

## OAM Global Income Portfolios GBP Sterling

JUN 2014

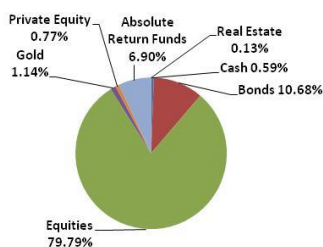
### Technical Details

- 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

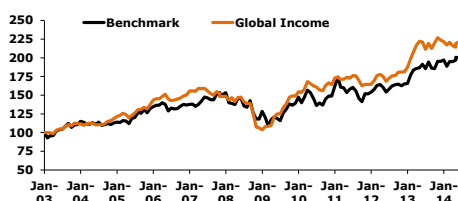
### Investment Objectives:

**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 30 June 2014)

	Income %	Benchmark %
<b>Annualised Total Return</b>	7.20	6.17
<b>2003</b>	11.89	15.13
<b>2004</b>	8.64	-0.98
<b>2005</b>	18.00	18.22
<b>2006</b>	8.49	2.21
<b>2007</b>	-4.40	11.35
<b>2008</b>	-30.30	-16.24
<b>2009</b>	49.11	14.76
<b>2010</b>	11.92	9.92
<b>2011</b>	-4.96	-5.00
<b>2012</b>	14.00	7.62
<b>2013</b>	18.20	19.01
<b>2014 YTD</b>	0.34	0.98

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

Growth 2014	Growth %	Benchmark %
<b>January</b>	-2.00	-4.34
<b>February</b>	1.72	3.34
<b>March</b>	-2.14	-0.01
<b>April</b>	-0.92	0.96
<b>May</b>	2.37	2.01
<b>June</b>	1.40	-0.81
<b>July</b>		
<b>August</b>		
<b>September</b>		
<b>October</b>		
<b>November</b>		
<b>December</b>		
<b>Annualised Income Yield</b>	1.80%	
<b>Best 3 Months</b>	10.40	6.78 6.54
<b>Worst 3 Months</b>	-15.41	-8.73 -4.34

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 30 June 2014

Following a disappointing 1st quarter (Q1) most global indicators showed an acceleration in underlying economic activity during Q2. In June the JP Morgan Global Purchasing Managers' Index (PMI) rose further above the key 50 level which demarcates expansion from contraction. The steady improvement in manufacturing conditions continued in most industrialised countries, while conditions in most emerging markets were also slightly firmer. Global monetary policies remained generally accommodative, supporting risk appetites and providing financial markets with ample liquidity. After a weak Q1 emerging equity markets outperformed developed markets in Q2 with the \$-based All World Emerging Index beating the equivalent FTSE All-World Index with a rise of 6.4% versus 4.4%. The world's best performers over the quarter were Russia and India, with Thailand in 4th place gaining 16.3%, 13.8% and 8.0%. Developed markets were nonetheless impressive with the US S&P 500, German DAX, Japan's Nikkei, and UK FTSE 100 gaining in Q2 by 4.7%, 2.9%, 2.3% and 2.2%.

In the US Q1 GDP growth was weaker than expected contracting -2.9% quarter-on-quarter annualised far worse than the initial -1.0% estimate. However, the data mainly reflects adverse winter weather, which disrupted output, ran down inventories and undermined trade. Since April, positive economic momentum has returned. Consumer confidence has climbed to post-recession highs, helped by strength in the housing market and a strong labour market with unemployment declining to 6.3%. Household spending contributes around 70% of US GDP making consumer confidence key to the economic recovery. Investment spending which so far has been absent from the economic recovery is also finally gaining traction, broadening the economic base and ensuring greater sustainability. Meanwhile the International Energy Agency reported that the US has overtaken Russia as the world's largest oil producer. The ramping up of oil and shale oil production over coming years will make the country less reliant on oil imports and bolster the economy's long term growth prospects. The Fed remains upbeat about the economy's prospects expecting a strong recovery for the rest of year. The Fed has continued with the gradual unwinding of its quantitative easing programme, cutting monthly bond purchases by another \$10 billion to \$35 billion in June. However, Fed Chairperson Janet Yellen reiterated that interest rates would remain low for a considerable time after quantitative easing ends. Despite a run of higher than expected inflation figures in recent months the Fed forecasts consumer inflation for 2014 of just 1.6%. Responding to concerns over the surge in US equity prices, Yellen indicated that valuations were not outside historical norms. The S&P 500 index trades on an estimated forward price to earnings multiple of 17 which although higher than the historic average is premised on strong earnings growth of 15%.

