overberg
asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Growth Portfolio

Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Growth 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

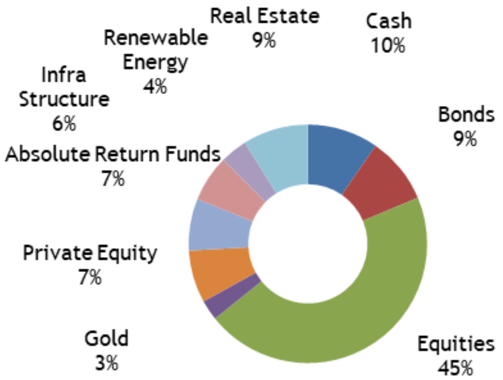
Sept 2018

Annualised Growth (%)	OAM	FTSE 100
Inception 2003	7.26	4.18
10 years	9.16	4.36
7 years	9.20	5.60
5 years	6.76	3.05
3 years	11.58	7.40
2018 YTD not annualised	1.41	-2.31

Annualised Income Yield	1.06		
	$	€	R
2018 YTD return in (%)	-2.20	1.22	11.69

Top 5 Holdings	
RIT Capital Partners	
3I Infrastructure	
Baillie Gifford Japan Trust Plc	
Polar Capital Global Financial Trust	
Finsbury Growth & Income Ord	
Total number of holdings	21

ASSET ALLOCATION
(see through basis)



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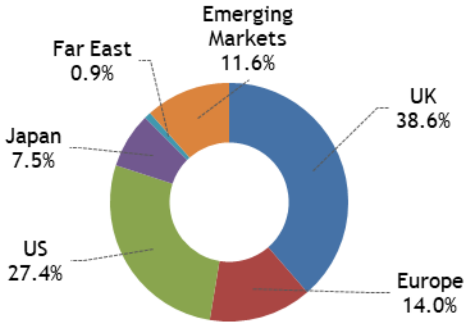

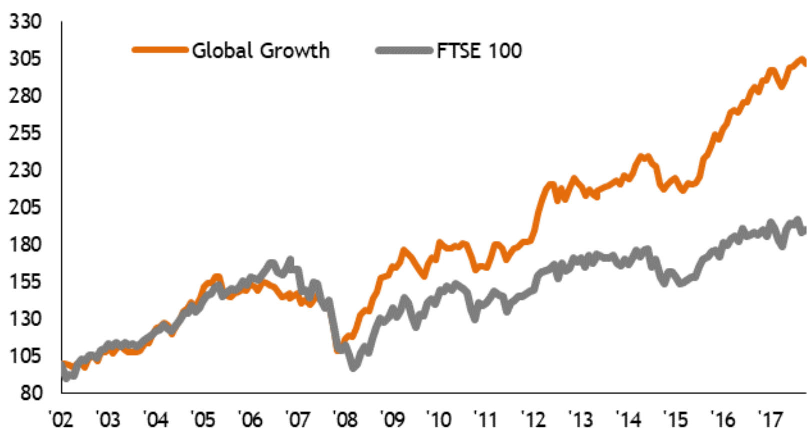

Market Review

Despite strong global economic growth and robust company earnings, equity markets maintained their downward trend during the third quarter (Q3). The escalating trade war between the US and China, the sharp increase in the oil price and rising US interest rates were the chief culprits. The Brent crude oil price jumped +10.59% in Q3 and +23.84% year-to-date (YTD). Helped by the large US fiscal stimulus programme, the S&P 500 index maintained a positive YTD gain of +4.19% YTD but slipped -0.45% for the quarter. Among the developed markets, respective Q3 and YTD returns for the German Dax were -6.25% and -9.33%, for the FTSE 100 -6.61% and -7.05% and the Hang Seng -8.03% and -12.45%. The Nikkei 225 outperformed over Q3 with a gain of +5.94%, boosted by Prime Minister Shinzo Abe's convincing re-election as head of the LDP party, lifting YTD returns to +3.26%. Emerging markets under-performed again as global risk appetite retreated. The MS Emerging Market Index fell -7.90% over Q3 compared with a decline in the MS World Index of -1.96%. The respective YTD returns were -14.91% versus -0.68%.

