Global performance factsheet

OAM Global Income Portfolios
GBP Sterling

FEB 2014

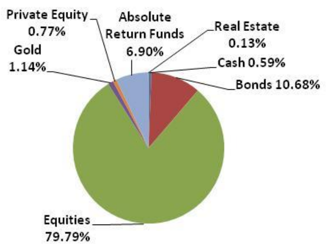
Technical Details

- 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

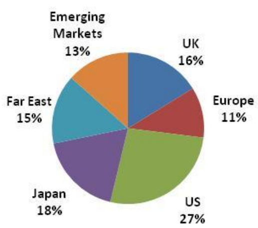
Investment Objectives:

Income Portfolio: conservative growth and income; using medium risk strategy; consistent annual returns with low volatility.

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)



(As calculated by Overberg 28 Feb 2014)

	Income %	Benchmark %
Annualised Total Return	7.36	6.40
2003	11.89	15.13
2004	8.64	-0.98
2005	18.00	18.22
2006	8.49	2.21
2007	-4.40	11.35
2008	-30.30	-16.24
2009	49.11	14.76
2010	11.92	9.92
2011	-4.96	-5.00
2012	14.00	7.62
2013	18.20	19.01
2014 YTD	-0.31	-1.14

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

Growth 2014	Growth %	Benchmark %
January	-2.00	-4.34
February	1.72	3.34
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		

Annualised Income Yield	1.85%
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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.

Quarterly Commentary 31 December 2013

Equity markets rallied to new long-term highs and in some cases all-time record highs in the 4th quarter (Q4). The rallies were predominantly driven by a re-rating in equities as earnings growth was generally disappointing. Share prices marched higher in anticipation of improving economic momentum and better earnings growth in 2014. The market's infatuation with the Fed's quantitative easing (QE) remained but since the tapering had been hinted at since May it came as a relief when the Fed finally announced it in December. The best performing market over Q4 and for 2014 as a whole was Japan's Nikkei 225 with gains of 12.7% and 56.7%, boosted by bold economic policy. The S&P 500 gained 9.9% in Q4 and 29.6% for the year, and the German Dax 11.1% and 25.5%. Among major markets the UK FTSE 100 lagged with respective gains of 4.4% and 14.4%, held back by Sterling strength. In contrast with developed markets Far East and emerging markets fared poorly due to concerns over currency weakness, inflation and interest rates stemming from the Fed's taper. The Hang Seng typified Far East markets with respective gains of just 2.0% and 2.9% while among emerging markets Brazil's Bovespa lost -1.6% in Q4 and -15.5% for the year. While the global FTSE All-World $ index gained 20.2% in 2013 the FTSE All-World Emerging $ index lost -4.8%.

In the US monetary policy dominated sentiment. The Fed first indicated in May that it was considering tapering its QE programme. The Fed initially hesitated in September 2013 in reaction to weaker than expected employment data and the partial government shutdown stemming from disagreement on budget reduction. However, in Q4 employment improved again with monthly non-farm payrolls exceeding 200,000 a month. Politicians also finally agreed on a budget, removing the risk of further government shutdown or debt default. Amid much anticipation the Fed finally decided in December to reduce its monthly QE3 purchases to $75bn from $85bn. With the uncertainty over, equity markets staged a relief rally although sentiment was also helped by the Fed's enhanced forward guidance to keep its benchmark interest rate at 0-0.25% until unemployment falls well below the 6.5% threshold. Meanwhile, upward revisions to GDP data suggest a sustained economic upswing is underway with a robust housing and equity market driving consumer confidence and household spending. GDP growth is expected to rise from 1.7% in 2013 to 2.6% in 2014. There is rising optimism that investment spending, which has so far been absent, will also gain momentum. Company earnings have been lacklustre, rising by just 6% in 2013 compared with a rise in the S&P 500 index of 29.6%. However, a broadening of the economic recovery should help deliver stronger earnings growth, forecast at 11% in 2014, placing the index on an estimated forward price to earnings multiple of 14.7x.

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Directors: Nick Downing, Brett Birkenstock, Gielie Fourie.

According to the OECD the UK economy is "on the path to prosperity". The UK Chancellor delivered a positive Autumn Statement highlighting record employment and upgrading its official growth forecasts for 2013 and 2014. There are also signs of a broadening in the economic recovery: After declining an estimated -4.9% in 2013 business investment is forecast to increase 6.9% in 2014 and 8.3% in 2015. As a result GDP growth is expected to accelerate from 1.4% in 2013 to 2.4% in 2014. However, while low inflation and strong growth provide a healthy tonic for equities, the Bank of England's 7% unemployment threshold may be reached sooner than expected, prompting an early tightening in monetary policy. In its last Inflation Report, the central bank's Monetary Policy Committee said unemployment, currently at 7.4%, stood a 50:50 chance of reaching its threshold by the end of 2014, well ahead of its original forecast of 2016. On the whole, corporate earnings were flat for the year, pushing the estimated forward price to earnings multiple of the FTSE 100 to 12.5x, up from 10.8x the previous year. The re-rating is premised on forecasts of stronger earnings growth of around 11% next year, but continued Sterling strength and a potential hike in interest rates may jeopardise this outlook.