The UK economy is beating most economists' forecasts. Industrial production rose by more than expected in April and May with the manufacturing PMI remaining well above the key 50 level. Retail

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sales also continued rising off a high base by 4% year-on-year with consumer confidence boosted by a buoyant housing market and strong jobs growth. The unemployment rate fell to 6.6% in April, its lowest level since January 2009. The boom in the housing market gathered further momentum. The Halifax house price index shot up in May by almost 4% month-on-month and over 10% year-on-year in May to 597, although still off its peak of 646 in August 2007. However, there are growing concerns that the strong housing market may become another bubble and may prompt an earlier than expected tightening in interest rates. The UK market is however better priced than the US counterpart trading on an estimated 14.3 forward price to earnings multiple.

Recent indicators from the Eurozone suggest that although out of recession the economy remains fragile. While remaining above the expansionary 50 level the region's PMI deteriorated in both May and June, mainly due to softer conditions in Germany. The unemployment rate eased slightly to 11.6%, but consumer confidence dipped for 2 straight months in May and June. The slump in credit extension also continued, shrinking further in April, although the rate of decline is at least moderating. Deflationary fears weighed on the European Central Bank (ECB), prompting a cut in the refinancing rate from 0.25% to 0.15%. The ECB also introduced a range of measures aimed at boosting bank lending, including €400 billion in cheap loans to banks which agree to lend to small businesses. In an unprecedented move for a major central bank, the ECB also lowered the deposit rate, for excess deposits at the central bank, into negative territory. However, the general fear remains that this may be too late to stave off deflation. May's inflation figures provided little comfort, with headline consumer inflation easing from 0.7% to only 0.5%. The IMF urged the ECB to consider US-style quantitative easing, including large scale purchases of sovereign bonds, which the IMF argues would boost confidence, improve corporate and household balance sheets, stimulating bank lending and increase economic growth. European equities trade on an estimated 15.5 forward price to earnings multiple.

After its 50% gain in 2013 the Nikkei index has been lackluster so far this year with a loss of around 7%, underperforming global markets. However, the 2nd half of the year should see a return of the "Abenomics trade". The feared slowdown following the sales tax increase in early April was more subdued than expected and should be followed by an upward growth path over the remainder of the year. Prime Minister Shinzo Abe's remaining "arrows" of economic policy are coming together with concrete proposals on corporate tax reform and asset allocation recommendations for the Government Pension Investment Fund (GPIF). The Bank of Japan's Quantitative and Qualitative Easing (QQE) which provided the mainstay of the 1st phase of Abenomics is playing a secondary role as further easing expectations diminish. However, the reassurance of additional potential easing places a tacit floor under markets. After unwinding last year's exuberance Japan's equity markets have returned to a neutral position and therefore likely to respond positively to any events or improvement in fundamentals. Corporate behaviour is responding to the rise in inflationary expectations. Corporations are increasing wages and salaries which in turn should sustain the return of positive inflation. Corporations are also making greater use of their surplus funds for investment and share buybacks, while increased financial leverage will boost returns on equity. Japanese equities are increasingly undervalued compared to global averages in terms of price-earnings multiples, real yield spreads and other valuation indicators. The price-to-book multiple is less than half that of other developed equity markets. The estimated forward price to earnings multiple is just 12.5.

Risk appetites towards emerging markets held up well over the quarter. However, investors have become more selective, given on-going cross-border conflicts and signs of financial stress in some emerging markets. The conflict between Russia and the Ukraine remains unresolved and the insurgency of Jihadist group the Islamic State of Iraq and the Levant (known as ISIS) into Iraq has placed upward pressure on oil prices and undermined security across the Middle East. The Bank

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of International Settlements (BIS) also announced that its early warning indicators of potential domestic banking crises point to mounting stress in some key emerging markets, including China, Brazil, India and Turkey. The BIS looks at the deviation of credit-to-GDP and property prices over their long-term trend. However, China fared a little better over the past 2 months with industrial production picking-up in May and June. Underlying conditions in India also improved moderately with confidence boosted by the election of Prime Minister Narendra Modi who has pledged an ambitious programme of structural reforms. The FTSE Asia Pacific trades on an estimated 11 forward price to earnings multiple.

Unprecedented global monetary easing has resulted in the unintended consequence of artificially inflating asset prices, with record amounts of new liquidity making its way into the stock market. This can be seen in the price to cash flow ratios of US and EU equity markets which are close to record highs, indicating that these markets have become expensive. Although further monetary easing is likely in the Eurozone and Japan, the US and UK are expected to start hiking interest rates in 2015. As interest rates start rising the 5-year uptrend in equity markets may reverse. Elevated equity markets are a concern and continue to look susceptible to a correction. Finding value in equity markets is becoming increasingly difficult although we remain confident in the outperformance of certain regions and sectors, including Japan, the Far East excluding Japan, and Eurozone on the grounds of further monetary easing, structural reforms and favourable valuations. We also favour the Information and Communications Technology sector as a direct beneficiary of improving momentum in investment spending. With the exception of these sectors however, we will continue to make portfolios more defensive with increased allocations to bonds and absolute return strategies.