US tariffs have now been raised on around half of all Chinese imports. The trade dispute is likely to escalate over the next two months until the conclusion of the US mid-term elections in the second week of November. The main sticking point as far as China is concerned are US demands for deep structural changes to the country's industrial policy. While acknowledging that trade tensions pose the greatest near-term threat to the world economy, the IMF's chief economist Maurice Obstfeld downplayed the risk, observing that "while they are indeed broadly negative, they frankly apply to a rather small range of exports." The value of China's total exports to the US is only 2.5% of its GDP.

The Brent oil price surged to over $85 per barrel in September lifting it to a four-year high after OPEC declared that the market was amply supplied, signaling a reluctance to raise production quotas despite sanctions on Iran. The market may be over-reacting. Notwithstanding declining Iranian output, OPEC supply showed an actual increase in September, helped by a pick-up in Iraqi production. Meanwhile, higher oil prices are starting to impact demand, even in the US where business and consumer confidence is at multi-year highs. The oil price, having risen steadily for four years, could conceivably reach $100 per barrel. However, the outlook for slowing economic momentum in the US and China in 2019 combined with sufficient global capacity to offset Iranian supply shortfalls, suggests the oil price is close to its peak.

Strong economic data has prompted a surge in the 10-year US Treasury bond yield to 3.23% its highest level since May 2011. A further rise in the Treasury bond yield may lead investors to switch out of equities into Treasury bonds, putting pressure on global equity markets. Over the past two years the Treasury bond yield has more than doubled from a low of 1.36% in mid-2016, yet US equity indices have risen by around 30% over the same period. At some level however, there will be a tipping point for a broad-based asset allocation shift from equities into bonds. The current consensus suggests the tipping point is a yield of 3.5%, not far above current levels. However, some analysts suggest the recent uptick in yields is a blip rather than the start of a sustainable upturn. A sustainable upturn in yields normally depends on a material pick-up in inflation. So far, inflationary expectations have remained well anchored. The US "break-even" rate, a measure of investors' inflationary expectations derived from the yield difference between 10-year Treasury bonds and similar maturity Treasury Inflation Protected Securities, has remained stable at 2.1% over the past 6 months. Moreover, the rise in the 10-year conventional Treasury bond yield means its yield in real terms, after taking inflation into account, has exceeded 1.0% for the first time in seven years, well above the 10-year average of 0.50%.

US GDP growth accelerated in Q2 to 4.2% quarter-on-quarter annualised up strongly from 2.2% in Q1. This marks the fastest growth since hitting 4.9% in Q3 2014. The biggest contributors were strong personal consumption spending and non-residential fixed investment spending, boosted by US tax cuts and capital spending incentives. Non-residential fixed investment increased 8.5% albeit a slowdown from 11.5% growth in Q1. The US economy is enjoying a broad-based expansion, which according to forward-looking survey data will likely spill over into the second half of the year. The Institute for Supply Management (ISM) manufacturing index surged in August to its highest since May 2004, to a level consistent with manufacturing output growth of around 5% annualised in Q3. The ISM non-manufacturing index increased in September to its highest since the data series began in 2008. The combined survey data suggests US GDP growth in Q3 may measure close to the 4.2% annualised growth achieved in Q2. The NFIB Small Business Optimism Index soared in August to its highest level in the survey's 45-year history showing capital spending plans at their strongest since 2007. Meanwhile, the Conference Board consumer confidence index gained in August to its highest since October 2000 suggesting strong consumer spending will continue to buoy GDP growth. Speaking at the annual Jackson Hole symposium for central bankers, Fed chairman Jerome Powell noted that "while inflation has recently moved up near 2%, we have seen no clear sign of an acceleration above 2%, and there does not seem to be an elevated risk of overheating." Powell indicated that with the fed funds rate approaching the "neutral" rate, which is neither restrictive nor accommodative, the Fed would tread lightly in hiking interest rates.

