overberg
asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Income Portfolios

GBP Sterling

MAR 2015

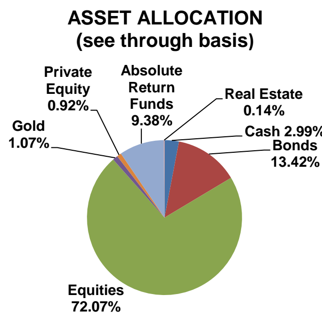
Technical Details

- 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

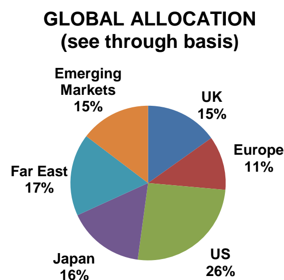
Investment Objectives:

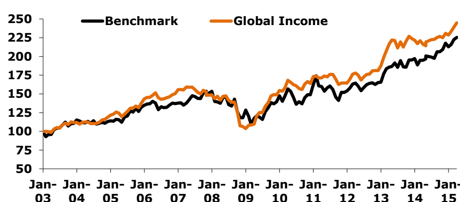
Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





(As calculated by Overberg 31 Mar 2015)

	Income %	Benchmark %
Annualised Total Return	7.58	6.86
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	3.19	7.95
2015 YTD	7.08	5.91

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

Growth 2015	Growth %	Benchmark %
January	2.12	1.52
February	2.40	3.00
March	2.41	1.29
April		
May		
June		
July		
August		
September		
October		
November		
December		

Annualised Income Yield	1.78%
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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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 March 2015

The global economy got off to a shaky start in 2015, hurt by weaker than expected growth in the US and a pronounced slowdown in China. In spite of some positive news from the Eurozone and Japan the IMF nonetheless downgraded its global GDP forecast for the next two years following similar moves by the World Bank and OECD. The IMF expects global GDP of 3.5% in 2015 and 3.7% in 2016, lower than the 3.8% and 4.0% it projected last October. In spite of slowing growth, global equities performed strongly in the first quarter (Q1) of the year, with confidence boosted by the onset of quantitative easing (QE) in the Eurozone, the benefit of sharply lower oil prices, and a feeling that US monetary policy normalisation may be held back for longer than initially expected.

The top three performing equity markets during Q1 were Italy, Germany and France with gains of +22.8%, +22.0% and +17.8% boosted by the ECB's larger than expected QE programme. China also continued its strong run with a gain of +15.9% in spite of a weakening economy, on hopes that authorities will soon implement stimulatory measures. Japan's Nikkei 225 index was buoyed by the Bank of Japan's own QE programme and the depreciation of the yen, returning +10.1% on the quarter. By contrast the UK FTSE 100 index lagged with a return of just +3.2% and the US S&P 500 a paltry +0.9%, both held back by weak corporate earnings growth attributed to the strengthening dollar and a relatively buoyant pound.

In currency markets the US dollar firmed against all other currencies on expectations that the Federal Reserve (Fed) will be the first major central bank to start hiking interest rates. The dollar reached $/€1.05 against the euro in early March its highest level since March 2002. During Q1 the dollar was up 4.5% against its broad trade-weighted basket. Emerging market and commodity currencies remained under pressure on expectations of higher US interest rates and weak commodity prices. Commodity prices were generally lower with the Economist All Commodities index dropping by -6.7% in US dollar terms. The food price index lost -8.2% for the quarter. The Brent crude oil price fluctuated between $50 and $60 for most of February and March after bottoming at $46.15 on 13 January.

In March the Fed downgraded its forecasts for growth, inflation and interest rates. The Fed also lowered its estimates of the natural rate of unemployment indicating more labour market slack in the economy than previously expected. As such the Fed is expected to remain cautious about normalising US interest rates especially given the disinflationary impact of a strong dollar. Although US economic activity remained buoyant, GDP growth moderated to 2.2% in Q4 2014 below the 5.0% and 4.6% growth rates in Q3 and Q2 of last year. Job creation slowed in the first quarter of the year with non-farm payrolls rising by an average 197,000 per month down from 324,000 in the previous quarter. The unemployment rate eased to 5.5% in March from 5.6% in December. However, wage growth has remained sluggish and retail sales growth was weaker than expected, despite consumer disposable incomes getting a boost from sharply lower energy prices. The Fed forecasts GDP growth of 2.3-2.7% in 2015, slightly lower than the 2.6-3.0% projected in December. The strong dollar has begun to weigh on the competitiveness of the US economy prompting large downward revisions to corporate earnings forecasts. Two months ago S&P 500 index companies were forecast to generate an aggregate 8.1% earnings growth in 2015, subsequently revised lower to just +2.0%, placing the S&P 500 index on an estimated 17.8x forward price to earnings multiple. After a 7-year bull market and amid weak earnings growth it seems unlikely that the S&P 500 index will be capable of another year of double digit gains.

