overberg asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Balanced Portfolio

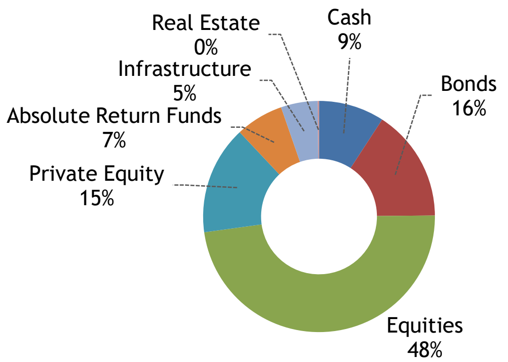
Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100 (2003 - 2018); 60% FTSE 100, 40% FTSE World Broad Investment Grade Bond (2019 -)
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Income investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

ASSET ALLOCATION
(see through basis)



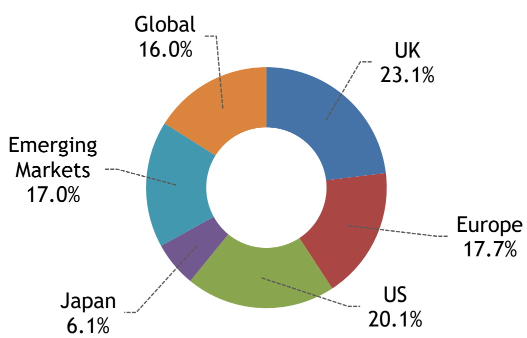
2021 Q2

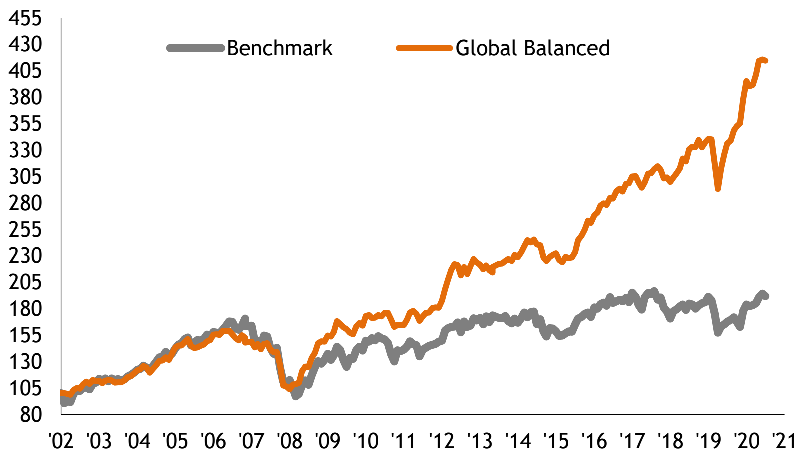
Annualised Growth (%)	OAM	Bench
Inception 2003	7.99	1.96
10 years	8.94	2.43
7 years	9.31	1.64
5 years	12.16	3.05
3 years	10.40	-0.34
2021 YTD	4.94	4.36

Annualised Income Yield	1.35%		
	$	€	R
2021 return in (%)	6.29	9.55	3.28
	£/$	£/€	£/R
Forex Rate	1.38	1.17	19.76

Top 5 Holdings	
RIT Capital Partners	
BH Macro	
Ruffer Investment	
Baillie Gifford Japan	
3I Infrastructure	
Total number of holdings	23

GLOBAL ALLOCATION
(see through basis)





Global Market Review and Strategy Outlook for the quarter ended June 2021

Equity markets continued to power ahead in the second quarter (Q2). After lagging the global average in Q1, US equities caught up rapidly as the pendulum swung back in favour of technology and growth stocks in June. These stocks, which are heavily weighted in US indices, enjoyed sharp gains despite their significant over-valuation, helped by a decline in US Treasury bond yields. In Q1, the US S&P 500 index climbed 8.17% lifting its year-to-date (YTD) gains to 14.41%. Other markets also rallied, although to a lesser extent. The German Dax and the UK's FTSE 100 increased respectively by 3.48% and 4.46% over the quarter and by 13.21% and 8.93% YTD. Asian markets lagged the global average, due to persistent Covid challenges and a slow start with vaccination programmes. China's Shanghai and Shenzhen CSI 300 index increased by 3.48% over the quarter but only by a modest 0.24% YTD. Vietnam was the standout exception in the region. The Ho Chi Minh index powered ahead by 18.3% in the quarter, lifting its YTD returns to 27.63%. China's weak performance and the exclusion of the US undermined the MSCI Emerging Market index, which compared with the MSCI World index increased in Q2 by 4.42% versus 7.31% and YTD by 6.46% versus 12.16%.

Vaccination is proceeding rapidly, especially across developed economies. Most countries in the West are already 50% vaccinated, which is coinciding with a relaxation of lockdown restrictions and a powerful economic recovery. The OECD upgraded its forecasts for global GDP growth in 2021 from 5.6% to 5.8% and in 2022 from 4% to 4.4%, bringing most of the world to pre-pandemic GDP levels by the end of 2022. The US is expected to grow by 7% this year, according to the Federal Reserve, up from its earlier forecast of 6.5%. Countries which are reopening tend to have the fastest growth projections. UK GDP for example grew in April by a massive 2.3% month-on-month. The OECD increased its forecast for UK growth in 2021 from 5.1% in March to 7.2%, making it the fastest growth rate among developed economies.

