overberg
asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Income Portfolios
GBP Sterling

JAN 2015

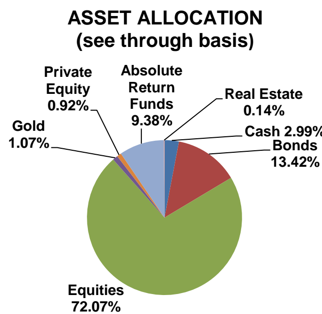
Technical Details

- FSB approved
- Base currency: GB Pounds
- Minimum investment: USD$ 100,000 equivalent
- Benchmark: FTSE Global 100
- Asset Allocation: flexible mix of closed-end funds, bonds and cash

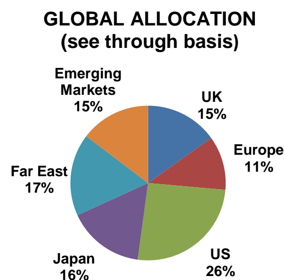
Investment Objectives:

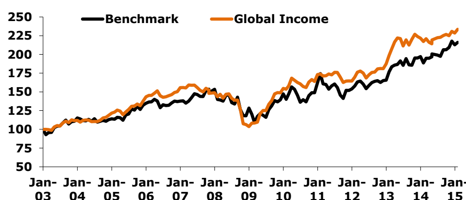
Growth Portfolio: conservative growth, using medium risk strategy; consistent annual returns with low volatility.

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





(As calculated by Overberg 31 Jan 2015)

	Income %	Benchmark %
Annualised Total Return	7.27	5.24
2003	11.89	15.13
2004	8.64	-0.98
2005	18.00	18.22
2006	8.49	2.21
2007	-4.40	11.35
2008	-30.30	-16.24
2009	49.11	14.76
2010	11.92	9.92
2011	-4.96	-5.00
2012	14.00	7.62
2013	18.20	19.01
2014	3.19	7.95
2015 YTD	2.12	1,52

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

Growth 2015	Growth %	Benchmark %
January	2.12	1.52
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		

Annualised Income Yield	1.76%
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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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 January 2015

Equity markets finished the year with a strong quarter boosted by confidence that global monetary policy would remain generally accommodative for an extended period. The sharply weaker oil price was also viewed positively, attributed to increased production rather than declining demand. The lower oil price amounts to a substantial tax cut for consumers and industry. Among the developed equity markets the clear outperformer was the US S&P 500 which gained 11.4% in 2014, followed by Japan's Nikkei 225 with a gain of 7.1%. However, other developed markets generally lagged, the German Dax increased by just 2.7% and the UK FTSE 100 actually lost -2.7%. Hong Kong's Hang Seng made just 1.3% in contrast with other Far East markets: China's Shanghai Index, India's Sensex, the Philippines PHS Composite and Thailand's SET were the world's four best performing markets with respective gains of 53.1%, 29.9%, 22.8% and 15.4%. The worst performer over the year was Russia's RTS, posting a loss of -45.2%.

The S&P 500 Index enjoyed a sixth consecutive year of positive returns reaching an all-time record high of 2,090 on 29th December, while the Nasdaq has returned to its dotcom peak. The Apple share price rose 38% in 2014 now the largest US listed business and on its way to becoming the first $1trillion company. Airlines were strong performers benefitting from lower oil prices and from a series of mergers, which have reduced competition. Even the banks started performing: Bank of America shares managed a 15% gain despite clocking up $70bn in fines from regulators. It was also a good year for bonds with the 10-year Treasury yield falling to 2.17% from 3% at the beginning of 2014. The bond market rally is surprising since the Federal Reserve (Fed) in Q4 finished its quantitative easing (QE) programme of Treasury bond purchases. Since the QE programme began in Sept 2012 at $85bn per month unemployment has fallen from 8.1% to 5.8%, the lowest since July 2008. Recent economic data has been positive. US final GDP growth in Q3 was revised upwards from 3.9% to 5.0% the strongest growth in 11 years, reflecting broad-based economic activity: Business investment spending grew by an impressive 8.9%, adding to the healthy contribution from consumer expenditure. Consumer sentiment soared in both October and November to levels last seen in mid-2007, boosted by the sharp drop in fuel and food prices, rising equity and housing markets. However, the improving economy spells the end of ultra-accommodative monetary policy. The Fed is on track to raise interest rates this year in spite of low oil prices and benign inflation. In 2015, a stronger dollar could be an impediment for corporate earnings growth. About two fifths of S&P 500 revenues are generated overseas, which may make the 9% consensus earnings growth forecast for 2015 difficult to achieve. Based on these optimistic earnings estimates the S&P 500 index is trading on a relatively expensive forward price earnings multiple of 15.8x.

The UK was one of the fastest growing developed economies in 2014 which contradicts the weak performance of the UK equity market. Relative market weakness is attributed to the Mining and Oil & Gas sectors which together account for about 22% of the FTSE index. The UK political outlook is also unsettling investors with the outcome of this year's General Election far from certain. Meanwhile, the UK economy is losing some momentum due to stagnation in the Eurozone which accounts for about 45% of UK exports. The government expects GDP growth of only 2.4% in 2015 and 2.2% in 2016. However, an expected drop in the saving rate from 6% currently to around 4%, combined with the recent fall in the oil price should provide some support. Although inflation has declined to just 1% the lowest in 12 years and well below the Bank of England's (BOE) 2% target rate, the BOE is likely to start raising interest rates this year. Average weekly earnings growth has increased from 1.5% to 1.8% which is

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comfortably higher than inflation. High real incomes could soak up the spare capacity in the economy. The output gap between actual and full capacity utilisation in the economy has reduced over the past year from 1.7% to an estimated 0.6%. Interest rate increases seem inevitable. Currently, the FTSE 100 Index is trading on an estimated forward price to earnings multiple of 12.9x which is not expensive though not particularly cheap once adjusted for the Oil & Gas sector.

