



GLOBAL BRIEF

Second Quarter 2015



Editorial Comment

Mike Borland, Director, FIRSTGLOBAL GROUP

What an interesting Quarter it has been! Investment professionals have had ample reason to reach for the antacid.

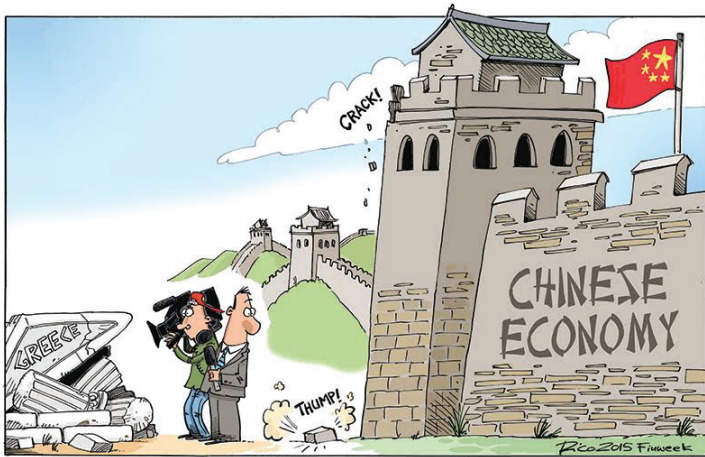


Image source: Finweek

Globally, we see the Chinese Government and its ability to direct and manage the Chinese economy put to the test; in the European Union, the high-minded and vaguely Utopian aspirations gave way to an arch display of realpolitik; and the Greeks and their recently elected prime minister, Alexis Tsipras, received a brutal financial drubbing at the hands of Germany and their other Eurozone partners. The multilateral nuclear deal with Iran has investors wondering how oil prices will be

impacted. In the United States meanwhile, the perennial uncertainty as to when the US Fed will raise interest rates continues to bedevil investors. Fed chair Janet Yellen has indicated that this will be before year end, assuming the US economy remains on track, but similar signals have come from the Fed over the past years and rates have remained close to zero.

Locally we have seen SARB announce an increase in the Repo rate by 0,25% to 6% with effect 24th July. "The SA Reserve Bank will be sensitive to the weak economy when considering further interest rate increases," says Governor Lesetja Kganyago. We have also seen continued fragility in our Rand, but better than expected trade balance figures.

Markets have seen a tremendous divergence in fortunes between sectors and even within sectors, while asset classes switch from loser to winner regularly. We are confident that our portfolio managers are steering a steady course in the face of significant crosswinds.

In this Edition of Global Brief we look at "What is happening to South Africa", we consider the hazards of speculative investing and we identify the "Bright Spot" in the current SA Budget. Warren Buffet provides some interesting, yet simple, words of wisdom and we include our usual update on our local and offshore investment funds. Enjoy the read.

Equity Market Weakness

Odyssey Capital Managers

In November 2014 we wrote a report entitled "What is Going on?". This after a 10% fall in the JSE. And this time around the JSE is down 8% from it's recent peak. So it is

appropriate to start with the same paragraph that appeared in the Wall Street Journal at the end of last year:

"Most investors understand that stocks produce superior long-term returns, but at the cost of higher volatility. Yet every time - every single time - there's even a hint of volatility, the same cry is heard from the investing public: "What is going on?!" Nine times out of ten, the correct answer is the same: Nothing is going on. This is just what stocks do. Since 1900 the S&P 500 has returned about 6% per year, but the average difference between any year's highest close and lowest close is 23%."

This time the Equity headwinds have come in the form of:

1. A strong dollar, continuing to put pressure on commodity prices;
2. Continued fears over the timing of US interest rate hikes (a similar interest rate concern in SA as Eskom and public wages are fuelling inflation);
3. Mixed data out of China, with a definite bias to the downside; **and**
4. Some very specific SA factors such as Eskom, continual GDP downgrades, strike season looming, and the big guerrilla being the potential for downgrades from Ratings agencies.

What is happening to South Africa?!

This cry has been echoed around dinner tables, pubs and meeting rooms around the country!

