Case study

client insight

# A low risk portfolio designed to beat deposits

## How one client boosted his returns without taking on too much risk

BERRY

# The background

A client of ours has had an existing portfolio with us for many years. Like many investors, he continues to hold substantial sums of money in a variety of cash deposits, often switching between internet accounts to ensure that he obtains the best rates of interest on his money. Although he has always been happy with the returns that we have produced for him, he was not keen to invest more in the stockmarket, as he wished to retain a large, low risk cash buffer as part of his investment portfolio.

Three years ago, in May 2002, we discussed the concept of establishing a separate portfolio, which sought to achieve slightly better returns than those available from deposits, but without taking on the risks of a more conventional investment portfolio. Our client was keen on the idea of absolute returns – in other words, a portfolio which would produce returns which are not entirely dependent upon the fortunes of the stockmarket.

# What we did

The outlook for markets in mid 2002 was still fairly bleak, with the FTSE 100 dipping below 4,000 in July, and heading for 3,500 by March 2003. Notwithstanding this, our client agreed to invest £500,000 in a new portfolio. After some discussion, our client decided that he felt marginally more optimistic about stockmarkets, and slightly increased his appetite for risk from ‘very low’ to ‘low’. It was therefore agreed that about 15% would be invested in equity funds, but with all of the remainder to be invested in a broad cross section of generally lower risk asset classes, all with low correlation to the stockmarket itself.

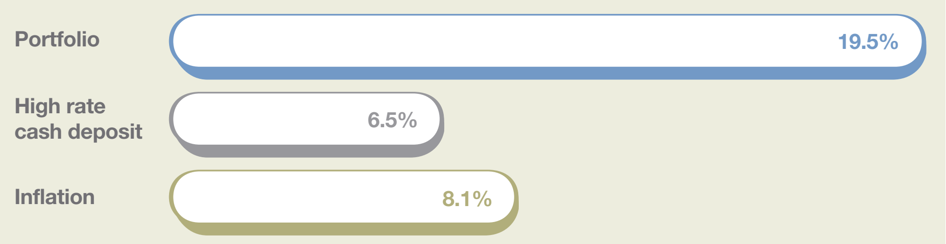
**“…he wished to retain a large, low risk cash buffer.”**

# The returns we have produced

This portfolio has now been running for about 34 months. Since its inception, it has increased in value by £97,541, which represents an increase, after all charges, of 19.5%. We calculate that the return after basic rate UK tax over the same period in a high rate deposit account would have been about £32,300, or 6.5%. Retail prices over the same period have increased by 8.1%.

(Sources: Micropal Standard & Poor's, Berry Asset Management PLC. Portfolio returns are after charges, basic rate UK tax deducted from income, no capital gains tax charges High rate deposit account is UK Savings for £25,000+, after basic rate UK tax).

### Performance

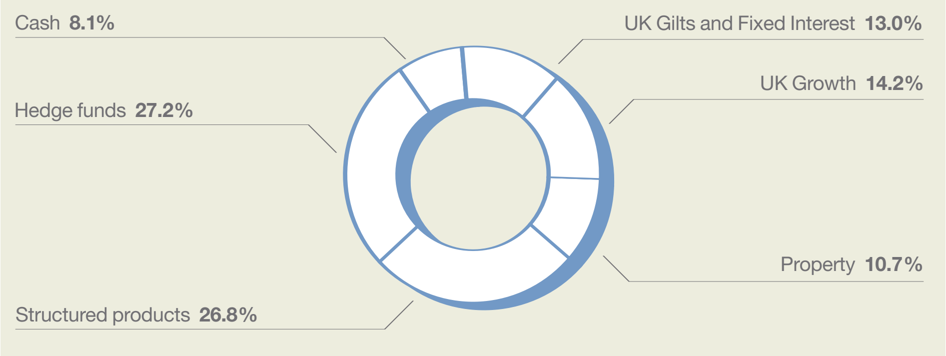



Past performance should not be seen as an indication to future performance and each client has their own portfolio, which may differ from the performance figures illustrated.

# How the portfolio now looks

During the course of the last two years we have made some judicious changes to the portfolio, and the current asset allocation is detailed below in the pie chart. You will see that the commitment to conventional equity investment remains low, at just 14.2% of the entire portfolio.

### Asset allocation




# Conclusion

This portfolio has achieved what it set out to. Although interest rates have increased during the portfolio's life, they still remain low in absolute terms. We believe that many investors continue to hold large cash deposits, yet would like to see slightly better returns, without taking on too much additional risk. A portfolio like this should be capable of producing better returns than cash deposits, without the risks associated with equity investment.

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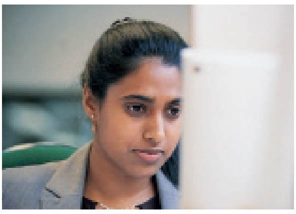

# Interested?

This is a summary of the behaviour of a real portfolio under our management over the last few years. We construct and manage portfolios for our clients across a broad spectrum of different objectives and risk profiles.

If you would like to learn more about our investment strategies for generating superior returns in a lower risk environment, contact us or your financial adviser for further information.




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