

## OAM Global Growth Portfolios GBP Sterling

MAY 2011

### Introduction

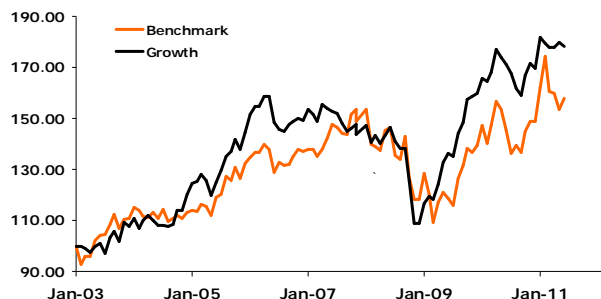
Overberg Asset Management specializes in the management of individual global portfolios, tailored to the investment objectives of each client. In the current and foreseeable climate, we are building client portfolios around closed-end funds, which give low-cost access to global investment opportunities 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:

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



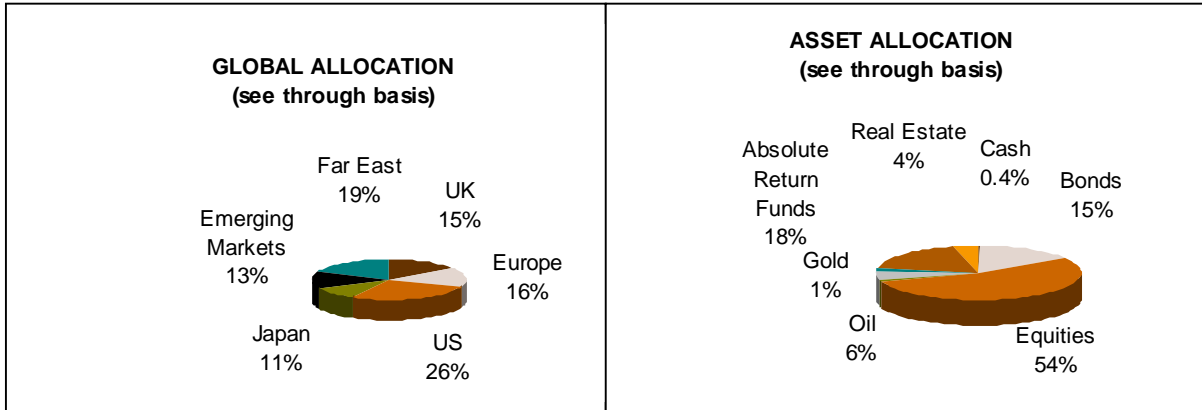
(As calculated by Overberg 31 May 2011)

	Growth %	Benchmark %
<b>Annualised Total Return</b>	7.10	5.72
<b>2003</b>	10.76	15.13
<b>2004</b>	12.44	-0.98
<b>2005</b>	21.69	18.22
<b>2006</b>	1.34	2.21
<b>2007</b>	-4.11	11.35
<b>2008</b>	-20.88	-16.24
<b>2009</b>	42.05	14.76
<b>2010</b>	9.81	9.92
<b>YTD</b>	-2.00	-2.51

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

	Growth %	Benchmark %
<b>Growth 2011</b>		
<b>January</b>	-1.18	7.59
<b>February</b>	-1.01	-7.78
<b>March</b>	0.02	-0.53
<b>April</b>	1.01	-3.99
<b>May</b>	-0.84	2.89

	%		
<b>Annualised Income Yield</b>	1.82		
<b>Best 3 Months</b>	7.28	7.23	7.05
<b>Worst 3 Months</b>	-13.41	-9.14	-6.33



**Commentary**

There is widespread anxiety over the imminent end to quantitative easing (QE2) in the US and the impact this may have on equity markets. Markets initially consolidated on news that the Federal Reserve would let QE2 expire at the end of June as originally planned. Yet monetary policy will remain extremely accommodative with the Fed due to maintain its \$2.7 trillion holding in US Treasury bonds. Proceeds from maturing bonds and coupons are to be reinvested, equating to estimated average monthly purchases of \$25 billion which is not insignificant. It is debatable meanwhile if the expiry of QE2 will in fact necessarily be negative for the markets. Excessive “free” money was largely to blame for the spike in commodity prices in turn fuelling inflationary pressures particularly in the fast growing emerging economies.

The term “accommodative”, usually associated with benign monetary policy could be applied to current commodity and oil prices which are down sharply from their recent peak in April. The decline in prices should be viewed less as a signal of slowing economic growth but rather as a powerful stimulus for growth. The price decline holds several advantages including improvement in purchasing power and real disposable incomes, lower cost of production and improved profit margins. Lower commodity prices also reduce pressure on inflation, seen as a key threat to sustained economic recovery. Nowhere is inflation more scrutinized than in China where consumer price inflation has risen steadily in the past few months stoking concern over a potential “hard landing”. However inflation is expected to peak in June helped by reduced commodity prices, a slowdown in money supply, appreciation of the yuan, positive base effects and rising grain inventories. China’s Premier Wen Jaibao recently stated that inflation was now under control, giving his clearest signal yet that policy focus would now move from combating inflation to promoting growth.

Many investors have begun extrapolating the current weakness in global macro-economic data, which is unreasonable. The slowdown in industrial production during the 2nd quarter was largely due to Japan’s post-quake supply chain disruption, which is now repairing just as quickly. Japan is already showing the fastest month-on-month industrial expansion since the 1950’s, displaying a far stronger than expected “V” shaped recovery. Meanwhile, industrial production is still growing strongly in China and other emerging economies and likely to reaccelerate following the imminent peak in monetary policy tightening in these economies. The capital expenditure cycle has been closely scrutinized since the global growth recovery has been largely dependent on this sector of the economy in the absence of strong consumer demand in many parts of the world. There is a tendency to read too much into its recent slowdown. The share of capital expenditure as a percentage of GDP is near historic lows in spite of the strong rebound of the past 2 years and the duration of the current capital expenditure cycle is still in its early stages when measured against previous cycles. The outlook remains supported by numerous factors including record levels of excess cash on company balance sheets, easing bank lending standards, continued company profit growth, and rising capacity utilization.

Following a challenging 2nd quarter equities are due for a strong run over the next few months. Numerous contrarian indicators are exhibiting clear buy signals. Investor skepticism is at extreme levels which normally heralds a sharp recovery in equity markets. Valuations are also extremely compelling with price-earnings multiples at historic lows and equity risk premiums at record highs. Recent developments in Greece are reaching a point of positive resolution, with political support for further austerity measures in exchange for further financial assistance. Private sector creditors are also making concessions led by banks in Germany and France. Bank stress tests in early July should provide added relief that contagion risk has been contained for the time being.

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