

## OAM Global Growth Portfolios GBP Sterling

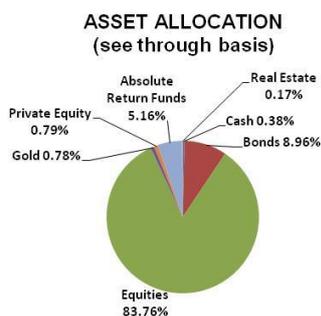
OCT 2013

### Technical Details

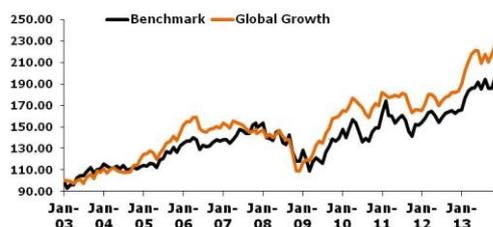
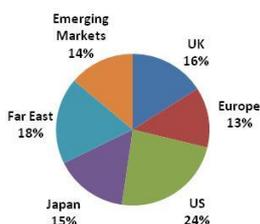
- FSB approved
- Base currency: GB Pounds
- Minimum investment: R500,000 equivalent
- Benchmark: FTSE Global 100
- Asset Allocation: flexible mix of closed-end funds, bonds and cash

### Investment Objectives:

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



### GLOBAL ALLOCATION

  
(see through basis)


(As calculated by Overbera 31 Oct 2013)

	Growth %	Benchmark %
<b>Annualised Return</b>	7.78	6.61
<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>	18.50	17.86

\*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>	1.58	0.49
<b>May</b>	-0.05	2.53
<b>June</b>	-5.22	-3.08
<b>July</b>	4.07	4.83
<b>August</b>	-3.24	-4.28
<b>September</b>	3.28	-0.26
<b>October</b>	3.42	5.19
<b>November</b>		
<b>December</b>		

<b>YTD 2013</b>	\$17.39%	€13.37%	ZAR38.09%
<b>Annualised Income Yield</b>	1.07%		
<b>Best 3 Months</b>	7.28	7.23	7.05
<b>Worst 3 Months</b>	-13.41	-9.14	-6.33

## 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

With few exceptions, equity markets around the world registered solid gains during the 3<sup>rd</sup> quarter (Q3), with US S&P 500 and UK FTSE 250, hitting new all-time highs. Strengthening macro-economic data provided the fuel behind the rally. In addition the Federal Reserve (Fed) unexpectedly refrained from "tapering" its quantitative easing (QE) programme, adding further relief to financial markets, especially "riskier" asset classes such as emerging markets and peripheral European markets. Spain and Italy were among the top three performing equity markets during the quarter, with Q3 gains of 19.4% and 13.7%. Emerging markets were not far behind with Russia, Brazil and China rising by 11.5%, 10.3% and 9.9%. The developed markets also performed well, the Germany's Dax gaining 8.0% over Q3 and 12.9% for the year-to-date (YTD). Japan's Nikkei increased a further 5.7%, gaining for the YTD by an impressive 39.1%. US equities posted respective gains of 4.7% and 17.9%, while the UK FTSE 100 was a relative laggard with 4.0% and 9.6%, hampered by unexpected strength in Sterling. The FTSE All-World \$ index gained 7.5% in Q3, up 12.8% YTD. The FTSE All-World Emerging \$ index gained a respectable 4.1% in Q3 but not sufficient to reverse its YTD loss of -7.7%.

The S&P 500 index hit a record high after the Fed's surprise decision. The market had expected QE to be cut-back by \$10bn to \$75bn per month. The Fed's inaction is attributed to recognition of the risk posed by US bi-partisan politics. The US government has partly shut down due to lack of accord on spending plans for the new fiscal year. More ominously, political parties need to agree to raise the Treasury's \$16.7tn debt ceiling before the 17<sup>th</sup> October deadline, in order to prevent a potential sovereign debt default. The Fed is also more sanguine about the economic outlook. The August payroll numbers were slightly disappointing with only 169,000 jobs created, while the previous month's figure was also revised lower. Although the unemployment rate has fallen to 7.3%, labour participation is poor. Furthermore, the recent rise in Treasury yields has slowed progress in the housing market with refinancing activity losing momentum. The central bank reduced its economic growth forecasts from 2.5% to 2.2% for 2013 and from 3.3% to 3.0% for 2014. In spite of the Fed's assessment, business confidence is on the rise, reflected in a marked increase in corporate mergers and acquisitions. During the quarter large corporate deals were signed by Omnicom, Verizon, Microsoft, Dell, BlackBerry and Applied Materials. Although the economic recovery remains fragile and beset by the risk of policy error from Washington, positive GDP growth is expected to underscore reasonable earnings growth, placing the S&P 500 index on a 14.1x estimated forward price to earnings multiple.

