overberg asset management

Global performance factsheet

OAM Global Growth Portfolios
GBP Sterling

DEC 2012

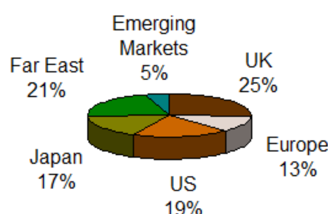
Technical Details

- 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

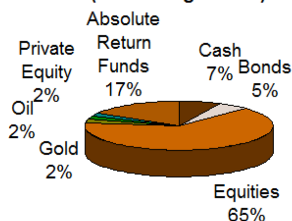
Investment Objectives:

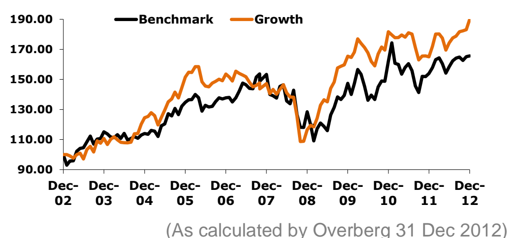
Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

GLOBAL ALLOCATION (see through basis)



ASSET ALLOCATION (see through basis)





(As calculated by Overberg 31 Dec 2012)

	Growth %	Benchmark %
Annualised Return	6.62	5.35
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 YTD	15.06	7.62

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

Growth 2012	Growth %	Benchmark %
January	4.13	2.50
February	4.82	3.41
March	0.03	0.74
April	-1.50	-2.39
May	-4.51	-3.89
June	2.82	2.76
July	1.87	2.49
August	0.70	1.07
September	1.63	0.44
October	0.33	-1.38
November	0.45	1.53
December	3.72	0.36

YTD 2012	$20.51%	€18.19%	ZAR 25.79%

Annualised Income Yield	1.04 (%)
Best 3 Months	7.28 7.23 7.05
Worst 3 Months	-13.41 -9.14 -6.33

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License No: 783. Company Registration No: 2001/019896/07.
Directors: Nick Downing, Brett Birkenstock, Gielie Fourie.

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.

Commentary

2012 was another year of uncertainty dominated in the early months by fears of a break-up in the Eurozone, concerns of a hard economic landing in China, slowing growth in most emerging economies and more latterly the lack of fiscal consensus in the US. However, global equities ended the year with a dollar gain of 13.8% in the FTSE All-World Index, boosted by improved policy response in the Eurozone and continued quantitative easing by the major central banks.

The strongest performing regions in 2012 were Asia Pacific excluding Japan and, surprisingly, continental Europe. The top performing developed market was the German Dax, up 29.1% for the year in spite of the Euro-zone crisis. Japan's Nikkei 225 followed with 22.9% boosted by a very strong 4th quarter return of 17.2% in reaction to the LDP's return to power in December. The US S&P 500 gained 13.4% for the year. Emerging markets, unconstrained by the sovereign and household indebtedness of developed economies and benefitting from stronger economic growth, once again outperformed. The FTSE All-World Emerging Index increased in dollar terms by 16.8%. The place to be in 2012 was Venezuela, which rose 187% in Sterling terms. This followed on from an 80% increase in 2011, although it had been the worst performer in the previous year following a huge depreciation of the currency. Several of the worst performers in 2011 delivered the strongest returns in 2012, notably Egypt (+35.6%), Turkey (+53.9%), and Greece (+29.7%). Safe-haven assets such as government bonds and gold fared less well. Corporate bonds had another good year, whilst high yield debt benefitted from renewed appetite for risk.

As expected the $600 billion "fiscal cliff" of automatic tax increases and spending cuts was averted by a last minute compromise and the $16 trillion debt ceiling has been temporarily raised until a longer-lasting agreement is reached. The Federal Reserve meanwhile increased its combined purchases of Treasuries and State Agency mortgage-backed securities from $40 billion a month to an astonishing $85 billion, with plans to keep the buying programme open-ended until unemployment reduces from the current 7.8% level to 6.5%. Aggressive monetary easing and record low mortgage rates have facilitated a solid recovery in the housing market with home construction and home prices rising strongly, supported by a sharp decline in foreclosures. As a result of rising home prices, home owners' equity has risen steadily and boosted consumer confidence and household consumption. US 3rd quarter GDP increased by 3.1% quarter-on-quarter annualised, driven by consumer spending.

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In the UK the outlook for more aggressive monetary policy has also been boosted by the appointment of Mark Carney as the new Governor of the Bank of England. He is likely to be more proactive and is in favour of adopting a nominal GDP target, where monetary policy is based on both inflation and growth as opposed to just inflation as has been the case for the past 20 years. The European Central Bank (ECB) delivered a masterstroke with its Outright Market Transaction (OMT) plan, a pledge to purchase unlimited quantities of sovereign bonds, as many as needed to bring bond rates to reasonable levels. The OMT plan had the desired effect of reducing distressed sovereign bond yields without a single bond being purchased. In the 4th quarter Spanish 10-year bond yields touched 5.2% compared to 7.5% in July driven lower by the specter of potential OMT purchases. The European Union (EU) also agreed on the outline for a new banking structure with the ECB set to oversee 200 of the region's largest banks (excluding the UK) out of a total of 5,800. In November, the EU also finally agreed a programme to reduce Greece's debt by €40bn by 2020 to 124% of its GDP, which unlocked €43.7bn of delayed aid to the country

Japan's equity markets powered ahead following the election of Shinzo Abe as the Prime Minister and the return to power of the Liberal Democratic Party (LDP). The LDP was elected on its promise to end the country's decade-long deflationary spiral via aggressive fiscal expansion and radical central bank intervention. The Bank of Japan has raised its inflation target from 1.0% to 2.0% and has already pledged to raise its monthly asset repurchases to the equivalent of $150 billion a month, starting in the 2014 financial year. This overshadows even the Fed's $85 billion "bazooka".

During the 4th quarter several Emerging and Far Eastern equity markets reached all-time highs. Economic growth in the Asia-Pacific region excluding Japan is picking up in response to monetary easing and fiscal stimulus, with regional economic growth expected to increase from around 6.0% in 2012 to 6.7% in 2013. Developing Far Eastern economies are especially robust driven by strong domestic demand and investment spending. The large emerging economies, Brazil, Russia, India and China (BRIC) slowed down in 2012 but a mild improvement is expected in 2013. China's economy is now recovering amid hope that the new leadership announced at the 18th National Congress will implement positive market-friendly reforms.

Market sentiment has improved significantly compared with a year ago. However, there are plenty of reasons to be wary as growth in most developed markets is likely to be anaemic and the debt/fiscal deficit problems are being deferred rather than solved. Governments are committed to extensive quantitative easing but at some stage, this may spark fears over a rise in inflation. There also seems to be sufficient political will to keep the Eurozone together whatever the cost, but further resistance to austerity measures seems inevitable.

Despite these headwinds both equity valuations and company balance sheets appear attractive to investors and potential bidders. Furthermore, with record low bond yields, equities have almost become the asset choice by default. After a long period of outflows from equity markets, there were inflows into equities towards the end of 2012. Net global equity inflows of $22.2bn were recorded in the first week of January, the highest level for more than five years. Perhaps the strongest reason to be buying equities is the increased likelihood of a shift from bonds into equities and the start of a new trend of asset allocation.

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