overberg
asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Income Portfolios
GBP Sterling

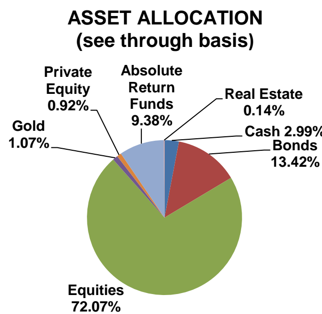
OCT 2015

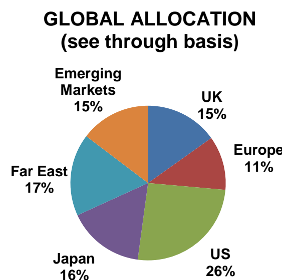
Technical Details

- **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.





(As calculated by Overberg 31 Oct 2015)

	Income %	Benchmark %
Annualised Total Return	6.66	6.28
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	0.08	2.63

*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	-0.85	-1.01
May	1.02	0.55
June	-1.75	-3.30
July	-0.43	0.66
August	-4.79	-5.26
September	-1.42	-1.83
October	1.62	7.54
November		
December		

Annualised Income Yield	1.79%
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 October 2015

In the third quarter (Q3) market news was dominated by the slowdown in China and the spill-over into other emerging markets. With emerging economies comprising over 50% of global trade the developed economies were also affected. As a result of the global slowdown and financial market volatility the Federal Reserve (Fed) decided against hiking interest rates despite carefully preparing markets for the start of monetary policy normalisation. Concerns over faltering global economic growth impacted all equity markets. During Q3 the Shanghai index lost -17.2% although Hong Kong's Hang Seng index suffered a worse loss of -20.6%, with respective year-to-date losses of -5.7% and -11.7%. Over Q3 and for the year-to-date the US S&P 500 index lost -6.9% and -6.7%, the UK FTSE 100 lost -7.0% and -7.7%, the German Dax -10.8% and -1.5%, and Japan's Nikkei 225 -14.1% and -0.4%.

In the US the much awaited Fed policy meeting in September was the financial highlight in Q3 but instead of hiking interest rates for the first time in nine years as anticipated the Fed left the fed funds rate unchanged at 0-0.25%. The Fed stressed that "recent global economic and financial developments may restrain economic activity somewhat", placing downward pressure on inflation over the short term. Q2 GDP growth was revised upwards to 3.9% annualised substantially above the 0.6% growth recorded in Q1. However, other economic data were more mixed. In September non-farm payrolls increased by just 142,000 well below the 202,000 consensus forecast and payroll increases for the previous two months were revised sharply lower. Although the unemployment rate held steady at 5.1% the participation rate, measuring the number of people who are either employed or actively looking for employment, fell to the lowest in 38 years. The latest manufacturing purchasing mangers' index (PMI) fell to a 2-year low of 50.2 in September barely above the expansionary 50 threshold, reflecting the impact of a strong dollar and weakening export markets. Meanwhile, another US congressional budget impasse is looming. US house speaker John Boehner, a key mediator in the debt ceiling debate unexpectedly resigned. The US treasury has warned that the ceiling will need to be raised before mid-November or early December to avoid default. In 2011 Standard & Poor's (S&P) downgraded the US foreign debt rating when Republicans who objected to a debt-limit increase were unable to agree with Democrats. In Q2, S&P 500 earnings declined -2%. Although earnings beat estimates sales growth was worse than forecast. The impact of a strong dollar on earnings growth is likely to persist into the second half of the year. The S&P 500 index is trading on an estimated forward price-earnings multiple of 16.5x but this assumes earnings growth of 4% which may be too optimistic.

The UK economy grew in Q2 by a healthy 0.7% quarter-on-quarter. The government forecasts GDP growth of 2.4% in 2015 and 2.3% in 2016. A key driver of this growth is strengthening household income helped by low inflation and a pick-up in wages, expected to increase by 3.6% in 2016 and about 4% in 2017. Nevertheless, UK export orders have decreased to a 6-month low due to the subdued recovery in the Eurozone and weak demand from emerging economies. Although Bank of England (BOE) Governor Mark Carney indicated that a slowdown in China had not affected its monetary policy strategy the inflation rate fell back to zero in August exacerbated by the fall in commodity prices, and likely to remain well below the BOE's 2% target in 2016. Despite the economy's robust performance the UK equity market ended 15% below its April peak in Q3. Equity valuations now look more reasonable with the FTSE 100 trading on an estimated forward price-earnings multiple of 14.6x which is broadly in line with the long-term average. However, the level of conviction is low due to the UK market's high exposure to commodity prices. In 2015, earnings could fall by -12% led by oil companies and mining groups.

