overberg asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Income Portfolios

GBP Sterling

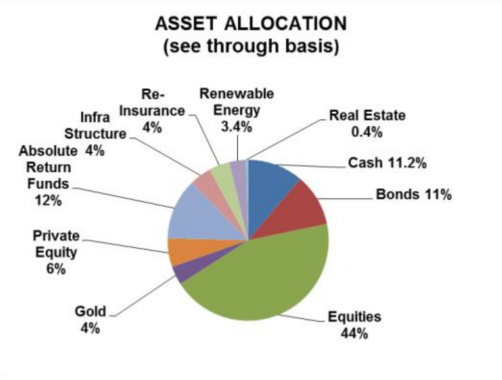
MAR 2016

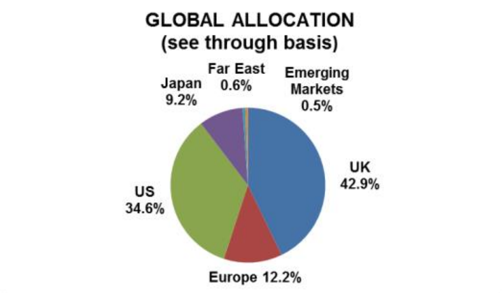
Technical Details

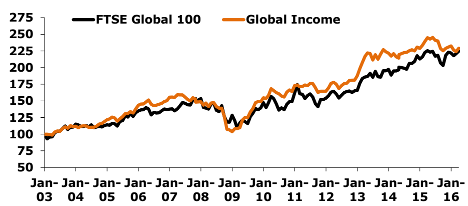
- **FSB** approved
- Base currency: **GB Pounds**
- Minimum investment**: USD $100,000 equivalent**
- Benchmark**: FTSE Global 100**
- Asset Allocation: **Flexible mix of closed-end funds, bonds and cash**

Investment Objectives:

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







(As calculated by Overberg 31 Mar 2016)

	Income %	Benchmark %
Annualised Total Return	6.45	6.30
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	1.66	4.22
2016 YTD	-1.47	1.32

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

Growth 2016	Growth %	Benchmark %
January	-2.73	-1.84
February	-0.99	1.40
March	2.30	1.80
April		
May		
June		
July		
August		
September		
October		
November		
December		

Annualised Income Yield	1.79%
Best 3 Months	10.40 6.78 6.54
Worst 3 Months	-15.41 -8.73 -4.34

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 2016

Global equity markets suffered one of their worst ever starts to the year with the MSCI World index falling -10% in the first two weeks. By mid-February the US equity market had fallen -15% to a two-year low marking the worst start for 15 years. Sentiment was dented by the Federal Reserve (Fed) which in December hiked interest rates for the first time in nine years. In January further devaluation of the Chinese yuan sparked fears of global deflation and the oil price slump to $26 per barrel put pressure on credit markets and ignited fears that the global economy was heading into recession. However, equity markets recovered from mid-February onwards in response to increased stimulus by the European Central Bank (ECB) and the Bank of Japan and a more "dovish" Fed which scaled back its interest rate tightening projection. As a result the US S&P 500 index eked out a gain of +1.1% over the first quarter (Q1), while other major markets tempered their losses. The UK FTSE 100 lost -1.1%, the German Dax -7.2%, Japan's Nikkei 225 -12.0% and the Shanghai index -15.1%. A more accommodating Fed prompted dollar weakness which boosted the oil and commodity price, helping emerging markets. The Brazilian and Russian equity markets were the best performers over the quarter each rising +15.9%.

The US economy fared better in Q4 last year than previously estimated. GDP expanded by 1.4% annualised higher than the earlier 1% estimate. The unemployment rate ticked up in March from 4.9% to 5.0% but for positive reasons due to improved labour force participation and still remains close to its lowest level since April 2008. Job creation is resilient and wage growth continued to outpace inflation. The housing market reflected stronger volumes and prices in the first two months of this year. However, most forward-looking indicators suggest that although trading conditions improved slightly in March, the underlying environment remains subdued. The Institute for Supply Management's manufacturing purchasing managers' index (PMI) had been stuck below the contractionary 50-level threshold for five straight months before inching back into expansion in March. The Fed left its key fed funds rate unchanged at its first policy meeting of the year, an about-turn on its December projection that there would be four 25 basis point rate hikes during 2016. The Fed felt that "global economic and financial developments" posed a risk to the US recovery, suggesting the pace of interest rate normalisation will be very "gradual". Although consumer inflation eased to 1% in February on lower energy prices the core measure of inflation excluding food and energy prices increased to 2.3% above the Fed's 2% inflation target, increasing the risk of the Fed falling "behind the curve". After outperforming last year the "FANG" stocks (Facebook, Amazon, Netflix and Google) have been disappointing. Since the start of the year Amazon is down -12%, Netflix -11% and Google has lost -2%. US equities are being affected by slowing global growth and the strong dollar. Walmart announced its first sales decline for 35 years. Overall S&P 500 earnings are expected to grow by just 3% in 2016 placing the index on an estimated 16x forward price-earnings multiple.

