investment update

WINTER 2007

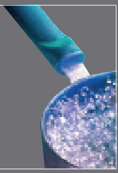
THE NEW MILLENNIUM

A bad start but then…

A LOOK BACK AT 2006

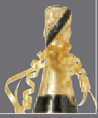
How the year is shaping up

PROPERTY – CLOSE TO BOILING POINT?



Is it over-heated?

NEW YEAR'S RESOLUTION



Give your financial health a check-up

BERRY

The new millennium – so far, so good

Investors will not have forgotten that the millennium got off to a bad start, with the collapse of the dot.com boom and the economic difficulties immediately after September 11th 2001. But we have now had almost four years of very favourable conditions and returns from global equity markets. A huge wave of cash has extended the rally into other asset classes, driving prices up in bonds, commodities and property. Certain markets still have some way to go to attain their previous highs, but the progress made over the past few years has been very encouraging. However, the longer any bull market goes on, the more difficult it becomes for us to accept that it will continue. Climbing this so-called 'wall of worry' is an international preoccupation.

Because we can look back in history and see what has happened in other, similar economic and market cycles, our natural reaction is to think that the same will be repeated. Furthermore, our instincts tell us that the higher markets rise, the greater the probability that the next move will be down. However, whilst there are some parallels with history, no two cycles are the same and it is for this reason that we must gather the current facts and consider each one on its own merits. When we do this, it looks as though we will have yet another good year from financial markets. We accept that there are some hot spots around which we must navigate, but fundamentally it looks as though policymakers have got it about right and that we are heading for a fairly organised and synchronised global economic slowdown. Although the business cycle may be entering a more mature phase, generally low stockmarket valuations, reasonable earnings growth, continued M&A activity and positive liquidity are supportive factors.

It is quite likely, however, that 2007 will see periods of instability as various markets adjust to slower profits growth. Whilst stockmarket returns may not be as great as they have been over the past four calendar years, investors should still be adequately compensated for the additional risk.

Jamie Berry

January 2007

A LOOK BACK AT 2006



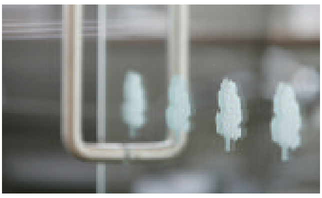
The final quarter saw a solid rebound in stockmarkets, after the difficulties experienced in the summer, enabling 2006 as a whole to produce some solid returns for most investors. In the UK, the broadly-based FTSE All Share Index produced a total return (i.e. including dividends) of 16.8%, and was flattered by yet another very strong year for shares of medium and smaller sized companies.

Other than continental Europe, international markets were not so good: the US market performed well in dollar terms, but gains in sterling and euro terms were a meagre 1.6% and 3.6% respectively (S&P 500 total return) owing to a significant fall in the US dollar during the year; the Japanese market struggled to capture much of the reasonable progress being made on the economic front and ended the year down 7.1% in sterling terms (Nikkei 225 Average), although a weak yen also had a large negative impact on returns for European investors. This poor international showing relative to UK and continental Europe meant that the FTSE World Index of global shares returned just 6.5% in sterling terms in the year as a whole.

"The final quarter saw a solid rebound in stockmarkets…"

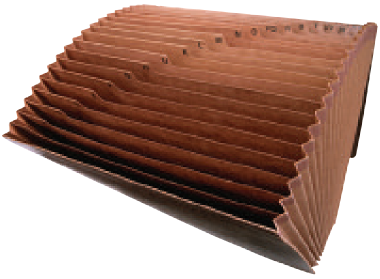
Mark Robinson

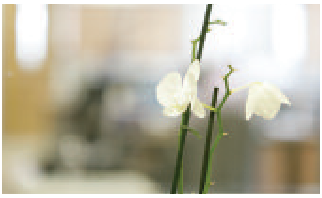
PROPERTY – CLOSE TO BOILING POINT?

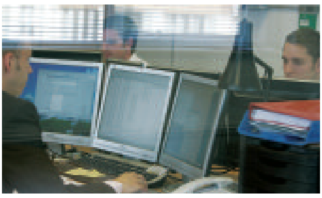


The UK commercial property market has also had another very good year, outstripping the total return from UK equities. However, we are becoming concerned about the prices and yields now present in parts of the market. London's West End has a reputation for attracting both smart shoppers and hedge fund managers, although we would argue that paying almost £100 per square foot for swanky offices in this area may turn out to be less than a smart decision.

Perhaps the best illustration of where we are in the UK commercial property cycle is to look at the initial yields now present and the cost of borrowing. Ten years ago the initial yield on a typical commercial property was around 8% and money could be borrowed at a little under this amount, creating a reasonable cushion for investors.







Today's arithmetic, however, is rather worrying. The cost of borrowing may have fallen, but initial yields have fallen significantly more (with a correspondingly high rise in commercial property values), to a point where initial yields are generally below financing costs. Something must give, and with interest rates unlikely to make much of a downward move in the reasonably short term, it seems only logical that the environment for UK commercial property investment is going to get a little tougher. In response to this, we have been looking at ways of diversifying our commercial property exposure.

"The REIT market is about to gain some new entrants"

The same excesses are not present in several continental European property markets, and this is proving to be an attractive alternative. The Real Estate Investment Trust (REIT) market is about to gain some new entrants, so this too is likely to bring some interesting investment opportunities. Whilst we are not predicting a collapse in commercial property, we think that income will play a much greater part in the way in which property is valued, just as it should do, and that total returns will ease back more towards their historic average, which is still attractive relative to both equities and bonds.

"…initial yields are generally below financing costs… the environment for UK commercial property investment is going to get a little tougher."

NEW YEAR'S RESOLUTION

A New Year's resolution that we should all make is to look at our investment objectives, time horizon and appetite for investment risk. This is particularly important after a reasonably long period of growth from financial assets. It may not be necessary, for example, to take as much risk with one's investments as before, because investment goals may have been reached a little sooner than originally anticipated. Conversely, seeing one's investments at a higher level may make one more relaxed and perhaps able to take a more adventurous investment path than the one previously followed. One of our jobs as investment managers is to make sure that portfolios in our care remain suitable and in line with the risk and objective parameters that have been laid down. If these parameters have changed, we need to know so that we can make the appropriate adjustments. The beauty about managing bespoke investment portfolios is our ability to make changes, either gradually or swiftly, to clients' portfolios to reflect not just changes to investment conditions but also clients' ever-changing circumstances. We encourage you to let us or your professional advisers know if you are aware of any changes.

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Image & Reputation
– Boutiques
PAM Awards 2006

PAM AWARDS

Shortlisted
Investment Performance
– Balanced
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PAM AWARDS

Shortlisted
Quality & Clarity of Reporting
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