OAM Global Growth Portfolios

GBP Sterling

APR 2014

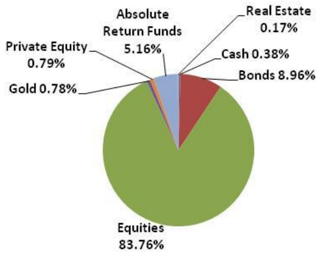
Technical Details

- 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

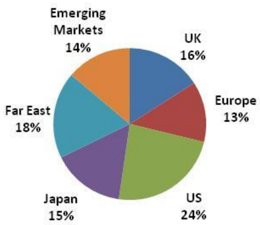
Investment Objectives:

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

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)



(As calculated by Overberg 30 Apr 2014)

	Growth %	Benchmark %
Annualised Return	6.84	6.15
2003	10.76	15.13
2004	12.44	-0.98
2005	21.69	18.22
2006	1.34	2.21
2007	-4.11	11.35
2008	-20.88	-16.24
2009	42.05	14.76
2010	9.81	9.92
2011	-9.17	-5.00
2012	15.06	7.62
2013	15.43	19.01
2014 YTD	-3.40	-0.20

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

Growth 2014	Growth %	Benchmark %
January	-2.68	-4.34
February	1.91	3.34
March	-1.81	-0.01
April	-0.81	0.96
May		
June		
July		
August		
September		
October		
November		
December		

2014 YTD	-$1.54%	-€1.87%	-ZAR0.82%

Annualised Income Yield	1.17%
Best 3 Months	7.28 7.23 7.05
Worst 3 Months	-13.41 -9.14 -6.33

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.

Quarterly Commentary 31 March 2014

Global equities made a dull start to 2014, which is not surprising given the robust finish to 2013. Some consolidation was to be expected with the perfect excuse provided by the Fed's taper of its quantitative easing programme. Geopolitical fears emanating from Russia's annexation of the Crimea, and concerns over China's economic slowdown also contributed to the lack of forward momentum in equity markets. The US S&P 500 eked out a small gain of 1.3% in the first quarter (Q1), with other major markets faring slightly worse including Germany's Dax with 0.0%, the UK FTSE 100 falling -2.2%, and the Nikkei performing poorly with a loss of -9.0%. Italy was the best performing market worldwide with a Q1 gain of 14.5%, followed by the Philippines up 9.2%, and Thailand up 6.0%. The world's worst performing market was Russia with a hefty loss of -17.8%.

The US equity market hit a record high in March despite the Fed tapering its quantitative easing programme. The Fed reduced its asset purchases from $85bn per month at the end of last year to $75bn in January and to $65bn in March. On the current tapering path, asset purchases will end by October. The new Fed Chairperson Janet Yellen also hinted that the benchmark Fed Funds rate would increase from 0-0.25% to 1% by the end of 2015 and to 2.25% by the end of 2016, higher than the Fed's previous guidance of 0.75% and 1.75%. Rate hikes may unsettle equity markets, although it is worth noting that during 11 interest rate increase cycles over the past sixty years, the Dow Jones Industrial Average Index has risen on 9 occasions. Moreover, the Fed Funds rate is still expected to remain below its long-term average of 4% "for some time," even after employment and inflation normalise. Economic data was depressed by severe weather in January and February which may cause Q1 GDP growth to fall to 1.5% annualised. However, there are signs of a sharp rebound in Q2 with expected annualised GDP growth of close to 4%. The unemployment rate currently stands at 6.7% and the last employment report highlighted a 0.4% monthly gain in hourly earnings or 2.2% year-on-year, implying a tightening labour market. Although inflation fell to 1.1% in February, core inflation excluding food and energy remained at 1.6%. If wage growth starts to accelerate, core inflation could move above 2% in 2015. A feature in Q1 was a strong increase in merger and acquisition activity, indicating improving business confidence. Growth in business investment has so far been absent from the economic recovery but is forecast to accelerate from 3% in 2013 to 7% in 2014. Overall, Q4 earnings were better than expected with S&P 500 companies growing sales by 4% and earnings per share by 8%, 2% better than consensus forecast. Earnings growth is expected to average 7.5% in 2014 placing the S&P 500 index on an estimated 15.8x forward price to earnings multiple.

