Overberg asset management

Global performance factsheet

OAM Global Income Portfolios
GBP Sterling

JUL 2013

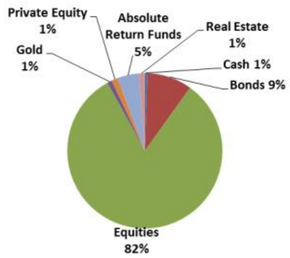
Technical Details

- 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

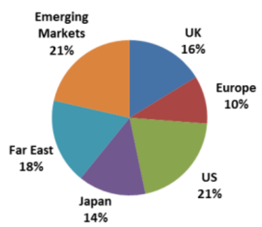
Investment Objectives:

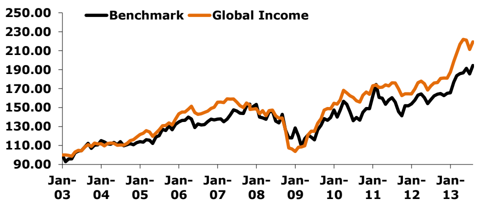
Income Portfolio: conservative growth and income; using medium risk strategy; consistent annual returns with low volatility.

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





(As calculated by Overberg 31 Jul 2013)

	Income %	Benchmark %
Annualised Total Return	7.71	6.72
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 YTD	17.03	17.36

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

Growth 2013	Growth %	Benchmark %
January	5.96	6.69
February	4.42	3.86
March	4.50	1.18
April	2.42	0.49
May	-0.38	2.53
June	-4.43	-3.08
July	3.81	4.83
August		
September		
October		
November		
December		

Annualised Income Yield	1.94%
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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

The 2nd quarter was unusually volatile for equities and bonds, with all asset classes including gold reacting badly to the Federal Reserve's (Fed) plans to exit ("taper") its quantitative easing (QE) programme. Although the taper plans are a sure sign that general economic conditions are improving, the transition from almost unlimited liquidity support may take getting used to and will impact leverage in financial markets. The Fed's plans caused the 10-year US Treasury bond yield to spike sharply from 1.6% in May to 2.6% by end June. Far East and emerging markets were hit the hardest, by capital outflows induced by the Fed's policy, and further slowing in China's rate of growth.

In mid-May the Federal Reserve outlined an exit strategy from its ultra-loose monetary policy, signalling that a long process of normalisation of interest rates could be underway. Based on current economic data the Fed's QE taper is expected to begin in September and come to a complete end by mid-2014. Thereafter the benchmark Fed Funds interest rate should remain at the current 0-0.25% until 2015 or until unemployment declines to 6.5%. The economy meanwhile showed steady improvement: Payroll growth has averaged close to 200,000 for the past 6 months. Consumer confidence is steadily rising, boosted by an improved jobs market, rising equity and house prices, and better credit conditions. The US economy grew by 1.8% in the 1st quarter and could grow by a similar rate in the 2nd quarter before accelerating in the 2nd half of the year as the fiscal drag of sequestration spending cuts and tax hikes abates. During the quarter the Fed upgraded its 2013 GDP forecast to 3.25%. Meanwhile, household and government finances are steadily improving. Households reduced debts in the 1st quarter by $110 billion while the Congressional Budget Office forecasts the budget deficit will decline to 3.4% of GDP by 2014 and to 2.1% in 2015. Standard & Poor's upgraded its outlook for US sovereign debt from "Negative" to "Stable" while Moody's announced a similar upgrade for US banks.

The UK economy avoided a dip back into recession with GDP growth of 0.3% in the 1st quarter amid stronger than expected growth in the services sector and a solid recovery in property prices and the construction sector. Purchasing managers' index (PMI) surveys were positive in May with service, construction and manufacturing all reporting higher activity. The Bank of England (BOE) expects GDP to grow 0.5% in the 2nd quarter and lifted its 2013 and 2014 forecasts from 0.9% to 1.1% and 1.8% to 1.9%. Meanwhile inflation is expected to subside after peaking at 3.1% later this year. The BOE has made inroads with its Funding for Lending

Scheme which has been extended to 2015 but more proactive policy may be introduced under new BOE Governor Mark Carney, which should help keep the economic recovery on track.

In the 1st quarter Eurozone GDP fell by 1.1% and leading indicators were weak, with the services PMI recording a 15th straight monthly contraction. The economy is expected to contract a further -0.5% in 2013. Overall Eurozone debt as a proportion of GDP is still rising at 96%, with Portugal 124%, Ireland 120% and Greece at 175%. However, austerity has hit its political limit and France, Netherlands, Spain, Portugal and Greece have been allowed to miss deficit targets. Although the region's problems are far from over with the 2014 European banking union plan only making slow progress, sovereign bond yields are subdued amid growing confidence that the worst is past. The European Central Bank (ECB) was proactive, cutting its interest rate by 25 basis points to 0.5% and ready to "act if required". The ECB also hinted at cutting the deposit rates on banks' excess reserves to below zero to encourage credit growth.

Japanese equities remain one of the best performing global equity markets despite a 20% correction in the 2nd quarter. The Bank of Japan's (BOJ) massive QE programme should double the monetary base over 2 years. Put in perspective this is equivalent to 1% of GDP per month, double the Fed's 0.5% equivalent. In support, Prime Minister Shinzo Abe has promised substantial fiscal and structural reforms, which should gain momentum following his coalition's Upper House election victory. So far "Abenomics" has provided solid results: Economic growth reached 4.1% in the 1st quarter driven by exports on the back of a weaker yen. Bank lending, household consumption and capital investment have also recovered strongly. However, the 10-year Japanese Government Bond (JGB) yield increased sharply over the quarter from 0.4% to 0.9% amid warnings from the OECD that Japan's massive debts (240% of GDP) need to be tackled. Some analysts are also concerned that equities have climbed too quickly with gains of 50% since last November. However, further gains are likely if the remaining Abenomics "arrows" hit target.

In the 2nd quarter the FTSE Asia pacific (ex Japan) declined by 8.5% unsettled by an economic slowdown in China, the prospect of Fed tapering and the impact of yen depreciation on Asian exporters. Growth forecasts in Malaysia and Thailand have been scaled back but are nonetheless impressive at 5% for 2013. The Philippines recorded 1st quarter growth of 7.8% making it the fastest growing Asian economy and rewarded with a sovereign debt upgrade. Emerging market funds have been hit by sizeable investor redemptions with the FTSE All-World Emerging Index falling 9.6% over the quarter. Equities suffered especially sharp corrections in Brazil, Russia and China. Although declining growth differentials with developed economies remain a concern for investors, emerging market valuations are more attractive following the correction, with valuations now some 20% below the long-term average.

We believe that the fundamental attractions of equities are gradually but steadily improving. Although equities could still react negatively to adjustments from unprecedented global monetary conditions, there has already been a substantial correction and growing acknowledgement of the adjustment ahead. Typically, policy tightening arises with an improving economic outlook. If better economic prospects do materialise, equities could strengthen further in the second half of 2013. Valuations are at or slightly below the long-term average and although the 4-year bull market in equities would suggest otherwise we are at the early stages of the economic cycle.