As noted in point 4 above there have been some worrying headlines recently. In fact if you have recently come in from the wilderness and only had SA newspapers to go by, you would be about to slit your wrists...

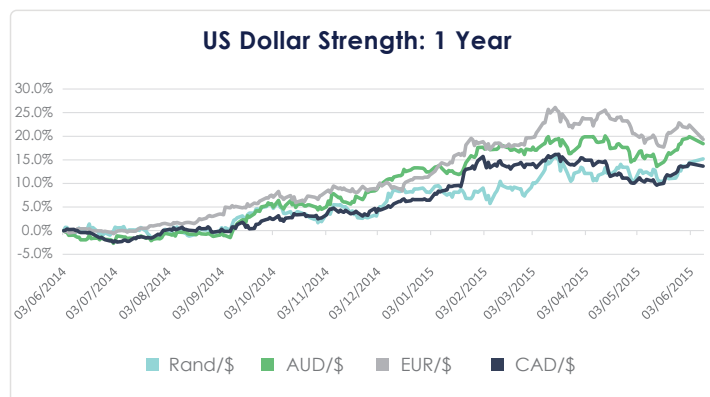
But South Africa still remains a G20 economic nation, and can never escape the global economic winds that blow from time to time. It is often important to reflect on how we look on a global stage.

It is also very important to remember that the vast majority of the SA Equity market is driven by Offshore factors – so dual-listed stocks like SABMiller and BAT, commodity prices for the mining sector, massive offshore expansion for the likes of Aspen and Steinhoff... etc. The JSE is very liquid, open, and corporate governance remains strong.

The Rand vs Other Currencies

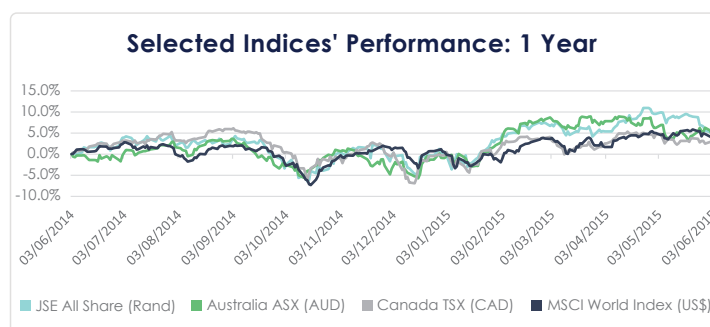
The Rand has weakened by some 15% against the US Dollar over the past 12-months. But as we have noted many times, this has been as much a reflection of US\$ strength rather than Rand weakness.

In fact the Rand has been fairly consistent against other commodity currencies (and the Euro). And if we were to put other Emerging Market currencies like the Brazilian Real and Turkish Lira on the chart, the Rand has been even stronger!



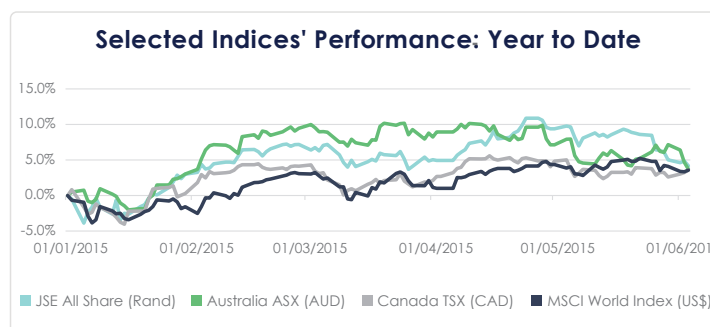
And what about the South African Equity Market?!

The JSE is off some 8% relative to its recent high of 55,355 (it peaked at the end of April 2015). But again, it is bang in line with similar Equity markets in other regions.