China's GDP growth slowed to 6.7% year-on-year in Q2 from 6.8% in Q1. Economic data has been mixed since the start of Q3. Despite increased policy stimulus, growth in fixed asset investment slowed in the first eight months of the year to 5.3% year-on-year, the lowest since at least 1992 when the data series began, marking the fifth consecutive record low. More encouragingly, retail sales growth increased in August by 9.0% on the year up from 8.8% in July while industrial production growth increased from 6.0% to 6.1%. Growth in industrial export sales increased sharply from 8.7% to 12.5%, indicating far stronger export demand than domestic demand and little effect so far from US trade protectionism. Domestic demand, although losing momentum, is likely to recover as fiscal and monetary stimulus starts to take effect. Since the start of the year the People's Bank of China (PBOC) has cut the bank reserve requirement ratio (RRR) three times from 17.0% to 14.5%. The PBOC has not yet implemented actual interest rate cuts due to the competing policy goals of deleveraging the economy and maintaining exchange rate stability. However, an interest rate cut is likely if the RRR cuts are to be transmitted into stronger credit extension. The PBOC may also take a more lenient view towards yuan depreciation if trade tensions with the US continue to intensify. A series of mild interest rate cuts are likely over the next 6-9 months to help shore up China's economy, leading to an expected turnaround towards mid-2019.

Prime Minister Shinzo Abe comfortably won the LDP party-leadership election, setting the stage for a further three years of "Abenomics". His election strengthens his mandate to pursue the three "arrows" of Abenomics, namely ultra-loose monetary policy, fiscal stimulus and structural reform. In April, Bank of Japan (BOJ) Governor Haruhiko Kuroda was appointed for a rare second term signaling a commitment to continued accommodative monetary policy to end Japan's deflationary spiral. GDP grew in Q2 by a stronger than expected 0.7% quarter-on-quarter or 3.0% annualised its fastest pace since hitting 3.4% in Q1 2016. Business investment grew a massive 3.1% on the quarter its fastest pace since 2007. The ratio of non-residential investment to output is at its highest in almost 30 years and firms' capital spending plans are the most optimistic since 1990. Continued investment spending bodes well for GDP growth in the second half of the year while domestic demand generally is likely to accelerate ahead of the scheduled sales tax increase in 2019. Encouragingly for the BOJ, various inflation measures indicate a gradual strengthening in underlying inflation. Unemployment, which has reduced since the start of the year from 2.8% to 2.5%, combined with a tight job-to-applicant ratio has boosted annual wage growth to around 1%, which may have a sustainable upward effect on inflation. Growth in average regular earnings jumped from 1.1% year-on-year in July to 1.4% in August, its fastest pace since 1997. However, the Bank of Japan (BOJ) acknowledged that achieving its 2% inflation target will take “more time than expected.” The BOJ remains the world’s only central bank still committed to an indefinite expansion of its balance sheet.

Eurozone GDP grew in Q2 by 0.4% quarter-on-quarter, unchanged from the 0.4% growth rate recorded in Q1. Growth accelerated in Germany, the Netherlands and Portugal. Germany’s GDP grew in Q2 by a robust 0.5% quarter-on-quarter, boosted by strong household spending and investment spending, while Q1 growth was revised upwards from 0.3% to 0.4%. The Eurozone should maintain a solid growth rate in the second half of the year with confidence returning following the agreement between the EU and US to pause any further tariff increases while negotiations persist. Despite the European Commission (EC) Business and Consumer Confidence Survey steadily declining since the start of the year, remains at a level consistent with solid annual GDP growth of around 2%. Germany’s Ifo business climate index and its ZEW Economic Confidence Index rebounded from their July lows, indicating that the Eurozone’s largest economy will maintain its recent growth acceleration. As expected, the ECB reiterated its intention to halve monthly asset purchases from €30 billion to €15 billion in October, ending new purchases altogether at the end of December while keeping its key deposit rate unchanged at -0.4% “at least through the summer of 2019.” ECB President Mario Draghi maintained an upbeat economic assessment. The ECB slightly lowered its GDP forecasts for 2018, 2019 and 2020 from a previous 2.1%, 1.9% and 1.7% to 2.0%, 1.8% and 1.7%, respectively but kept its inflation forecasts unchanged at 1.7% for all three years. However, the ECB noted that its policy plans will remain subject to incoming data and that it would continue to reinvest the proceeds of maturing bonds from its €2.5 trillion bond portfolio. Italy’s 10-year government bond yield fell below the psychologically-important 3.0% level for the first time since mid-August amid reassurances from the government’s populist coalition partners that it would abide by EU budget rules. The bond yield had spiked up to 3.4% in May following government pledges to flout EU fiscal constraints with a spending binge and tax cuts.

