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

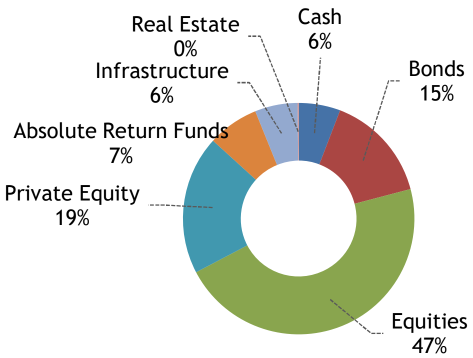
2021 Q4

Annualised Growth (%)	OAM	Bench
Inception 2003	8.02	0.76
10 years	10.17	2.97
7 years	9.56	1.86
5 years	10.04	0.90
3 years	13.05	3.54
2021	9.61	3.12

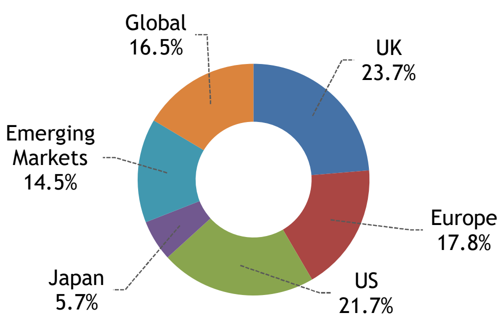
Annualised Income Yield	1.37%		
	$	€	R
2021 return in (%)	8.51	16.61	17.64
	£/$	£/€	£/R
Forex Rate	1.35	1.19	21.56

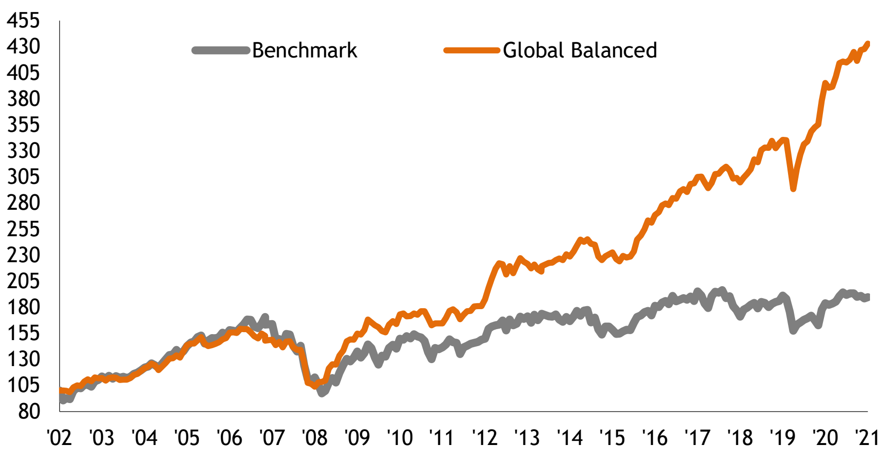
Top 5 Holdings	
BH Macro	
3I Infrastructure	
Ruffer Investment	
RIT Capital Partners	
Baillie Gifford Japan	
Total number of holdings	24

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





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

After a short pause in the third quarter (Q3), global risk appetite resumed in Q4 powering equity markets to new highs. Economic momentum recovered from the temporary setback caused by the Covid Delta variant and earnings growth continued to beat expectations. Companies maintained their profit margins despite rising cost pressures. Central banks began to withdraw their pandemic monetary stimulus but at a slower pace than expected by financial markets, so the impact was negligible. The Covid virus mutated again to the Omicron variant, first discovered by scientists in South Africa. Markets shuddered but rapidly regained their poise. The variant is more contagious but far less deadly, which lessens its economic disruption and brings closer the goal of eventual herd immunity.

US markets led the way lifting the S&P 500 index in Q4 by 10.66% capping a stellar return in 2021 of 26.89%. The UK and Germany also provided respectable returns, the FTSE 100 and Dax 30 climbing by 4.46% and 4.01% in Q4 and 14.58% and 15.70% in 2021. Far East and emerging markets fared less well, dragged lower by regulatory constraints in China and stricter Covid lockdowns. The Shanghai and Shenzhen CSI 300 index gained just 1.5% in Q4 and lost 5.3% over the year. Japan's Nikkei 225 index lost 2.2% in Q4 and returned a relatively modest 4.94% in 2021. The divergence in stock market fortunes is evident in the performance of the MSCI World index versus the MSCI Emerging Market index, with the former rising 7.49% in Q4 and 21.04% in 2021 while the latter fell by 1.68% and 7.30% over the respective periods. A recovering global economy pushed oil prices higher. The Brent crude price gained over the year by 52.24% from $51.09 to $77.78 per barrel. The US dollar index also gained over the year from 89.93 to 95.97, a 6.72% increase, while the all-important 10-year US Treasury bond yield climbed from 0.93% to 1.51%.