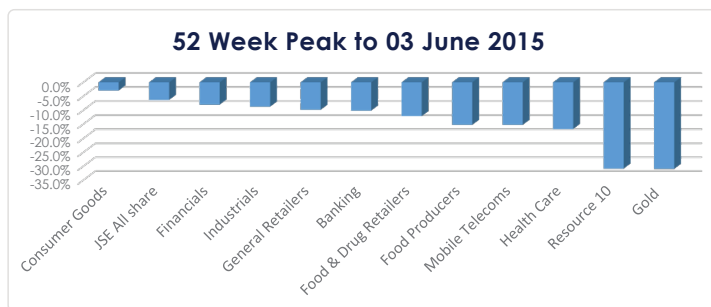


And looking over the past few months (when the bout of weakness has been more profound), again the SA market ends at almost exactly the same point as other markets - up about 4% year-to-date.

The one observation is that the SA market has been more volatile than the other markets. So the peaks have been higher and hence the recent sell-off has felt worse.



And below is the chart of the sector performances relative to the recent peak. Again it is worth noting that "SA Inc" or SA's economically sensitive sectors have not been the worst performers. It has been gold, resources and healthcare that have been poor. The one sector to outperform the JSE has been the large dual-listed consumer goods shares like SABMiller and British American Tobacco.



CONCLUSION:

A strong dollar and the potential of rising rates have been the reasons for equity underperformance in SA and most other areas of the world. A strong dollar has kept commodity prices low, while SA's inflation and interest rates remain a risk - and that is why we have seen a recent sell-off in "Interest Rate Sensitive" sectors like retailers and property names. As such we retain our Underweight stance within Resources and Retailers, and still prefer the larger high-quality Industrial names.



Crystal ball investing – Speculation leads to investment loss

Julie Macleod-Henderson, Head of Retail Investment, Foord Asset Management

The term "crystal ball investing" appropriately invokes images of smoke and mirrors, charlatanism and faux clairvoyance. None of these has any place in investment practice.

This is according to Julie Macleod-Henderson, Head of Retail Investment, for Foord Asset Management in KwaZulu Natal. Macleod-Henderson says that investment has a long-term perspective, the eventual outcome of which is almost certain, whilst speculation has a short-term perspective and an inherently uncertain outcome. The distinction is important.

"While both modes of activity are forward-looking, speculation often involves guesswork, conjecture and an absence of convincing evidence, whereas investment is grounded in a pragmatic assessment of the facts and a rigorous evaluation of the probable scenarios established by the factual background."

According to Macleod-Henderson, the "crystal ball" myth might manifest more readily in the asset allocation process. "Whether or not to have exposure to one industry or another is partly a function of future economic conditions. With perfect foresight (that perennial impossibility), an investor might know if a good thing will keep getting better, or a bad thing worse. Moreover, such perfect foresight might also indicate turning points: when a good thing turns bad, or a bad thing turns good."

But perfect foresight is moot.

"The very danger of "crystal ball investing" is that it seeks to divine an advantageous future akin to the products of perfect foresight. This is naïvely inappropriate. The identification of advantageous outcomes can only be predicated on what is known, what has been experienced, and the probabilities of particular outcomes. More particularly, essential in the assessment of future scenarios is a meticulous consideration of the risks of being wrong, the consequences thereof, and the measures necessary to mitigate and manage such risk."

Some might argue that certain investment managers are more "intuitive" than others in their assessment of future scenarios but this should hardly be construed as support for the "crystal ball investing" mindset.

"Intuition is nothing more than the ability of the human brain to process vast quantities of information quickly; it also draws on previous experience to contextualize information. As with any method of prognosis, it is also not fool proof – nor does it claim to be. But as luck seems to improve with practice, so intuition might improve with experience," says Macleod-Henderson, who cautions that the very notion of investing being predicated on a "trend" is anathema.

"Momentum of itself is not a successful investment strategy. Time and again, through all manner of investment cycles and over the fullness of a long-term investment horizon, the practice of buying undervalued assets and selling them when they are priced well above their fair value, prevails. It is the discipline of, often, acquiring that which might appear out of favour and selling that which is favoured."

"If anything, a successful long-term investment philosophy eschews trends. Without doubt, investing successfully takes good judgement – the better your judgement, the more successful you will be as an investor. The fact that good judgement is in short supply amongst market participants leads to market inefficiency and volatility. This increases opportunities for those with longer time horizons and better judgement of the probabilities of a range of future outcomes."

