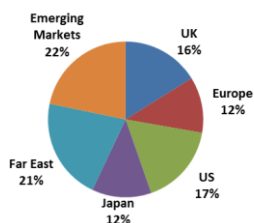
- FSB approved
- Base currency: GB Pounds
- Minimum investment: R500,000 equivalent
- Benchmark: FTSE Global 100
- Asset Allocation: flexible mix of closed-end funds, bonds and cash

### Investment Objectives:

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



### GLOBAL ALLOCATION

  
(see through basis)


(As calculated by Overberg 31 Mar 2013)

	Income %	Benchmark %
<b>Annualised Return</b>	7.87	6.45
<b>2003</b>	10.76	15.13
<b>2004</b>	12.44	-0.98
<b>2005</b>	21.69	18.22
<b>2006</b>	1.34	2.21
<b>2007</b>	-4.11	11.35
<b>2008</b>	-20.88	-16.24
<b>2009</b>	42.05	14.76
<b>2010</b>	9.81	9.92
<b>2011</b>	-9.17	-5.00
<b>2012</b>	15.06	7.62
<b>2013 YTD</b>	14.49	12.11

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

	Growth %	Benchmark %
<b>Growth 2013</b>		
<b>January</b>	6.25	6.69
<b>February</b>	4.16	3.86
<b>March</b>	3.45	1.18
<b>April</b>		
<b>May</b>		
<b>June</b>		
<b>June</b>		
<b>July</b>		
<b>September</b>		
<b>October</b>		
<b>November</b>		
<b>December</b>		

<b>YTD 2013</b>	\$7.44%	€10.68%	ZAR16.99%
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<b>Annualised Income Yield</b>	1.00%
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<b>Best 3 Months</b>	7.28	7.23	7.05
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## 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.

## Commentary

Equities have made an excellent start to 2013, helped by further normalisation of the US economy, the ECB's success in keeping Eurozone bond yields low, and the adoption by other developed economy central banks of US-style quantitative easing. The Bank of Japan has pledged to "do whatever it takes" to end deflation, targeting a 2% inflation rate by 2015. As a result the Nikkei 225 index outshone the others in the 1st quarter with a gain over the period of 19.3%. US equities meanwhile hit a new record high with the S&P 500 gaining 12.2%. The UK FTSE 100 increased 8.7% assisted by a weakening currency.

US equities have been moving upwards ever since the "fiscal cliff" threat was defused by a last minute compromise just before the New Year. The deal however failed to agree on measures to reduce spending resulting in automatic "sequestration" spending cuts of \$85bn in the current financial year. In spite of sequestration cut-backs the economy is gaining momentum with GDP growth of 3% expected in the 1st quarter and growth of 2-2.5% for the year as a whole. The housing market is recovering strongly, helped by record low interest rates and an accompanying mortgage refinancing boom. Jobs growth has also been impressive reducing the unemployment rate from 7.9% in January to 7.6% in March. While encouraging, the economy seems highly reliant on the Federal Reserve's continuing quantitative easing (QE) support amounting to \$85bn per month, but at some stage the scale of QE will inevitably slow, perhaps as soon as the 2nd half of the year. Fortunately any scaling back is likely to be gradual while the threat this may pose to renewed confidence in the markets is mitigated by reasonably low equity valuations.

The FTSE 100 rallied despite a lack of growth in the economy, deterioration in the inflation outlook and poor public finances, culminating in the UK losing its triple-A sovereign debt rating. The budget deficit is still expected to be 7% of GDP in 2014 and Government debt is expected to peak at 86% of GDP. There are however some bright spots. Economic growth is expected to recover from 0.6% in 2012 to 1.8% in 2014. The government is reducing the corporation tax to 20% by 2015 and offering added incentives for home buyers. Unemployment has decreased to 7.7%, which together with rising home prices is boosted consumer confidence and household spending. Meanwhile, Sterling's depreciation as a result of the sovereign debt downgrade is boosting export competitiveness, a trend which is likely to persist under more aggressive monetary easing once Marc Carney takes over as Bank of England (BOE) governor in July. A weak currency is also stimulating demand for UK equities. About 70% of FTSE 100 revenues come from overseas.

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In the first quarter of 2013 European equity markets made steady progress despite inconclusive Italian elections and Cyprus' messy \$10 billion bail-out. Eurozone GDP contracted -0.6% in the 4th quarter last year with the region expected to remain in recession in 2013 according to lead economic indicators. In 2013, the Italian economy could contract by -1.6%, Spain by -1.7%, Portugal by -2% and Greece by a further -5%. Although the growth outlook remains bleak Eurozone sovereign debt markets have remained stable. Italian and Spanish 10-year bond yields are near their post crisis lows at 4.3% and 4.6% respectively. Banks in the Eurozone are busy repaying emergency funding extended last year by the ECB's €1trillion LTRO programme (long-term refinancing operation), suggesting interbank lending is again functioning normally. In addition, Ireland and Portugal have returned to the debt markets. Although uncertainty remains the Eurozone crisis appears to be past its worst with the region likely to enjoy positive growth in 2014.

Japanese equities have soared 39.8% in 6 months. The catalyst is "Abenomics" and a radical change of strategy at the central bank. In December 2012, Shinzo Abe won a convincing election majority. He is advocating unprecedented stimulative monetary policy together with fiscal expansion and structural reform. After 15 years of deflation, the Bank of Japan is now targeting 2% inflation by 2015. Haruhiko Kuroda, the new governor of the BOJ has already doubled the level of quantitative easing to the equivalent of \$75 billion a month, which on a relative basis considering the size of Japan's economy is far greater than the Federal Reserve's already impressive \$85 billion a month. Aggressive monetary policy has pushed the yen to its lowest in 4 years providing a strong tonic to export competitiveness, sales volumes and profit margins.

Far East and Emerging markets have performed relatively poorly. Although GDP growth in these markets far exceeds growth in developed economies, there have been disappointments. Inflation and "currency wars" are also undermining investor confidence especially in export-driven Asian economies which are suffering from a more competitive Yen. The Hang Seng Index fell by 1.6% in the 1st quarter. In 2013, BRIC economies are still expected to grow by around 6% but this is below the recent norm. In 2013, China is expected to grow by 8% but this may be optimistic as the monetary easing cycle is being constrained by rising bad debts and government's determination to avoid a property bubble. India's monetary easing is also hamstrung by stubbornly high inflation in spite of economic growth slowing to 5% the lowest in 10 years. In Brazil equities fell sharply by 7.5% in the 1st quarter due to renewed inflation and concern over interest rates.

Massive quantitative easing is largely responsible for powering equity markets to multi-year highs, but improving economic fundamentals can also take some credit. The Eurozone is past the worst of its crisis as demonstrated by reduced bond yields and functioning banking system. The US economy is stabilising and should be able to withstand a reduction in quantitative easing in the 2nd half of the year, while in Japan and the UK currency depreciation is likely to provide a substantial boost to economic recovery. The outlook for equities remains positive in spite of strong gains so far this year. Valuations are by no means stretched, with price earnings multiples remaining well below the long-term average. Meanwhile dividend yields are higher than bond and money market yields, a rare privilege for investors.