Forward-looking survey data and company earnings upgrades indicate a continuation of the V-shaped recovery into year-end. Purchasing managers' indices (PMIs) are surging to record highs, levels not reached in decades. According to PMI research company IHS Markit, "The US economy saw a spectacular acceleration in growth in May, the rate of expansion of business activity soaring well above anything previously recorded in recent history as the economy continued to reopen from Covid 19 restrictions." Company earnings forecasts continue to be upgraded, most impressively in economies just starting to reopen. UK companies are expected to report earnings growth of over 75% in 2021, with a similar outlook across Europe.

With all this good news and growth recovery prospects brightening by the day, what could possibly go wrong? Most of the expected growth has already been discounted in equity prices. Zero interest rates, central bank liquidity injections and unprecedented fiscal relief have fuelled a surge in investment activity and speculation, lifting prices in some cases way above their fundamental value. In its semi-annual Financial Stability Report in May, the Fed warned against high asset valuations and the risk of significant declines. The Fed had issued a warning over inflated asset prices in its last report in November. Prices have moved even higher since then and again since May. The listing boom in special-purpose acquisition vehicles (SPACS) was cited as evidence of unusually high investor risk appetite.

The floodgates of monetary and fiscal stimulus were opened in an unprecedented emergency response to the pandemic. It is only reasonable to expect that these floodgates will be closed once the pandemic is in retreat. There is a non-trivial risk that the elixir which has pushed investor confidence to record highs will soon be taken away. Stimulus payments from Joe Biden's $1.9 trillion American Recovery Plan will run dry. The $300 per week enhanced unemployment benefits expire in September. His proposed $2.3 trillion American Jobs Plan, largely geared towards infrastructure, has been watered down substantially to less than $1 trillion and his $1.8 trillion American Families Plan will have to wait until next year and with its bias towards social spending will meet far more political resistance, even from within the Democrat party. There are already early signs that the Fed's liquidity expansion is tailing off.

The Fed had already reversed course and begun draining liquidity out of the US monetary system prior to its historic policy meeting on 15-16th June, when it brought forward the expected start of its rate hiking cycle from 2024 to 2023.

Although Fed chair Jay Powell stated that any withdrawal or "taper" of asset purchases would be "orderly, methodical and transparent", tapering is now firmly on the central bank's agenda. The market consensus expects the Fed to formally start taper discussions at the upcoming Jackson Hole central bankers' symposium in August, and actual tapering to begin in early 2022. The Fed will be anxious to avoid the "taper tantrum" experienced in 2013 when the 10-year US Treasury bond yield spiked higher by 100 basis points in just two months pricing in an additional 100 basis points of Fed interest rate hikes. However, market pricing suggests a similar outcome could be imminent. The difference between the negative real 10-year bond yield (after taking inflation into account) and the market's expected inflation rate over the period (as calculated by the breakeven rate on Treasury Inflation Protected Securities), is at abnormally wide levels. It is at the same level of 3.5% that preceded the 2013 taper tantrum. Bond yields will need to rise considerably to reduce this figure and redress the imbalance.

A sharp increase in bond yields would disrupt investor confidence, particularly in highly overvalued growth stocks. The earnings of secular growth stocks are discounted many years in advance as they tend to be less cyclical, but this makes them more susceptible to any increase in the discount rate (the 10-year bond yield). On the other hand, the performance of cyclical/value stocks such as financial, commodity, energy and industrial shares tend to correlate with rising and steepening bond yield curves. In general, equity markets are over-valued but there are pockets of value in cyclical sectors of the market. In the US, the valuation gap between growth and value stocks is considerable. Growth stocks trade at an estimated forward price-earnings multiple of 32 versus 17 for value equities, a 90% premium compared with the long-term average of 40%.

Regions which are closely tied to the global economic and trade cycle, such as Japan, Europe, UK and the emerging markets, are offering more value compared with the richly priced US market and likely to outperform as their economies reopen. Earnings in these regions will be growing off a lower base. Emerging markets will enjoy an extra boost as they catch-up with their vaccination programmes. While fiscal stimulus expectations in the US are being dialled back, they are being fanned in Europe with the implementation of the €750 billion Next Generation EU recovery fund. Fiscal policy is more difficult to predict than monetary policy due to its dependence on politics. However, in Germany, the largest economy in Europe, politics bode well in this regard with the Green Party emerging as the front-runner ahead of the elections on 26th September. The Green Party is strongly pro-infrastructure spending.

Investors worry more following periods of substantial market gains. As the saying goes, bull markets climb "a wall of worry". The big worry is inflation and the effect this might have on monetary policy and bond yields. The debate over the inflation threat is still wide open. We will probably only know the answer in 2022 after the once-off effects have had time to fade out of the equation. Until then, therefore, financial markets are likely to give the Fed and its belief that inflation is "transitory" the benefit of the doubt. Admittedly, a taper tantrum and accompanying spike in bond yields are potential short-term threats. The sectors most at risk from this eventuality are the richly priced growth shares, which after performing so well in 2020 are now over-valued. However, value sectors and regions which are packed with cyclical shares would do well in this environment, they are not as over-valued and will benefit from stronger upward earnings revisions. On balance, the MSCI global index will continue to climb its wall of worry, supported by robust upward earnings revisions.