Macleod-Henderson concludes that "crystal ball investing" is neither an art nor a science. "In investing, there is no scope for the triumph of hope over experience. Rather, investing involves a rational and pragmatic assessment of the facts, combined with a sensible and regular re-assessment of those facts and the probability-weighted assumptions underpinning future scenarios. Alpha is not earned by optimistic guesswork, but by relentless analysis and risk management."



The SA Budget: a bright spot

Arthur Kamp, Investment Economist, Sanlam

Nene takes action to boost income

A lot of emphasis has been placed on the income side of the Budget, in other words, on the weakness of income growth and hence government's revenue collection. Given an expected revenue shortfall for 2014/15 (which did not materialise!) and downward revisions to real growth forecasts for the next three years, Minister Nhlanhla Nene announced additional revenue-raising measures in February 2015, which included a sharp increase in the fuel levy and adjustments to top marginal income tax rates.

But it may be only the beginning. The downward revisions to future growth forecasts suggest further revenue-raising measures are likely next year. In addition to the implementation of a carbon tax, options being considered by the National Treasury include the introduction of wealth taxes and/or changes to estate duty and VAT.

Treasury is tightening the purse strings

On the expenses side of the Budget, the high level of government expenditure relative to the size of the economy is a concern. Main Budget spending amounted to R1.12 trillion (provisional data) in fiscal year 2014/15 (an estimated 28.9% of GDP). Ultimately, whether or not the National Treasury maintains control over spending will prove decisive in its quest to halt the increase in the government's debt ratio.

The good news is that the Treasury engineered a sharp slowdown in the growth of real government spending in recent fiscal years. Indeed, provisional data shows Main Budget spending for fiscal year 2014/15 was R21 billion lower than the original budget of R1.14 trillion announced in February 2014. Further, the Treasury implemented measures in 2015 to cut spending relative to previous estimates for fiscal years 2015/16 and 2016/17, despite the recent wage increases negotiated in favour of government employees.

Determined to balance the Budget

On balance the Treasury appears intent on sticking to its deficit reduction plan. In February, the minister indicated the Main Budget deficit was expected to decline to 3.2% of GDP by 2017/18 from 4.7% of GDP in 2014/15. The Main Budget primary balance (revenue less non-interest spending) was expected to improve from -1.7% of GDP in 2014/15 to 0.0% in 2017/18.

More recent data releases show the Main Budget and

Primary Budget deficits for 2014/15 are likely to be significantly smaller than initially thought, though – perhaps as low as 4.3% and 1.2% of GDP respectively. That's a good start.

Uncertainty remains

A lot of work remains and risks abound, including uncertainty around financing for National Health Insurance. Also, in the absence of a lift in economic growth, the budgeted acceleration in real government spending in 2018/19, following consolidation in the next two years, does not seem feasible.

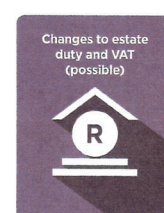
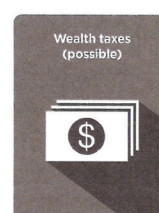
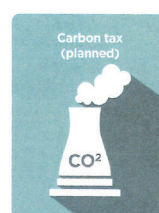
There has been a great deal of speculation as to whether or not South Africa's government debt instruments will eventually be downgraded to junk status. In my view, it's not possible to predict this. All we can do is interpret the actual data as it is released.

At least the better-than-expected fiscal outcome for 2014/15 represents an important first step towards the goal of stabilising government's gross debt ratio at around 50% of GDP within the next few years.

Thereafter, the challenge is to reduce the debt ratio to create fiscal space for the next economic downturn – but first things first.

