overberg asset management

Global performance factsheet

OAM Global Income Portfolios
GBP Sterling — **AUG 2011**

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. We produce customised statements and investment reports to specific requirements.

Technical Details

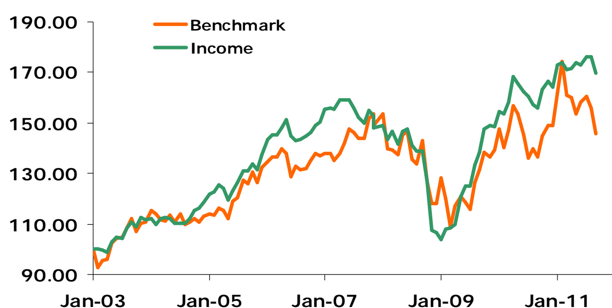
- FSB approved
- Base currency: GB Pounds
- Minimum investment: R500,000 equivalent
- Benchmark: FTSE Global 100
- Asset Allocation: flexible mix of closed-end funds, bonds and cash

Investment Objectives:

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

	Income %	Benchmark %
Annualised Total Return	6.29	4.55
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
YTD	-1.92	-10.10

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



(As calculated by Overberg 31 Aug 2011)

Growth 2011	Income %	Benchmark %
January	0.46	7.59
February	-1.52	-7.78
March	0.15	-0.53
April	1.42	-3.99
May	-0.63	2.89
June	1.90	1.58
July	-0.05	-2.90
August	-3.56	-6.52

	%
Annualised Income Yield	2.25
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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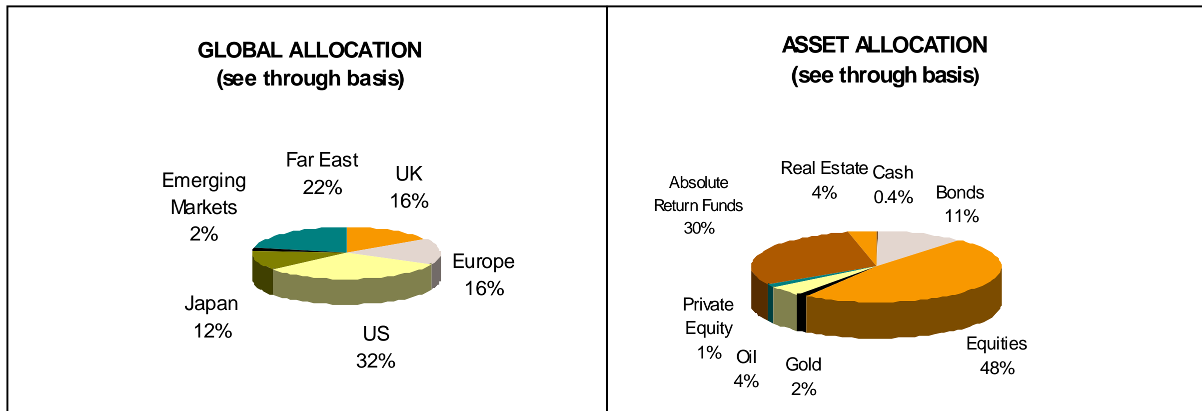

Commentary

Global equity markets suffered indiscriminate selling during August. Political indecision over eurozone sovereign debt and over the US debt ceiling coinciding with weaker than expected economic data, prompting concerns over a double dip recession. Market volatility has been extreme with intraday swings in excess of 4%. During the August sell-off equity correlation spiked to record highs, suggesting elements of indiscriminate selling. A significant proportion of investors believe we have entered a bear market where “selling the rallies” is the appropriate strategy rather than “buying the dips”. We do not believe this to be the case.

Key signals tend to obviate further downside in equity markets. Most recent 2nd quarter US profit margins made new cycle highs and were close to all time highs. The peak in equity markets should be a long way off even assuming the 2nd quarter marked the peak in profit margins, as equities typically peak around 18 months after the peak in profit margins. Moreover profit margins are likely to remain elevated even in a slow growth environment, helped by healthy pricing power, subdued labour costs and strong company balance sheets.

Weak US and European purchasing managers’ indices and employment data have led to sharply reduced economic growth forecasts. The plunge in the August Philly Fed survey to minus 30.7 suggests political uncertainty and fiscal deficit concerns have spilled over into the real economy. In the past 40 years a minus 30 index reading has always correctly signaled recession. However, many US economic data points over the past month including better than expected purchasing managers’ surveys, industrial production, retail sales and jobless claims, suggest a slowdown rather than outright recession. At the same time, weakening commodity prices favor a reduction in inflationary pressure and improved household purchasing power. The interest rate yield curve remains steep with both the 10 year Treasury bond-Fed funds spread and 30 year Treasury bond-10 year bond spread at levels normally associated with robust economic growth. No recession in the past 80 years has occurred in the context of the current yield curve. Moreover US real rates are outright negative which is inconsistent with economic contraction. Recessionary forecasts are also contradicted by stable jobless benefit claims which typically would need to spike by 20% ahead of an imminent downturn.

The economic environment is vastly different to that which prevailed during the 2008 debt crisis. Asian economies are enjoying robust growth especially China which continues to grow in excess of 8% in spite of prudent monetary tightening policies. Emerging markets are also growing strongly with their share of world GDP doubling since 1990 to 38% in 2010. Rising incomes in these nations continues to boost imports which climbed to 47% of world imports in 2010. Consumers in developed economies have deleveraged household debt to more manageable levels back to within historical ranges. Companies have also deleveraged, now boasting record cash on their balance sheets. Meanwhile interest rates and borrowing costs remain highly accommodative and central banks can inject more cash into the system through additional quantitative easing.

The most significant risk to global equity markets is further deterioration in eurozone financial distress and lack of sufficient policy response. The month of September is critical for eurozone policy, containing a number of important legal ratifications and parliamentary approvals. Although a constructive outcome is the most likely, any adverse surprise could lead to further sovereign debt contagion. ECB purchases have so far managed to keep Spanish and Italian yields under control but the latest Italian and Spanish bond auctions suggest further central bank intervention is required. Our portfolios are positioned to exploit the rise in eurozone interbank lending rates expected to result from any increase in sovereign or bank default.

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