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Confounding expectations of a triple-dip recession UK Q2 GDP growth was revised upwards from 0.6% quarter-on-quarter to 0.7%, its fastest pace in six years, while recent surveys indicate even stronger growth in Q3. The recovery is broad-based across service and manufacturing sectors, with export orders also strengthening despite the slowdown in emerging economies. Government policies to stimulate lending such as the “Help to Buy” and “Funding for Lending” schemes, have helped. The Bank of England’s (BOE) recently adopted “forward guidance” has probably also helped. While upgrading its 2014 GDP forecast from 2.0% to 2.3%, the BOE said that UK benchmark interest rate would stay low at 0.5% until a 7% unemployment threshold is reached which the Bank estimated would be in Q2 2016. Low interest rates have reflected in a buoyant housing market. Meanwhile rising business confidence is boosting corporate activity. Recent deals include the government’s sale of a stake in Lloyds Banking Group for £3.2 billion, while Barclays launched the largest rights issue since 2009 at £5.8 billion. During Q3, equity markets made good progress but look poised to go higher in response to the expected pick-up in earnings growth. At the same time very low interest rates are likely to remain for some time, making the FTSE 100 attractively valued on an 11.9x estimated forward price to earnings multiple.

In Q2, the Eurozone economy grew by 0.3% quarter-on-quarter, marking the official end to the recession, following 18 straight quarters of contraction. Germany, the region’s largest economy, grew by 0.7% driven by domestic demand, with forward indicators suggesting solid growth into 2014. France grew by a modest 0.2% but unveiled a strategy to reinvigorate its industrial base and create 450,000 jobs over 10 years. Italy remained in recession, expected to contract -1.7% in 2013 but post growth of 1% in 2014. Spain is faring slightly better, contracting just -0.1% in Q2. Although the Eurozone is out of recession, ECB President Mario Draghi was cautious about the economic recovery saying that “these shoots are very green”. Unemployment in the region remains high at 12%, clouding the outlook for consumer spending. Draghi reiterated his pledge that interest rates will remain low for an extended period. Meanwhile, four years into the Eurozone crisis, momentum on the planned banking and fiscal union seems to be ebbing, although Angela Merkel’s resounding electoral victory should put the discussion firmly back on the agenda. Encouragingly, sovereign bond yields in Italy and Spain remain well anchored to their lows of the past year. There is growing confidence that the region is on the mend, prompting considerable interest in the region’s equity markets. European equities performed strongly in Q3 especially in Spain, Italy and even Greece. However, the FTSE Europe (ex UK) index is still relatively cheap, trading on a 12.7x estimated forward price to earnings multiple.

Japan’s economy grew in Q2 at an impressive annual rate of 3.8%, a clear vindication of Prime Minister Shinzo Abe’s bold economic reforms. Moreover, the Bank of Japan’s pledge to end deflation is also paying-off. Consumer price inflation increased to 0.9% in August, which in turn is stimulating the housing market with a rise in buyers and housing starts. Abe raised the consumption tax from 5% to 8% but offset this with a ¥5tn stimulus package aimed at boosting capital expenditure and wage increases. A government priority is to accompany the return of positive inflation with commensurate increases in wages and salaries. So far the return of positive inflation has largely been driven by the fall in the value of the Yen currency rather than higher wages. However, the weaker Yen is clearly boosting export volumes. The economic recovery is gaining traction, with Abe’s decisive Upper House election victory likely to add to the pace of economic reform and deregulation. Given greatly improved prospects for economic growth and earnings growth the Nikkei 225 index seems to offer exceptional value, trading on a 13.5x estimated forward price to earnings multiple. On a price-to-book basis the market is even more attractive, trading on a ratio of 1.2 compared with 2.7 for US markets.

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Emerging and Far Eastern equities have been out of favour due to rising debt and current account deficits, and signs of slowing Chinese growth. Thailand moved into a technical recession, with its economy contracting -1.7% in Q1 and a further -0.3% in Q2. Elsewhere, there are signs of decent albeit slower growth. The Hong Kong economy grew at an annual rate of 3.3% in Q2. In Singapore, the government expects the economy to grow by about 3% in 2013 driven by financial and retail sectors. The South Korean economy is growing by just 2.5% but has a healthy balance of payments and exports have been powering ahead, rising 16% in August. In Brazil, Q2 growth picked up to an annual rate of 3.3%. China's economy appears to have stabilised with 7.5% GDP growth expected in the second half of 2013 driven by improvements in trade, investment and industrial output. While Russia's growth forecast for 2013 has been slashed by the IMF from 2.5% to 1.5%, its equity market seems abnormally cheap on a 5x estimated forward price to earnings multiple. Although the FTSE All-World Emerging index gained 4.1% in Q3, it remains 7.7% lower for the year. 2013 is the third year that emerging markets have underperformed, making their valuations look increasingly attractive on an 11x estimated forward price to earnings multiple.

In Q3 global equities made progress in line with the economic recovery in developed economies. Economic growth is gaining momentum, accompanied by rising business and consumer confidence, which should translate into solid earnings growth. We therefore expect the re-rating of equities to continue, barring any global policy errors. Globally, equity valuations in terms of Price Earnings and Price-to-Book multiples, are less compelling than they were in 2009 at the height of the financial crisis, but they remain in line with their long-term average. When compared with other asset classes and compared with prevailing interest rates, equities continue to offer excellent value, and are likely to benefit for some time from the asset allocation shift out of bonds into equities. This process has only just started and like most major asset allocation shifts during the course of history may take a number of years rather than months.