Budget for SA Inc

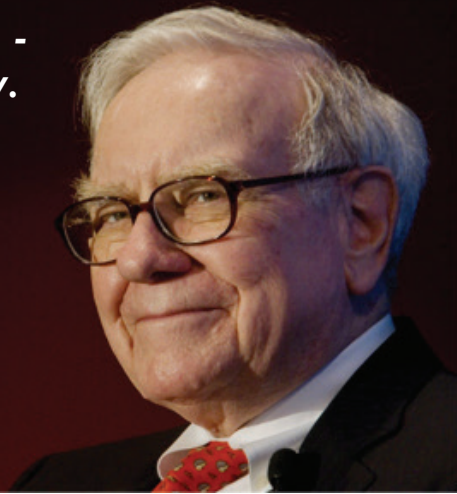
	INCOME	EXPENSES
The Concern	<ul style="list-style-type: none"> Weak income growth Expected revenue shortfall for government for 2014/15 Downward revisions for growth in next 3 years 	<ul style="list-style-type: none"> Government expenditure too high for size of the economy Uncertainty around financing for NHI
Actions Taken	Increase in: <ul style="list-style-type: none"> Fuel levy Top marginal income tax rates 	Measures implemented to cut spending relative to previous estimates for 2015-2017
The Good News	The expected 2014/15 shortfall did not materialise!	Treasury engineered sharp slowdown in government spending growth



Invaluable Advice

Warren Buffet

“Look for three things in a person - intelligence, energy and integrity. If they don't have the last one, don't even bother with the first two.”



Offshore Funds

Hennie Fourie, Director, FIRSTGLOBAL GROUP

Focus on the FGAM Global Growth Fund

The FGAM Global Growth Fund was flat in the second quarter compared to a benchmark return of -0.3%. Over 12 months the Fund has underperformed its benchmark by 0.7%. The median manager in the Fund's peer group fell by 0.2% over the quarter, with the result that the Fund finishes in the second quartile relative to peers over this most recent period. The Fund is in the third quartile over 1 year, the first quartile over 3 years and the second quartile over 5 years, with an annualised return of 7.8% in US dollar terms.

The Fund remains overweight to global equities, global property securities and cash, with a corresponding underweight allocation to global bonds. Global bonds returned -1.2% in US dollar terms over the quarter, consistent with our core thesis that these assets are coming to the end of a multi-decade bull market and offer poor value to investors from here on out. Global equities returned 0.5%, which again supported our decision to hold an overweight allocation to this asset class. Property securities, on the other hand, fell by 5.0% over the period and this pullback in prices led the Fund to underperform its benchmark.

From a manager selection perspective, Sands, Momentum, Contrarius and Orbis all outperformed the

global equity market over the quarter. First State underperformed with a return of -2.6%, after listed infrastructure securities sold off. Listed infrastructure securities have attractive risk-return characteristics that are complementary to the blend of equity managers we hold in the equity component of the Fund. Along with property securities, infrastructure securities offer relatively high and stable yields compared to general equities.

Equities of this nature underperformed over the period alongside bonds, as yields rose – rising yields, other things being equal, translate into poor performance for income paying assets. Property securities and infrastructure securities have attracted investors looking for alternative sources of income in the current low interest rate environment.

No major changes were made to the Fund over the quarter. Markets have drifted up without undergoing a significant rerating in most cases, so we have not seen the need to make significant alterations to the investment policy of the Fund. The Fund continues to hold a balanced mix of equity strategies with complementary characteristics.