UK GDP grew in July by a stronger than expected 0.3% month-on-month, lifting the rolling 3-month-on-3-month growth rate from 0.4% to 0.6% its fastest pace since February 2017. The data supports the view from the Bank of England (BOE) that the slowdown at the start of the year was weather-related and likely to reverse. The overall data suggests that in the run-up to the crucial phase of the Brexit talks the UK economy is in better shape than previously thought. The July employment report reflected a combination of both strong jobs growth and strong real earnings growth. Average weekly earnings increased by a solid 3.1% year-on-year up from 2.8% in June, marking the fastest pace since July 2015 and its joint-highest since 2008. The strong recovery in earnings growth bodes well for household spending, which contributes over two-thirds of UK GDP. Forward-looking survey data is encouraging. The Markit purchasing managers’ index (PMI), measuring performance of the service sector of the economy, strengthened further in August consistent with quarter-on-quarter growth in service sector output of around 0.5%, matching the solid pace recorded in Q2. The upbeat manufacturing PMI suggests the manufacturing sector may have made a small contribution to Q3 GDP after detracting from GDP in Q2. Despite growing uncertainty over Brexit and the rising threat of a global trade war, the BOE delivered its long-expected interest rate hike, lifting the base rate from 0.5% to 0.75%. However, the BOE tempered expectations in its forward guidance, indicating that one or two more 25 basis-point rate hikes by 2021 would be sufficient to bring inflation back to its 2% target. The BOE noted that if a Brexit deal was struck as proposed by Theresa May, which is the likely scenario, the economy would outperform the BOE’s current forecasts.

Emerging market currency weakness was a hallmark of Q3, led by a meltdown in Turkey and Argentina. The Turkish lira has slumped versus the US dollar by around 40% since the start of the year. Turkey has one of the largest current account deficits of any emerging market, unmatched external debts, surging inflation, politically motivated monetary policy and an absence of international goodwill for President Erdogan's government. Fortunately, the combination of factors is unique to Turkey indicating little risk of lasting contagion to other emerging markets, except perhaps Argentina. In an unscheduled meeting Argentina's central bank lifted its benchmark interest rate from 45% to 60% a day after President Macri asked the IMF to fast-track disbursements from its $50 billion bailout programme. The news did little to shore-up the Argentinian peso, which has dropped in value by half against the US dollar since the start of the year. By contrast, India's GDP growth beat even the most optimistic forecasts in Q2 accelerating to 8.2% year-on-year from 7.7% in Q1. Growth should remain strong in the coming quarters helped by expected fiscal stimulus and pre-emptive monetary policy. The rupee has lost over 10% versus the US dollar since the start of the year but government appears to be supporting the currency's decline in the interests of improved export competitiveness. Following recent volatility, emerging market bond yields are back to levels last seen in 2006 prior to the 2008/09 global financial crisis whereas developed market bonds are substantially below their earlier levels. German and US 5-year government bond yields, currently at -0.23% and 2.75% respectively, were at 3.9% and 4.6% in 2006. The discrepancy suggests considerable relative value in emerging market bonds. After excluding Turkey and Argentina from the calculation, emerging market bonds are yielding over 3% in real inflation adjusted terms. The ratio of emerging market currency volatility to developed market currency volatility is at its highest since 2008, which may indicate the bottom in emerging market currency depreciation.

We remain confident that the commonly cited threats to global markets, namely the US-China trade war, rising US Treasury bond yields and the rising oil price, are unlikely to derail the current healthy pace of global economic growth or the continuing upward trend in the world's equity markets. However, we have identified several attractive opportunities in other asset classes including real estate, infrastructure and renewable energy, absolute return strategies, gold and bonds. These asset classes, as well as in most cases, providing attractive income-based returns will also temper the volatility traditionally associated with equities. Effective diversification across different currencies and asset classes will continue to offer protection to clients' equity-based portfolios.