The UK experienced weaker economic conditions in the first two months of the year with business and consumer confidence affected by the approaching 23rd June referendum on Britain's continued membership of the EU ("Brexit"). The Brexit vote poses a risk to sterling and markets could be volatile in the run-up and indeed after the vote depending on its outcome. The trade-weighted sterling index has lost around -9% since November on Brexit fears combined with weaker economic data and a more dovish Bank of England (BOE). Interest rates have remained at 0.5% for seven years and any plans for monetary tightening continued to be postponed. The first rate hike is not expected before 2017 according to interest rate futures. Consumer price inflation increased in February to 0.3% and the core rate excluding food and energy prices increased to 1.2% but still a long way off the BOE's

2% target. In March the government's Office for Budget Responsibility (OBR) lowered its forecast for UK economic growth as a result of a weaker global outlook, reducing its 2016 GDP forecast from 2.4% to 2%. The Budget this year contained positive news for business lowering the corporation tax from 20% to 17% the lowest rate among G20 countries. Although equity valuations look demanding on a 15.2x price-earnings multiple this is distorted by high multiples in the oil and mining sectors which enjoyed their strongest rally since 2009. Other sectors are offering better value including the banking sector which fell by -18% in Q1 on concerns that negative interest rates will impact bank interest rate margins. However, UK markets may succumb to negative sentiment during Q2 in the run-up to the EU referendum.

The Eurozone recovery lost momentum in Q1 with the escalating refugee crisis, terrorist attacks in Brussels, mounting political uncertainty in Ireland, Spain, Portugal and Greece as well as the upcoming Brexit referendum all weighing on consumer and business confidence. Deflation remains a very real threat as consumer price inflation fell -0.2% year-on-year in February its first decline in five months. Core inflation excluding food and energy also fell to 0.8%. The ECB cut its 2016 inflation forecast from 1% to 0.1% and lowered its GDP growth forecast from 1.7% to 1.4% below the 1.6% achieved in 2015. As a consequence the ECB boosted its monetary stimulus extending the asset purchase programme from €60 billion to €80 billion per month and adding investment grade Eurozone corporate bonds to its list of eligible assets for quantitative easing. In addition the ECB cut its deposit rate further into negative territory to -0.4% and launched four new targeted longer-term financing operations (TLTROs) designed to encourage credit transmission. In spite of the latest monetary easing measures GDP growth is likely to be lacklustre in 2016 and equity market performance is being undermined by weakness in the banking sector due to the impact of negative interest rates on bank lending margins. During the quarter Germany's Deutsche Bank fell -34%, France's Societe Generale -24%, and in Italy Banco Monte Dei Paschi and UniCredit fell by -56% and -38%. With the weak bank sector the economy is struggling to move forward and the 2015 tailwind of a weaker euro and lower oil prices is starting to fade. However, Eurozone equities appear reasonably priced on an estimated 14.3x price-earnings multiple and earnings growth is expected to accelerate strongly during 2016 and 2017 as Eurozone-based companies are still at an early stage of the profit cycle with scope for significant margin improvement.

Japan's GDP contracted -1.1% in Q4 2015 and with economic conditions deteriorating further during Q1 may enter recession, defined as two consecutive quarters of negative growth. Industrial production declined sharply in February by -6.2% and the forward-looking purchasing managers' index (PMI) fell below the contractionary 50 level in March. During the quarter the Bank of Japan (BOJ) maintained its asset purchase programme at ¥80 trillion per annum but shocked the business and financial community by cutting its deposit rate into negative territory at -0.1% prompting a sell-off in bank shares and a decline in the broader equity market. The yen strengthened from ¥/$120.35 to ¥/$110.65 over the quarter undermining exporters and company earnings as well as the BOJ's 2% inflation target. As a consequence there is mounting speculation that the BOJ will increase the scope and scale of its quantitative and qualitative easing programme during Q2. In addition Prime Minister Shinzo Abe is expected to postpone the consumption tax increase and implement a fiscal stimulus package to boost growth. Despite sluggish economic growth Japanese equities offer a good investment opportunity helped by a marked change in corporate culture and rising share buybacks and dividend pay-outs. Japanese companies are sitting on massive cash hoards estimated at ¥110 trillion of which a significant portion is likely to be returned to shareholders over coming years. Rising profit margins and shifting corporate governance combined with continued economic reforms, central bank and fiscal stimulus provide a solid foundation for equities which remain attractive on a 12.4x estimated forward price-earnings multiple.

Far East and emerging markets provided the best equity market returns during Q1 helped by a fall in the trade weighted dollar and a recovery in oil and commodity prices. Despite Brazil being mired in deep recession and political crisis its equity market was the world's top performer with a gain of +15.9%. However, although emerging markets appear reasonably valued on an estimated 11.3x forward price-earnings multiple the rating is no lower than it was five years ago and there are risks that recent dollar weakness could reverse. The commodity rally may also be short-lived in response to a protracted slowdown in China which buys around 50% of the world's base metal production. China's industrial production growth slowed in February to 5.4% year-on-year its slowest pace since November 2008 and likely to fall further as the government continues with supply-side reforms to reduce industrial over-capacity. However, emerging markets should not necessarily be viewed collectively. India is relatively insulated from China's slowdown, its economy is expected to grow an impressive 7.6% in 2016 and with inflation having fallen below the Reserve Bank of India's 7% target to 5.2% there is ample scope for further monetary stimulus.

The past month's economic statistics suggest the world economy has lost further momentum since the start of the year supported by recent reports that the IMF will soon downgrade its forecasts for global GDP growth in 2016. Although global equities have recovered from one of their worst ever starts to the year volatility may return. Global economic growth remains below trend, the recovery in oil and commodity prices has unstable foundations and the introduction of negative interest rate policy in the Eurozone and Japan is a worrying development for the banking sector. While the Fed has pulled back from its original interest rate normalisation trajectory there are still likely to be one or two 25 basis point rate increases during the year which will have ramifications for global liquidity. We are confident that the defensive positioning of our portfolio remains correct, enabling an outperformance of any downtrend in equity markets through active diversification across alternative asset classes. These asset classes include bonds, absolute return strategies, public-private infrastructure, renewable energy, reinsurance and most recently gold and private equity.