European equities performed strongly with the German market hitting a record high, helped by continued easing of the Eurozone debt crisis and further dissipation of break-up fears. Although the Eurozone barely grew in Q3 and appears to have contracted slightly in 2013, a pick-up in household spending and business investment is forecast to generate GDP growth of 1.1% in 2014. However, a sharp decline in inflation to just 1.1%, well below the ECB's 2% target, prompted the central bank to unexpectedly cut its benchmark interest rate in November by 25 basis points to 0.25%. The ECB has also hinted at further monetary stimulus, perhaps including another Long-Term Refinancing Operation providing further discounted funding to banks. In Germany, a new coalition was formed in December between Angela Merkel's CDU party and the SPD. The coalition partner is likely to pressure the government to stimulate domestic demand, which should boost GDP growth from 0.5% in 2013 to 2% in 2014. The French economy grew by 0.2% in 2013 but weak investment spending and lack of reforms may dampen prospects for 2014. Recently, France's credit rating was downgraded another notch to "AA" by S&P. In Italy, Enrico Letta won a third vote of confidence after the recent withdrawal of Silvio Berlusconi's party from parliament. However, investors have been encouraged by the ease with which Italy has achieved its funding needs and the economy should emerge from recession in 2014. Spain managed to expand by 0.1% in Q3 after 10 quarters of decline. While sentiment has boosted the rating of European equities to an estimated forward price to earnings multiple of 13.3x, this is underpinned by forecasts for solid earnings growth of 12% in 2014.

The Nikkei 225 was the world's best performing equity market in 2013, registering its best year since 1971. The performance is attributed to "Abenomics", comprising Prime Minister Shinzo Abe's 3 policy arrows of bold economic reform. The first two arrows comprising massive monetary easing and the end of deflation have so far succeeded. The yen lost 24% against the US dollar in the past year to its lowest in 5 years, boosting inflation and company earnings. However, while household spending has recovered strongly there is concern that wage increases will lag inflation, putting pressure on consumer confidence especially amid the planned increase in consumption tax from 5% to 8% in April this year. The 3rd Abenomics arrow, comprising structural reforms, has so far been lacking. Shinzo Abe still needs to deliver on his promised "supply-side" reforms in order to maintain economic momentum. Nonetheless, the Bank of Japan's pledge to achieve 2% inflation by March 2015 should continue to weaken the yen and boost company earnings. Earnings are expected to grow by 15% placing the Nikkei on an estimated forward price to earnings multiple of 13.5x, still showing good value compared with other developed markets.

In 2013, the FTSE All-World Emerging Index declined by -4.8% with major declines in Latin American markets and Russia. The blame lies in the slowdown in China's growth rate and anxiety over the Fed's tapering plans. China is going through a difficult transition from investment-led growth to a more consumer-oriented economy. Meanwhile, the end of US accommodative monetary policy has pressured emerging market currencies and interest rates especially in countries with budget and current account deficits. Brazil's economy contracted in Q3 as the impact of earlier stimulus faded and interest rates were hiked to 10% to combat inflation. However there are some bright spots: Indian equities hit a record high in spite of economic growth slowing to 4.5% in 2013 and interest rates rising to 7.7%. In the Far East, South Korea's GDP growth is recovering strongly from an estimated 2.7% in 2013 to 3.8% in 2014, while interest rates remain anchored at 2.5%. Even Thailand, although beset by political uncertainty is expected to show GDP growth of 4% in 2014. Following last year's underperformance, valuations in emerging and Far East markets are looking more attractive. The FTSE Pacific (excluding Japan) is trading on an estimated forward price to earnings multiple of 10.2x, cheaper than any other region.

With the exception of Far East and emerging markets global equities made solid progress in 2013. However, the rally exceeded the rate of growth in company earnings which means equity markets have re-rated and as a result become more expensive. Risks to equities include the failure of earnings growth to meet raised forecasts, and faster than expected monetary policy normalisation in the US and UK. A steep increase in interest rate expectations would unravel much of the equity market gains made in 2013. However, opportunities still exist, including Japanese and European markets, which offer better value on a relative basis and still offer the prospect of accommodative monetary policy. We also see opportunity in the Far East, which whilst currently out of fashion, offers the best value in many years.

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