Bull markets climb a wall of worry. There is no shortage of concerns worrying investors. Share price valuations are a chief concern. Some pockets of the equity market are excessively priced, offering investors a sparse margin of safety, but these are concentrated in the mega-cap US technology stocks. Their valuations have been distorted by passive investment inflows, which now account for almost half of all equity assets under management. Other US market segments are less richly priced. Looking beyond the US market, valuations are far less demanding. European equities trade at a 35% discount to the US on an estimated forward price-earnings (PE) basis, the biggest gap ever. The same goes for Japanese equities, trading at a 45% discount. Emerging markets are at their cheapest on a relative basis since 2003. Many markets, including the UK, Japan, China and emerging markets are still cheap in absolute terms, trading cheaper in PE and price-to-book terms than their own long-term averages. Even the US market, by some measures, continues to offer considerable value. Although close to its record peak set in 2000 on a PE basis, the market is very cheap relative to the 10-year bond yield, which determines the discount rate against which all financial assets are priced.

Inflation is also a concern amid signs that cost pressures could be more persistent and widespread than initially predicted by central bank policy makers. The Federal Reserve no longer describes the inflation spike as "transitory". US consumer price inflation reached a multi-decade high of 6.8% in November. Core inflation, which strips out the effect of energy and food prices due to greater volatility, increased to 4.9% well above the Fed's 2% target. In the Eurozone, inflation reached 4.9%. From the current high base, inflation readings should dip in 2022 helped additionally by an easing in Covid related supply chain blockages and a moderation in economic growth as fiscal and monetary stimulus is withdrawn. Wage pressures should also reduce as safer conditions attract more job seekers. While the debate over rising inflation remains wide open, companies have on average coped well with this year's inflation spike, able to successfully pass on rising costs and to protect their profit margins. A moderate increase in inflation is good for equity markets.

The Fed began reducing its massive $120 billion per month asset purchase programme in October by $15 billion per month and accelerated the monthly "taper" to $30 billion at its December policy meeting. This means the programme will be reduced to zero by March, which will pave the way for increases in the fed funds rate, currently at zero percent. The Fed predicts three rate hikes in 2022, three in 2023 and a further two hikes in 2024, each of 25 basis points. This should not alarm the markets. The terminal fed funds rate would settle at 2.0%, only 25 basis points higher than its pre-pandemic level and still at a negative real rate, in the safe assumption that this will be less than the prevailing inflation rate. The Fed predicts that the core personal consumption expenditures index, its favoured inflation measure will subside to 2.1% in 2024. Other central banks, in the UK, Canada, Australia and Scandinavia and most emerging markets have already started lifting interest rates, but at a very gradual and well telegraphed pace. The Eurozone and Japan are still many months, possibly years from their first interest rate hike, while China is likely to cut rates in 2022. The adjustment in monetary policy from its pandemic era largesse will be extremely gradual. Policy makers will err on the side of caution in removing stimulus. While concerned about the inflation risk, they are even more anxious to avoid sluggish growth. With interest rates already negative or close to the zero bound, there would be little ammunition left to fight a recession.

Global economic growth is exceptionally strong. The IMF forecasts global growth in 2022 of 5% almost equal to the tremendous growth rate in 2021, estimated to be 6%. Following a prolonged period of deleveraging in the wake of the 2008/09 Global Financial Crisis, and helped by extraordinary pandemic-era fiscal stimulus, businesses and households have strong balance sheets and significant excess savings. Due to supply chain disruptions, inventories are sparce and need to be replenished. Strong employment and wage growth add to the robust demand outlook. The protracted economic upturn will encourage increased business investment spending. Credit expansion is ticking up and unlike the past decade of deleveraging, has capacity to add significantly to the pace of economic growth.

As the economic recovery broadens globally and becomes more durable, bond yields will inevitably rise from their extreme low levels. This may affect the more richly priced sectors of the equity market, most susceptible to an increase in the risk-free discount rate. However, last year's market laggards, the so-called value and cyclical equity sectors and markets, should thrive in such an environment. Industrial, energy, commodity and financial sectors and on a geographical basis the more cyclical markets, including Europe, the UK, Japan, China and emerging markets, tend to outperform when bond yields rise. Provided the US market does not enter a bear market, which is unlikely given the strong growth expected in its economy in 2022, the rest of the world will be able to catch-up in valuation terms over the course of the year, providing solid returns in a globally diversified portfolio.