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Eurozone economic growth slowed from 0.5% quarter-on-quarter in Q1 to 0.4% in Q2 despite a weak euro and low oil prices. Although industrial production and retail sales accelerated in July the forward-looking PMIs indicated a loss of momentum in August and September. The Eurozone manufacturing PMI fell in September to a five-month low. The ECB downgraded its forecasts for both economic growth and inflation. Worryingly, annual inflation was only +0.1% in August pulling inflation expectations back to levels which preceded the ECB's quantitative easing (QE) programme. There is growing speculation that the €1.1 trillion QE programme which is set to run until September 2016 will be enhanced. During Q3, a third Greek bail-out of €86 billion was agreed though the ECB and IMF have argued that some debt relief is also required. In other parts of the Eurozone, fiscal austerity eased but political risk has increased. The influx of refugees from Syria, Iraq and Afghanistan reached critical levels raising tensions between European countries while in Spain the Catalan elections were won by pro-independence parties. In brighter news the Italian economy emerged from recession in Q2 helped by labour reform. Italy has also embarked on a €12 billion privatisation programme and plans to sell 40% of the Post Office. Spain's economy grew by in Q2 by a robust 3.1% on the year, double the rate in 2014. Outside the Eurozone Sweden's strong krona added to deflation fears prompting the central bank to cut its interest rate to a negative -0.35%. In Q3 although European equities fell -17% from their April peak corporate earnings beat expectations boosted by expanding profit margins. Following the correction European equities trade on an estimated forward price-earnings multiple of 14.8x which remains attractive given the outlook for growing profit margins and continued QE.

Shinzo Abe, Japan's prime minister, was re-elected unopposed as head of the ruling Liberal Democratic party providing added impetus to the "three arrows" of "Abenomics" comprising strong public spending, aggressive monetary easing and substantial reforms to improve productivity and competitiveness. Although share prices and corporate profits have soared since 2012, most companies remain reluctant to increase wages which is a vital pre-requisite to ending deflation. Progress with structural reform has also been slow. The economy contracted in Q2 and there was little evidence of a rebound in Q3. The manufacturing PMI slipped in September and is only fractionally above the expansionary 50 level. In addition falling energy prices pushed consumer price inflation down to -0.1% in August, the first negative reading in over two years. With inflation increasingly unlikely to meeting the Bank of Japan's (BOJ) 2% target by September 2016 there is growing market speculation that the BOJ will increase the size and scale of its ¥80 trillion per annum quantitative and qualitative easing (QQE) programme possibly as early as the end of October. Although the equity market fell during the quarter it has outperformed other Asian markets. Companies have delivered strong earnings growth while also improving cash returns and corporate governance. Earnings growth is gaining momentum in spite of sluggish sales growth helped by rising profit margins which have increased to their highest since the 1960s. Earnings growth is expected to reach 19% this year valuing the Nikkei index on an estimated forward price-earnings multiple of 14.1x. Given the prospect of superior earnings growth the valuation appears cheap compared with other developed markets.

In Q3, the FTSE Pacific ex-Japan index fell -16.3% in dollars as China's slowdown impacted trade and business confidence throughout the region. South Korea's exports plunged in August by -15% year-on-year, while the latest set of PMI readings for Taiwan, Indonesia and Malaysia reflected a sharp deterioration in manufacturing conditions in August and September. In September China's closely-watched Caixin/Markit manufacturing PMI fell deeper into contractionary territory to its lowest since 2009 amid shrinking factory output, export orders and employment. Chinese equities have steadied after falling -42% from their peak in June. However, markets may have been artificially boosted with the China Securities Finance Corporation reportedly spending $200 billion supporting share prices. Brazil's woes intensified as Standard & Poor's downgraded its sovereign debt rating to junk status amid plunging business and consumer confidence reflecting rising unemployment, a surge in inflation to over 9% and resultant hikes in interest rates to over 14%. India is seen as a safe haven among emerging markets with economic growth of 7%, structural reforms, fiscal stimulus and an accommodative central bank. With inflation of 3.6% below the 6% target the Reserve Bank of India cut the benchmark interest rate by a further 50 basis points to 6.75%. The FTSE Pacific ex-Japan index is trading on a trailing price-earnings multiple of 12x which although below the long-term average of 16x may not offer value given the likelihood of significant earnings recession.

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The sharp slowdown in China and weakening global trade has begun to affect economic performance in the US. US non-farm payroll numbers were especially weak in September pushing back the expected timing of the Fed's first interest rate increase by around six months. The prospect of continued zero interest rates in the US has provided short-term relief to global equity markets. However, the fundamental economic outlook remains uncertain which warrants a more defensive investment strategy than usual. The US non-farm payroll numbers are symptomatic of a broadening deterioration in global economic fundamentals. Despite the short-term exuberance over interest rate policy there are clear warning signals from key leading economic indicators. Regional US manufacturing PMIs, which measure actual business conditions at company level, have declined into contractionary territory to the lowest levels since the global financial crisis in 2008-09. The yield on higher risk US corporate bonds have spiked even higher in the past fortnight sending out a red flag to equity markets. Bond and credit market trends are a very reliable lead indicator for equities as they tend to be more liquid and more efficient, with participants from all industries not just the financial services industry. A spike in US high yield corporate bonds preceded the sharp decline in US equities at the end of August. Worryingly the yield has risen by an additional 100 basis points subsequent to the correction and ensuing stabilisation in US equities, signalling a high probability US and global equity markets will re-test their lows.

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