In the UK, the Bank of England (BOE) amended its forward guidance on interest rates with rate policy no longer tied to a 7% unemployment rate. The BOE expects unemployment to hit 6.6% by year end but this will not automatically trigger a hike in interest rates. Fortunately, inflation has fallen below the central bank's 2% target and the central bank is now linking interest rates to the economy's spare capacity which it deems to be excessive. However, the National Institute for Economic & Social Research estimated that the economy was less than 1.1% smaller than before the recession which indicates little spare capacity and suggests interest rates may rise sooner than expected. Last year, the UK economy grew by 1.9%, its fastest rate in 6 years. The recovery has become broad based and the UK may show GDP growth of 3% in 2014. Furthermore, with inflation declining in the short-term and interest rates on hold, households' real incomes and spending should benefit. At the same time business confidence is improving, auguring for a more sustainable economic recovery. After contracting -3.3% last year, the Confederation of British Industry (CBI) forecasts business investment will grow by 6.6% this year and 8.3% next year. A notable feature in Q1 was the return of new equity issues. In the year to date, the amount of equity capital raised on the London Stock Exchange is about £28bn compared with £15bn for the whole of 2012. The volume of merger and acquisition deals has also revived. Company earnings growth is expected to average a robust 11% in 2014 placing the FTSE 100 index on an estimated 13.1x forward price to earnings multiple.

European equities performed relatively well in Q1 with the FTSE Europe (ex-UK) index rising 3.1% even though company results were generally disappointing. The ECB upgraded its economic outlook slightly: The Eurozone is expected to grow modestly by 1.1% in 2014 improving to 1.5% in 2015. However, growth remains subdued and inflation at 0.7% is too low and well below the central bank's 2% target. The ECB held the benchmark interest rate at 0.5% despite the threat of deflation and the appreciation of the currency. Nonetheless the ECB stated that "the high degree of unutilised capacity" means interest rates would "remain at present or lower levels for an extended period of time." Germany's economy showed only modest growth in 2013 although the pace picked up in 2014 with growth in industrial production accelerating from 3.4% year-on-year in December to 5% in January. Germany's GDP is expected to grow by 1.7% in 2014. The French economy is finally enjoying a modest recovery and may expand by 1% in 2014. In Italy, the equity market enjoyed strong gains boosted by incoming Prime Minister Matteo Renzi's promise of bolder structural reforms. Spain's equities also performed well and bond yields continued to fall in response to the country's on-going economic reforms. The standout economy in the region was Sweden with GDP growth in Q4 of 3.1% year-on-year, double the expected level. While Eurozone equities appear relatively expensive on an estimated 14.2x forward price to earnings multiple earnings are expected to rise strongly as the economic recovery gains traction.

Japan's strong recovery has faded to an annualised growth rate of 1%. The slowdown could reflect a recent downturn in exports related to the bad weather in the US and the Chinese New Year. However, progress on generating inflation has also slowed with the latest inflation reading of 1.3% little changed from 6 months ago and still well below the 2015 target of 2%. Having received an initial boost from a weaker currency, inflation is unlikely to be driven higher unless wages rise. More encouragingly, factory equipment orders recently increased to a 5-year high and the economy is almost operating at full employment with only 3.6% unemployment, signalling an increase in business confidence accompanied by likely wage increases. Economic growth may fall in Q2 in response to the scheduled increase in the consumption tax in April. However, any sharp deterioration in economic data is likely to prompt an increase in the Bank of Japan's quantitative and qualitative easing programme. The 9% decline in the Nikkei index during Q1 is more likely a healthy consolidation rather than a loss in momentum in Abenomics. Further monetary stimulus would spark another round of yen weakness in turn boosting company earnings and the equity market. Company earnings are still expected to double between 2013 and 2017. In 2014, aggregate earnings growth of 50% is expected, well ahead of other developed markets bringing the estimated forward price to earnings down to an attractive 14.8x.

Far East and Emerging markets suffered large fund outflows during Q1 with currency panic in emerging markets such as Turkey, India, South Africa and Russia, all afflicted by elevated current account and budget deficits. In China the government has set a GDP growth target of 7.5% but the economy appears to have started at a slower growth rate in Q1. Furthermore, there are worries over China's shadow banking system and a rise in defaults with the recent bond default unsettling investors. In Mexico, equities declined by -5.3% in Q1 after its economy recorded GDP growth of just 0.7% and a record trade deficit. Brazil's equities fell by -2.1% as the interest rate was increased again to 10.75% marking a cumulative increase of 350 basis points over the past year. In contrast however, India's equity market hit a record high in March ahead of the general election. Although India's economic growth is still below average at less than 5% inflation seems to be moderating and the budget deficit is narrowing. In Q1 the FTSE All World Emerging Index fell by -2.2% resuming last year's under-performance versus developed markets. The emerging markets index now trades on an estimated forward price to earnings multiple of just 9x offering attractive value compared with the equivalent 14x global rating.

While equity markets have become more expensive over the past year there are still pockets of value. Emerging markets are attractively priced and the Far East in particular offers solid investment prospects. With the likelihood of stronger than average earnings growth equity markets in Japan and the Eurozone also offer scope for outperformance. Meanwhile improving business confidence signals a pick-up in capital goods investment which would especially benefit the technology sector.