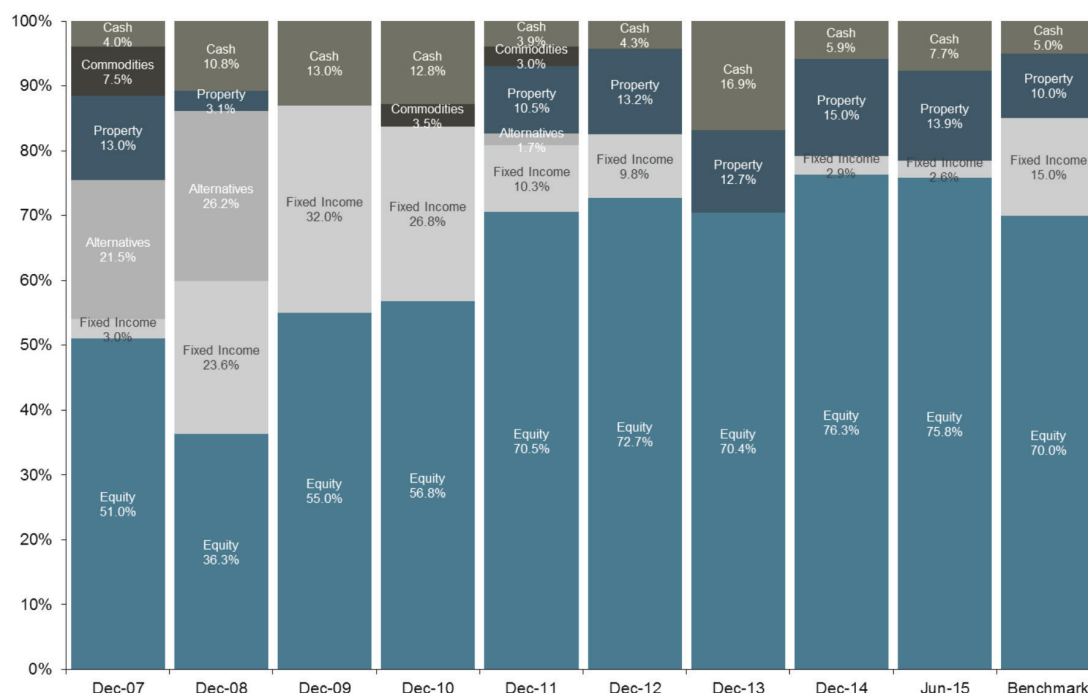
Within the fixed income component of the Fund we remain underweight global bonds based on our

assessment of current valuations. Further, we retain a reasonable cash balance at present as it represents modest value compared to bonds and can be put to

work as and when opportunities present themselves.

Source: Morningstar / Bloomberg. June 2015. Past performance is not indicative of future returns.

FGAM Global Growth: asset allocation



FIRSTGLOBAL Asset Management: Investment Update

Klaas Venter, Chief Investment Officer, and Adri Viljoen, Investment Analyst



The **FG IP Jupiter Income Fund of Funds** returned 3.4% year to date and 6.3% over the past 12 months, outperforming the peer group average over both periods, while matching the Alexander Forbes Short Term Fixed Interest Index 12-month performance. The fund remains in the top half of the peer group (2nd quartile) over all measuring periods. The Cadiz fund manager managed to sell some of the assets in the ABIL Retention fund during the review periods and the proceeds were reinvested into the Cadiz Absolute Yield Fund. No further changes were made to the underlying managers. The Prescient fund is the top performing underlying fund in 2015, having returned 4.1% year to date.

The **FG IP Venus Cautious Fund of Funds** returned 4.8% year to date and 9.0% over the past 12 months, outperforming the benchmark peer group average return of 3.8% and 7.2% respectively over both periods. The fund ranks in the top quartile over 1 year, 5 years and since inception. Exposure to listed property securities added to returns over the past year. No changes were made to the underlying funds during the review period, although the allocation to income funds

was increased at the margin at the expense of growth assets. The fund is well diversified across all asset classes.

The **FG IP Saturn Flexible Fund of Funds** returned 4.6% year to date and 7.3% over the past 12 months, matching the benchmark peer group average return of 4.2% and 7.3% respectively over both periods. The fund is in the top quartile of peers over all rolling five-year periods since inception as well as being the top performing fund in its peer group since inception. Returns among the underlying funds were mixed. The 36One and Truffle funds returned in excess of 10% during the past year, but the Coronation and Investec funds underperformed cash. Exposure to the Rezco and Truffle funds were increased during the review period at the expense of the larger Investec and Coronation funds.

The **FG IP Neptune Growth Fund of Funds** returned 4.2% year to date and 6.0% since inception in September 2014, matching the benchmark peer group average return of 4.4% and 5.7% respectively over both periods. Two new offshore funds were added during the review

period. The Old Mutual Global Equity Fund is a 5-Plexcrown fund, managed from Old Mutual's London office. This fund aims to give broad exposure to global equity markets. The Catalyst Global Real Estate PSG Feeder Fund invests in global listed property, predominantly in developed markets. The fund maintains an overweight position to cash as we use pull backs in markets to deploy the capital.

