



B E R R Y

ASSET MANAGEMENT PLC
A MEMBER OF THE BORDIER & CIE GROUP

Investment Update

Winter 2012

Chilling Times



A year best
forgotten

Our evolving
strategy

Double dip in
the UK?



A year best forgotten

As we look back on 2011 it is quite astonishing that with so much thrown at us the outcome for the year as a whole has not been more calamitous. There were moments, significant moments, of grave uncertainty for markets to deal with: the most recent events surrounding the eurozone sovereign debt crisis were the most prominent in the latter half of the year, but geopolitical upheaval, natural disasters, riots, and credit rating downgrades also competed for the markets' attention. These forces have whipped shares and bonds around to a degree not seen since the financial crisis of three years ago.



Mark Robinson
Director
Chief Investment Officer

On reflection, 2009 and 2010 were the partial rebuilding years after the financial earthquake that rocked markets in 2008. 2011, however, has been a year peppered with aftershocks, reminding us that the threat of stress fractures re-opening is very real. We reached the point where trust in markets, and faith that the authorities would do whatever they could to avoid a complete meltdown, was severely tested.

Peering ahead into 2012, we are slightly more hopeful of a better year in which to make returns, particularly given the backdrop of ongoing low interest rates and the prospect of more economic stimulus in various parts of the world,

which should allow market participants to begin to look through the current haze of uncertainty with more optimism. Market volatility, though, is expected to remain elevated. Hopefully this year's summer will not be disrupted by riots and a loss of confidence in markets – it is, after all, an Olympics year for Britain and a year in which the US presidency will be up for grabs – maybe these will be two convenient distractions for markets and allow the current focus on the eurozone and anaemic economic growth scene to fade into the background, and for a more positive mood to develop. Let's hope so.

Mark Robinson
4 January 2012



Our evolving strategy

It is difficult to set a strategy for the whole year given there are still so many complex and moving parts, but even if 2012 turns out to be a more settled year for markets and economies than most currently forecast, we would still rather err on the side of caution with several 'insurance policies' remaining in place, a strategy that generally worked well last year - in most cases, portfolio values were protected or even increased slightly against a very troubled backdrop. Our early positioning in funds invested in less economically-sensitive areas, including those with a high dividend yield, has led to some good absolute and relative performance from UK and overseas stockmarket exposure, whilst investments in areas such as index-linked bonds and gold have also proved successful.

Like many others, we did not spot a further big rally in conventional government bonds coming, believing that yields had been driven to unsustainably low levels, a view that remains valid today. But aside from this we feel we have protected values quite well through the turmoil of 2011 and, most importantly, can now look forward with slightly more confidence.

As we do look ahead, the more defensive parts of stockmarkets with good dividend yield still have appeal, although bouts of perceived market or economic calm could see the risk tap turned on again, in which case more defensive, equity income funds could underperform and growth companies could do well again. Whatever sector of the market performs best during 2012, seeing a positive return on money when

cash is essentially earning nothing will be a good outcome. There is actually a chance that markets might surprise us all on the upside this year – this may seem a rather rash statement given the headwinds facing the global economy and the eurozone, but in the same way that hype and overvaluation of markets rarely lasts, similarly long periods of universal market pessimism are also normally unsustainable. It is currently quite difficult to see what the catalyst for the market backdrop to change for the better might be, but with confidence so low it may not take much to lift the mood. Whilst investment portfolios may not fully participate in a strong market rebound, we believe that we have sufficient risk still on the table to participate in a meaningful way.



Double dip in the UK?

It may also feel like a recession in the UK - and technically we could well be there right now - but it will not necessarily hit every sector. We expect inflation to fall further and for interest rates to stay low, which should ease pressure on both the consumer and help industry as a whole. Hopefully some of these factors will also ensure that any recessionary mood passes quite quickly. But seeing the UK high street display signs such as 'January Sale Now On' – in early December - shows just how tough an environment it is for retailers, who face an uphill battle against an increasing online 'footfall' and a savvy and technology-aware shopper. But even the online retailers are having to tighten their belts, with many now seeing margins squeezed through significant discounting and offers of free shipping.

Whichever way one looks at it, doing business at the coal face of consumerism is a tough place to be when one's customer has too much choice, plenty of bargaining power, and is worried about his or her overall financial and employment situation.

Across the pond, however, we expect the US economy to continue to outperform the weaker European economies in the year ahead. Indeed, it is possible that a stronger than expected US economic scene could provide the springboard for wider risk taking within

markets. Talk of a double dip recession in the US has faded and better jobs figures and a more stable housing market could spawn some renewed confidence, particularly if it is combined with some further progress in the eurozone. Eurozone governments seem to be taking bigger steps towards fiscal integration, which should pave the way for the ECB to provide more support and restore confidence in both bond and equity markets. It will be difficult to avoid a recession, but hopefully the measures being taken will ensure that it is short-lived.





Asia – a new generation of consumers

To find some optimism in the consumer sector it is worth turning towards Asian and other emerging countries, where consumerism patterns are beginning to shift, hopefully helping to keep the global economy as a whole on track. Changing demographics in China and other fast-growing Asian economies mean that we now have a new generation of consumers who are less prudent than their predecessors. The distribution of income to support spending may still be quite uneven, but increased urbanisation, caused by workers attracted by higher paid jobs in cities, is giving rise to a growing middle class.

The signs are generally pointing in the direction of a region that should steadily become more self-sufficient as it rebalances from predominantly manufacturing and export-led growth to one where domestic, consumer-led demand plays a greater role. The Chinese government has promised in its new Five-Year Plan to encourage more domestic consumption and latest estimates by *The Economist* suggest that China will overtake America in consumer

spending terms in just eleven years from now. In time, Asian economies should therefore become less dependent upon the West for support, and investors should begin to view Asia as more decoupled from the wider global economic cycle than it is today. This transition is not going to happen overnight, but whilst the troubles and malaise in western economies persist, Asia is beginning to close the gap a little more.



“Consumerism patterns are beginning to shift”



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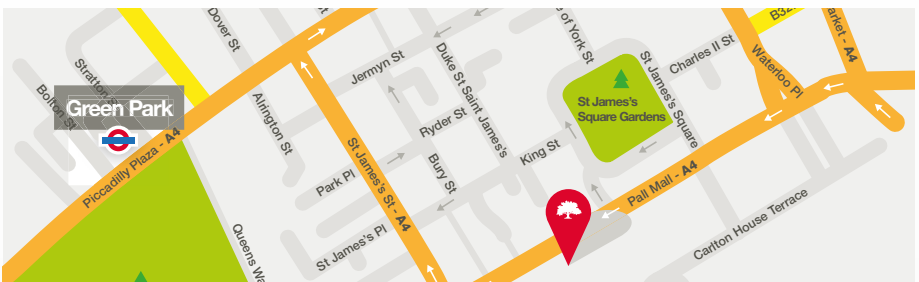
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