overberg asset management

Global performance factsheet

OAM Global Income Portfolios
GBP Sterling

OCT 2012

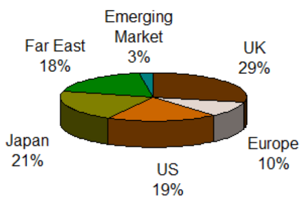
Technical Details

- 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

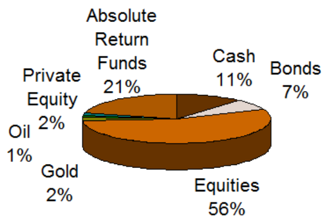
Investment Objectives:

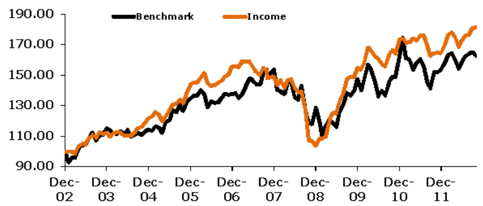
Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

GLOBAL ALLOCATION
(see through basis)



ASSET ALLOCATION
(see through basis)





(As calculated by Overberg 31 Oct 2012)

	Income %	Benchmark %
Annualised Total Return	6.23	5.23
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
YTD	10.15	5.62

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

Growth 2012	Income %	Benchmark %
January	3.20	2.50
February	3.86	3.41
March	0.89	0.74
April	-1.52	-2.39
May	-3.76	-3.89
June	2.52	2.76
July	1.87	2.49
August	0.23	1.07
September	2.43	0.44
October	0.24	-1.38

Annualised Income Yield	2.01 (%)
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.

Commentary

US economic indicators are turning steadily more positive. Third quarter GDP growth registered 2.0% well ahead of the 1.7% consensus forecast with growth likely to exceed 2% in 2013 assuming Congress manages to avert the "fiscal cliff". Growth is being driven by household consumption which comprises around 75% of GDP. Retail sales increased sharply in September by 1.1% on the month, signaling acceleration in consumption growth. Consumer confidence has strengthened with the University of Michigan index rising in October to the highest level in 5 years suggesting annualized consumption growth could reach 4% in the 4th quarter. The steep decline in mortgage rates following the Fed's latest round of quantitative easing (QE3) has supported mortgage refinancing and boosted monthly disposable income. House prices are also recovering, benefiting from low mortgage rates and reduction in the inventory of homes for sale. Housing starts are rising rapidly and the resurgence of the National Association of Homebuilders (NAHB) index suggests further recovery in the housing market. Employment growth has also beaten expectations. Non-farm payrolls increased by 171,000 in October, far exceeding the 125,000 consensus forecast and gains in the preceding two months were revised upwards by 84,000, reducing unemployment to below the key 8.0% level.

At the same time however US business investment continues to deteriorate. Business investment contracted in the 3rd quarter and is likely to shrink again in the 4th quarter. Investment appears to be falling off the proverbial cliff in advance of the 31st December "fiscal cliff" deadline which triggers automatic tax hikes and spending cuts unless averted by a credible budget reduction plan from Congress. The fiscal cliff scenario is however less likely to materialize following President Obama's wider than expected majority and the Democrats' enhanced authority. Meanwhile politicians from both sides of the political spectrum, especially the Republicans who received significantly less support than they expected at the Presidential election, will be keen to avoid another humiliating sovereign debt downgrade. In the likely event that the fiscal cliff is averted, there should be a sharp rebound in business investment as pent up demand is released, providing the missing link to a sustainable economic recovery.

China is embarking on its own leadership changeover, a once-in-a-decade event to be finalized at the conclusion of the Communist Party's 18th convention. The bulk of the ruling politburo is retiring leaving Xi Jinping the most likely contender to replace Hu Jintao as head of the party and president of the country. Leadership change is likely to add to the positive momentum in China's gradual economic recovery, as the new guard will be keen to start off the next decade on a positive note. Manufacturing lead indicators are again turning positive after being in negative territory for the last few months, while domestic household spending is being supported by healthy employment growth and wage increases. Macro-economic data suggests China's economy has bottomed out and should start to rebound in the current quarter and into 2013.

While the world's two largest economies are cause for optimism the same cannot be said of the Eurozone. The European Commission's Economic Sentiment indicator has deteriorated further and is now consistent with an annualized contraction in GDP of around -2.5% in 2013. However, the ECB's "Outright Monetary Transactions" (OMT) programme providing unlimited central bank purchases of distressed sovereign bonds has provided a successful safeguard for the euro currency block. Spanish bond yields fell by 100 basis points straight after the OMT announcement and although they have since moved up still remain well below their previous peak in spite of the central bank not yet having bought a single bond. Spain must first sign a Memorandum of Understanding, potentially subjecting itself to onerous fiscal conditions before it can qualify for OMT. However the ultimate backstop for Spain and the Eurozone is in place.

While it is unfortunate that the Eurozone is heading towards recession there are clear benefits in having an unsynchronized global economy, leaving regions with room to expand as others contract thereby reducing the risk of a global recession. Japan's economy appears to be losing momentum as the post-earthquake reconstruction boost fizzles out but in the process has sparked a stronger resolve at ending the country's deflationary spiral. The Bank of Japan increased its asset repurchase programme by a greater than expected 10 trillion yen to 80 trillion, equivalent to around $1 trillion.

Increased quantitative easing from the world's major central banks including the Federal Reserve's QE3, the ECB's OMT, and Japan's own enhanced programme, is likely to support a continuation of the recent rebound in the global economy and global equity markets. Additional quantitative easing is also expected from the Bank of England in spite of the UK economy rebounding a stronger than expected 1.0% quarter-on-quarter in the 3rd quarter. Admittedly 3rd quarter company earnings across most regions have been generally disappointing, particularly with regards to revenue growth. However earnings should rebound in early 2013 as the expected investment cycle takes hold and the global economic recovery gains momentum. Equity markets will benefit and valuations remain at attractive valuations, especially compared with alternative asset classes.