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Although surpassing its previous record high last achieved in 1999, the FTSE 100 has trailed other global indices due largely to its high exposure to oil & gas and commodities companies. Uncertainty over the UK General Election is also to blame. A Conservative majority could frighten international investors because of the promise to hold a referendum on EU membership while a Labour victory could damage the government's fiscal prudence. On the other hand, a hung parliament may find it difficult to deliver any meaningful policies. The strong exchange rate has also hurt export competitiveness. The effective trade-weighted value of the pound has appreciated by about 11% over the last two years. With around 70% of FTSE 100 revenues derived from overseas pound strength has held back earnings per share. Nonetheless the Bank of England, reporting strong credit growth to both household and business sectors, has raised its 2015 GDP forecast from 2.5% to 2.9%. However, there is little sign of inflationary pressure with average wage growth of just 1.1%. Inflation registered zero in February and could turn negative in coming months. The government expects inflation to reach 2% only in 2019, which implies the first interest rate hike is unlikely before 2016. Although the economy remains robust company earnings are forecast to decline -7% in 2015 mainly due to lower earnings from energy groups. The dull earnings outlook together with concerns over the General Election could result in further underperformance by UK equities against global indices. The FTSE 100 Index trades on an estimated 15.7x forward price to earnings multiple.

In the Eurozone the announcement of QE by the ECB on 22nd January was a major event. The open-ended €1.1trillion program began in March and equates to €60bn of bond purchases per month. Although widely anticipated the scale and open-ended nature of the programme took markets by surprise. QE has driven bond yields even lower with the total value of Eurozone sovereign bonds with a negative yield now a staggering €3trillion. So far, QE has succeeded in lifting inflation expectations. The ECB has estimated that QE could boost inflation by 0.4-0.7%, and has upgraded its 2016 inflation forecast from 1.3% to 1.5%, rising to 1.8% in 2017. The ECB also increased its GDP forecast for 2015 from 1% to 1.5%. In the Eurozone Germany's economy remains the main engine of growth driven by an improved outlook for consumption and business investment with GDP expected to reach 2.0% in 2015. The Spanish economy continues to recover and GDP growth could accelerate to 2.4% in 2015 benefiting from labour reforms. However, the situation in Greece appears to be deteriorating again. The Greek government will have two large bond redemptions in July and August and rolling these over will be difficult without extension of the bailout program which ends in June. In Switzerland, the central bank abandoned its SFr/€1.20 currency peg to the euro and lowered its negative interest rate on deposits from -0.25% to -0.75%. The Swedish central bank also cut its benchmark interest rate, twice to -0.25% following Denmark's reduction in deposit rates from -0.05% to -0.2%. Although Eurozone equities have had a strong start to the year there appears to be more upside. For 2015, European equities sell on a relatively undemanding estimated 16.3x forward price to earnings multiple assuming earnings growth of +5% in 2015.

Japan's GDP expanded by an annualised 2.2% in Q4 following the -2.3% contraction in Q3. Unfortunately, deflationary pressure is reasserting itself with core inflation falling to zero in February, down from 0.2% in January although this is likely to keep the Bank of Japan committed to its substantial ¥80 trillion a year QE programme. Massive monetary easing combined with strong company earnings growth boosted by the weak yen and lower energy costs has powered the Nikkei ahead by +18.8% over the past six months. Meanwhile, the government pension fund (GPIF) is reducing its exposure to government bonds by 20% and increasing its exposure to equities. All this should help propel the Japanese stock market higher. Investors are watching the current wage round which should be finalised by April and hopes are rising of a real wage recovery. The jobs-to-applicants ratio, an indicator of the availability of jobs, has risen to its highest level since March 1992. Rising real wages together with low oil prices and a weaker yen should boost GDP growth to above 2% in 2015. This year, corporate earnings are expected to grow by a robust +14% making the equity market attractive on an estimated 14.3x forward price to earnings multiple. Japan's equity market is enjoying strong earnings momentum and appears inexpensive compared to other developed markets.

Emerging markets had a mixed performance in Q1 with weakness in Latin America contrasting with strong gains in Chinese equities. In China further signs of slowing growth have prompted the government to set a lower GDP growth target of 7.0% in 2015, down from 7.5% in the past three years. However, Chinese equities have risen on hopes of further monetary easing and economic stimulus. Many emerging market central banks cut interest rates during the quarter, in an attempt to maintain currency competitiveness. Russian interest rates were reduced by

1% to 14% in order to slow the pace of decline in the economy, which is expected to contract by around -4% in 2015. India reduced interest rates several times to 7.5%. Inflation has declined and India's economy is regaining momentum with the government targeting GDP growth of 8.5% this year. The Bank of Korea surprised markets with an interest rate cut of 0.25% to a record low of 1.75%. Thailand's central bank also cut interest rates by 0.25% to 1.75%. Generally emerging markets will be impacted by weakness in commodity prices. However, the outlook for the Asia-Pacific region remains positive: Besides benefitting from lower interest rates the region's reliance on oil imports means it enjoys substantial leverage to lower oil prices.

While equity market valuations remain higher than their historic averages on the basis of price to earnings multiples, equity yields remain compelling compared to record low interest rates and bond yields. Interest rates and bond yields will inevitably start rising towards the end of the year, first in the US and then the UK. However, the speed of interest rate normalisation will be held back by continued QE in the Eurozone and Japan and the disinflationary impact from lower oil prices and excess capacity in China. The yield advantage of equities over fixed interest rate securities is therefore likely to remain a feature of global markets for some time yet, and should propel equity markets higher in spite of lofty valuations. We are especially keen on equities in the Eurozone and Japan due to the boost to company earnings from weakening currencies and the flood of liquidity from QE programmes. The Far East excluding Japan is also attractive due to the spate of monetary easing in the region and the leverage to lower oil prices..

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