The **FG IP Mercury Equity Fund of Funds** 6.2% year to date and 7.6% over the past 12 months, outperforming both the benchmark FTSE/JSE All Share Index and the peer group average over both periods. There are now more than 140 general equity funds to choose from in the South African market. The Mercury fund is a good entry point to gain broad exposure to the South African equity market. Resources continue to severely underperform the broader market. No changes were made to the underlying funds during the review period.

The fund retains a small tactical position to global equities through the Coronation Optimum Growth Fund.

The **FG IP International Flexible Fund of Funds** returned 7.0% year to date and 13.4% over the past 12 months, outperforming both the composite benchmark as well as the peer group average return over both periods. The local currency was volatile during the review period, but ended the 2nd quarter of 2015 only slightly weaker against the US dollar. Global assets struggled in USD terms, with equities, bonds and listed property ending the quarter in negative territory. The fund retained its underweight position to global bonds, which is at high risk of experiencing capital losses as yields move to more normal levels over time. No changes were made to the underlying funds during the review period.

Quarterly Performance of general indices

Index	Asset Class	3Q 2014	4Q 2014	1Q 2015	2Q 2015	Year to date 2015*
STEFI Composite Index	Local Cash	1,50%	1,55%	1,53%	1,56%	3,11%
Beassa ALBI Total Return	Local Bonds	2,21%	4,25%	2,99%	-1,40%	1,55%
FTSE/JSE SA Listed Property (Total Return)	Local Property	7,22%	11,08%	13,69%	-6,23%	6,61%
FTSE/JSE Africa All Share (Total Return)	Local shares	-2,13%	1,36%	5,85%	-0,20%	5,63%
JP Morgan World Govt Bond index (USD)	Global Bonds	-3,29%	-0,91%	-1,79%	-1,68%	-3,43%
EPRA/NAREIT Global Index (USD)	Global Property	-5,11%	7,16%	3,37%	-7,62%	-4,51%
MSCI AC World (USD)	Global Shares	-2,77%	0,06%	1,83%	-0,29%	1,53%
US Dollar/South African Rand (+ weaker, - stronger)	Exchange Rate	6,20%	2,38%	4,75%	0,17%	4,93%

*(Return until 30 June 2015)

Performance and quartile rankings in sector for periods until 30 June 2015

Index	Year to date	6 Months	1 Year	3 Years*	5 Years*
FG IP Jupiter Income FoF	3,40%	3,40%	6,25%	6,97%	7,52%
SA Multi Asset Income Category Average	3,26%	3,26%	5,68%	6,52%	7,00%
STEFI Composite Index	3,11%	3,11%	6,27%	5,65%	5,77%
FG IP Venus Cautious FoF	4,74%	4,74%	9,05%	11,72%	11,95%
SA Multi Asset Low Equity Category Average	3,78%	3,78%	7,23%	10,84%	10,47%
FG IP Saturn Flexible FoF	4,57%	4,57%	7,30%	14,48%	13,80%
SA Multi Asset Medium Equity Category Average	4,18%	4,18%	7,26%	13,00%	11,92%
FG IP Neptune Growth FoF	4,15%	4,15%	not started	not started	not started
SA Multi Asset High Equity Category Average	4,42%	4,42%	-	-	-
FG IP Mercury Equity FoF	6,16%	6,16%	7,63%	16,01%	17,05%
SA Equity General Category Average	4,80%	4,80%	5,49%	16,72%	15,87%
FTSE/JSE Africa All Share (Total Return)	5,63%	5,63%	4,79%	18,95%	18,04%
FG IP International Flexible FoF	6,98%	6,98%	13,42%	22,52%	15,40%
Foreign - Multi Asset - Flexible Average	6,18%	6,18%	10,75%	21,88%	16,61%
Composite Benchmark	4,35%	4,35%	10,01%	23,80%	22,67%
*Data longer than 12 months are annualised	1 st quartile	2 nd quartile	3 rd quartile	4 th quartile	

