investment update

AUTUMN 2006

25 YEARS ON

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The future is a diversified multi-asset approach

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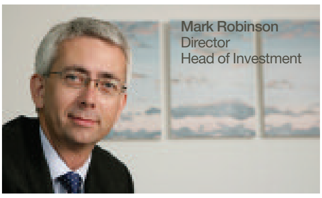
A bright long-term outlook

IMPORTANT MILESTONES

Large companies making a comeback

BERRY



It seems extraordinary to me that twenty five years ago this month I left the comfort and safety of one of the City's most respected investment management companies to set up Berry Asset Management. Looking back, the extent to which the business proposition was, at best, centred on a wing and a prayer, never really ceases to amaze me. We had hardly any clients, no revenue stream, a very modest office, and, if I remember rightly, no telephone for several weeks. Those were the days when a new telephone line from BT involved a six month wait.

But we were lucky: in the spring of 1982 a golden era for equity investment commenced, which has continued largely unabated ever since. There have been some upsets along the way, such as the crash of 1987, but a quick glance at a long-term twenty five year chart of global equity markets show these as not much more than minor blips.

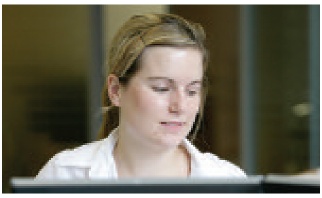
In an industry which has changed beyond recognition since 1981, many key characteristics of this firm remain unaltered: we continue to concentrate all of our efforts on private client portfolio management; we continue not to be involved in general financial planning; we continue to prefer not to manage funds of our own, thus avoiding any conflicts of interest. We strive all the time to exceed the expectations of our clients. As has always been the case, our clients are generally referred to us by other professional advisers.

As Henry Ford neatly put it:
"You can't build a reputation on what you are going to do."

He was right. Furthermore, a firm's reputation depends on a daily, unceasing, attention to detail and getting things right. This has been our focus for the last twenty five years, and will continue to be so.

Jamie Berry October 2006

OVERVIEW



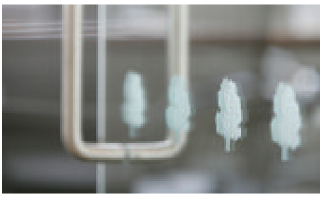
There has been plenty of soul searching for financial markets to cope with during the summer months, but it is pleasing to see some confidence starting to return; several markets concluded the third quarter of 2006 on a much better note than they ended the second quarter. However, taking the last six months as a whole, the UK stockmarket has seen only a very modest rise of just over 1% including dividends, whilst global stockmarkets have fallen by 3.2% in sterling terms, as measured by the FTSE World Index. Falls in the Japanese market and the US dollar have contributed to the global stockmarket decline of the past six months. Over the slightly longer period of one year, returns from various global stockmarkets are much healthier, largely due to the still strong momentum that was being experienced in late 2005 and earlier this year.

"…one year returns from various global stockmarkets are much healthier."

Mark Robinson

WHERE TO NEXT?

"…multi-asset approach which reflects the future rather than the past is as important as ever"



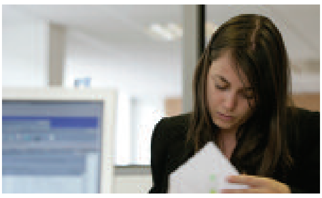
For now though, the one question on everyone's lips is how soft or hard the US economic landing will be. Hopefully, the swift intervention of central bankers and orderly moderation in energy prices can secure the 'Goldilocks' scenario of the US and other economies growing neither too hot nor too cold. At this juncture we seem to be on track for an orderly slowdown, but a number of things still need to fall into place for the recent renewed market confidence to be maintained.

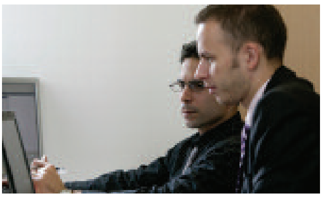
Whatever the challenges are that lie ahead, most equity markets remain underpinned by some solid fundamentals including healthy corporate earnings and dividends, strong balance sheets, and attractive valuations. Merger and acquisition activity also continues apace. The backdrop for fixed interest and property markets appears to be improving as the interest rate tightening cycle comes to an end. We are therefore reasonably optimistic about the prospects for making further gains over the coming twelve months.

However, at the risk of repeating ourselves, the need to have a diversified, multi-asset approach which reflects the future rather than the past is as important as ever, and this is what we strive to achieve when constructing client portfolios. As we have said on previous occasions this year, the super-normal returns from equities that we have experienced since 2003 are unlikely to be repeated for some time: we must therefore get used to more modest returns in a lower growth world.

"…the 'Goldilocks' scenario of the US and other economies growing neither too hot nor too cold."

ASIA & EMERGING MARKETS – A BRIGHT LONG TERM OUTLOOK





Our commitment to Asian and emerging economies is still very low in portfolios, as we want to be more certain about the impact of a slowing US economy. But over the medium to longer term the outlook for these areas does appear to be bright and we expect to increase our allocation accordingly. Over the next fifty years it is quite possible that the size of today's emerging 'E7' economies (the four 'BRIC' economies of Brazil, Russia, India and China, plus Indonesia, Mexico and Turkey) could easily overtake those of the current G7. India, for example, is expected to have the fastest growth rate in its working population of any major economy during this time period, whilst China's economy is expected to overtake that of the US in purchasing power terms in less than ten years from now.

> "…China's economy is expected to overtake that of the US in purchasing power…"

It is not easy to see precisely how the transfer in economic momentum will be played out, but there will undoubtedly be investment opportunities along the way. For us and our clients, the changes are likely to challenge current thinking on global asset allocation. The biggest challenge, however, is probably for western companies, which will increasingly need to modify their business models if they are to continue to compete on the 21st century stage. It is quite possible that China and India will become the world's biggest economies, just like they were in the mid-19th century before the West's technological and free enterprise advantages took hold. But whether the Chinese consumers of tomorrow will be buying their groceries at the Shanghai branch of Sainsbury's or from some indigenous retailing giant remains to be seen.

IMPORTANT MILESTONES

Leaving aside currency issues and the fact that many market indices today are very different in their make up than they were in the early days of this new century, a number of important milestones have been reached in the last few days of the third quarter. In London, the FTSE 100 Index closed above the psychologically important 6,000 point mark, and in New York, the Dow Jones Industrial Index has now surpassed its TMT-boom peak of 11,822 points last seen in January 2000. Neither of these indices is a particularly good representation of underlying economic strength (almost 50% of the FTSE 100 Index, for instance, is weighted towards the Banks, Oil & Gas and Pharmaceuticals sectors, and the Dow Jones Industrials Index covers just thirty large-cap stocks, only around a third of which are above their 2000 peak), but the message it sends out is a more upbeat one, particularly at a time when there is so much talk about a global economic slowdown. What these milestones also show is that large companies are beginning a well-deserved renaissance, having been eclipsed by the strong performance of mid and small-sized companies for some time. This is increasingly reflected in the portfolios under our management.

Winner
Image & Reputation
– Boutiques
PAM Awards 2006

Shortlisted
Investment Performance
– Balanced
PAM Awards 2006

Shortlisted
Quality & Clarity of Reporting
PAM Awards 2006

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