The beleaguered Eurozone economy grew by a marginal 0.2% annualised in Q3 after managing only 0.1% growth in Q2. Germany avoided sliding into technical recession, but only just, with the country's GDP up by a weak 0.1% in Q3, after shrinking by the same margin in Q2. Unfortunately there are no signs of any resurgence in confidence or demand. The German Ifo business climate index slid for a sixth consecutive month in October. France, the Netherlands, Spain, Portugal and Ireland all recorded slightly faster growth in Q3, but Italy continued to contract. The IMF forecasts a 40% chance of another Eurozone recession, brought on by weak investment spending and exposure to Russia and East Europe, which account for around a quarter of Eurozone exports. Inflation eased further to 0.3% in November, which is far below the European Central Bank's (ECB) inflation target of close to 2%. Consequently, the threat of deflation looms large as reflected in the record low German 10-year Bund yield of only 0.54%. In Q4, the ECB kept its interest rate at 0.05% and began asset purchases of corporate bonds (QE-lite) but this stimulus is small and will not expand the ECB's balance sheet to its targeted level of €1 trillion. Hence, the market continues to speculate that the ECB will launch US-style QE of sovereign bonds (full-blown QE). European equities trade on an estimated forward price to earnings multiple of 13.5x. However, this multiple is based on an earnings growth forecast of 11% which seems optimistic as the Eurozone may only grow by 1% in 2015 and economic and political events in Russia and Greece could easily develop into another crisis.

The Japanese equity market finished the year near a 15-year high, helped by additional QE and corporate tax cuts. The Japanese Yen has fallen sharply which should spur investment and return the economy to strong growth. In December, Prime Minister Shinzo Abe called a snap election which saw him re-elected for 4 more years with a slightly enhanced mandate to implement unpopular but vital economic reforms. In October the Bank of Japan increased its QE programme increasing the size of its monetary base expansion programme from ¥60-70 trillion to ¥80 trillion. At the same time the gigantic Government Pension Investment Fund (GPIF) increased its asset allocation to equities from 24% to over 45% while reducing its domestic bond weighting from 60% to 35%. Although recent economic data has been disappointing there are signs that investment is recovering after the earlier consumption tax hike and exports are beginning to respond to the weaker yen. Over the last two years, the dollar has risen from ¥/$ 80 to 121 transforming the competitiveness of the Japanese economy. Moreover, corporate taxes are to be reduced from about 34% to around 32%. The weaker yen and reviving economic growth is expected to boost company earnings by 12% in 2015 placing the Nikkei 225 on a forward price to earnings multiple of 14.3x, which is less than half its long-term average. The price to book multiple of 1.4x is also less than half that of other developed economy equity markets, indicating compelling value.

Emerging and Far Eastern equities witnessed extraordinary movements in 2014. Chinese equities surged by 37% in Q4 alone in spite of economic growth slipping to 7.3%, the slowest rate of growth since 1990 and total debt rising to 251% of GDP. However, despite the strong gains China's market still remains relatively cheap on an estimated forward price to earnings multiple of 11.2x. At the other end of the spectrum Russian equities collapsed by 30% in Q4, during which the benchmark Russian interest rate increased from 8% to 17%, an extreme move designed to put a floor under the rouble currency. Russia is being impacted by its heavy exposure to low oil prices while sanctions are limiting corporate access to international capital markets. The economy is likely to contract by -4% in 2015. Other oil-exporting emerging countries which are vulnerable to low oil prices include Brazil, Nigeria, Angola, Venezuela and Bolivia. However, a major beneficiary of low oil prices is the Far East and South Asia region which also enjoys low levels of indebtedness, budget and current account surpluses and solid economic growth. The FTSE All-World Emerging Index trades on an estimated forward price-earnings multiple of 10.4x offering good value compared with slower growing developed economies.

While global market conditions remain generally accommodative, it is unlikely that the BOJ's increased QE and ECB's pending QE will be enough to compensate for the Fed's expired QE programme. During 2015 the Fed and BOE will start hiking interest rates and although they may delay the inevitable, the longer they delay the steeper the rate hikes are likely to be. While global equity valuations generally remain cheap on a yield basis versus

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prevailing interest rates this advantage will clearly dissipate once interest rates start rising. Equity markets are ripe for a correction: US equities have enjoyed six consecutive years of uninterrupted gains and trading at their highest premium to global markets since 1970. The sharply weaker oil price will provide a welcome boost to many economies, in particular those heavily dependent on oil imports such as Japan and the Far East. The weaker oil price is being attributed to growing global production and improving production technology. However, we are mindful that weakening demand is also to blame as reflected by record low 10-year government bond yields (in many cases at multi-century lows). With the exception of the US economy the world economy remains fragile, which in the context of historically high equity valuations and pending US and UK interest rate increases, indicates a rising probability of equity market consolidation.

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