Asset Allocation as at 31 May 2015

Fund	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	2%	20%	73%	5%
FG IP Venus Cautious FoF	17%	9%	15%	40%	21%
FG IP Saturn Flexible FoF	37%	8%	14%	17%	24%
FG IP Neptune Growth FoF	35%	7%	4%	38%	16%
FG IP Mercury Equity FoF	84%	3%	0%	6%	8%
FG IP International Flexible FoF	0%	0%	0%	6%	94%

Collective Investment Schemes are generally medium to long term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the manager. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Fund of funds and feeder funds invest in portfolios of other Collective Investment Schemes that levy their own charges, which could result in a higher fee structure for the fund of funds. The Manager retains full legal responsibility for the Fund, regardless of Co-Naming arrangements. Transaction cutoff time is 14:30 daily. Each portfolio may be closed for new investments. Valuation time is 15:00 (17h00 at quarter end) and 20:00 for fund of funds and

certain funds with significant investments in CIS. Prices are published daily and available in newspapers countrywide, as well as on request from the Manager. IP Management Company (RF) Pty Ltd is the authorised Manager of the Scheme – contact 021 671 1650 or clientservices@ipmc.co.za. Standard Bank is the trustee / custodian – contact compliance-IP@standardbank.co.za. Additional information including application forms, the annual report of the Manager and detailed holdings of the portfolio as at the last quarter end are available, free of charge, from clientservices@ipmc.co.za. IP Management Company is a member of ASISA. Financial Advisor fees as agreed between the Investor and the Advisor may apply and payment to the Advisor will be facilitated on behalf of the Investor. A statement of changes in the composition of the portfolio during the reporting period is available on request.

Members of the FIRSTGLOBAL GROUP

PRETORIA:

FIRSTGLOBAL Capital (Pty) Ltd

John Swart, Jan Labuschagne & Kobus Venter
Tel: 012 460 5007
E-mail: jrs@firstglobalcapital.co.za,
jhl@firstglobalcapital.co.za
and kventer@firstglobalcapital.co.za

Investhouse International (Pty) Ltd

Gideon Knoetze & Jasper Lindeque
Tel: 012 460 9464
E-mail: investhouse@firstglobal.co.za

DURBAN:

Borland Financial Services Group (Pty) Ltd

Mike Borland & Sarah Drake
Tel: 031 202 9113
E-mail: mborland@bbfs.co.za
and sdrake@bbfs.co.za

Harcourt Martens & Associates (Pty) Ltd

Sandy Aitken
Tel: 082 576 2371
E-mail: sandy@hma.co.za

JOHANNESBURG:

Bear Vision Investment Services (Pty) Ltd

Klaas Venter & Reinette Venter
Tel: 011 431 1201
E-mail: klaasv@global.co.za
and bearvision@global.co.za

FIRSTGLOBAL Investment Counsel (Pty) Ltd

Hennie Fourie
Tel: 011 782 1200
E-mail: henniefourie@firstglobal-ic.co.za

Finleaks (Pty) Ltd

Jacques du Plessis
Tel: 011 552 7345
E-mail: jaduplessis@global.co.za

Investhouse International (Pty) Ltd

Gideon Knoetze & Jasper Lindeque
Tel: 011 728 0200
E-mail: investhouse@firstglobal.co.za

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FIRSTGLOBAL Capital (Pty) Ltd

Ernst Beukes, Jaco Louw
& Riaan Kemp
Tel: 011 476 0676
Email: elb@firstglobalcapital.co.za,
jlouw@firstglobalcapital.co.za
and riaan@firstglobalcapital.co.za

CAPE TOWN:

FIRSTGLOBAL Wealth Management (Pty) Ltd

Jacques Hattingh, Hennie Fourie &
PG Engelbrecht
Tel: 021 914 8701
E-mail: jacques@firstglobal.co.za,
henniefourie@firstglobal-ic.co.za
and pg@firstglobal.co.za

RICHARDS BAY:

Harcourt Martens & Associates (Pty) Ltd

Mike Harcourt
Tel: 035 789 8525
E-mail: mharcourt@hma.co.za

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