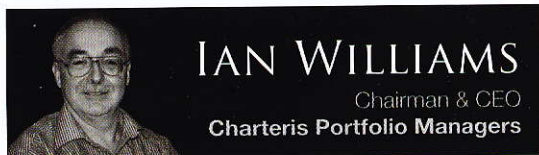


MY ASSET ALLOCATION

OVERSEAS EQUITIES OFFER THE BEST RETURNS



IAN WILLIAMS
Chairman & CEO
Charteris Portfolio Managers

Our current asset allocation at Charteris features our lowest-ever weighting in fixed interest, as we believe current levels of gilt yields are unsustainable over anything other than the short term. Gilt yields are at their lowest since the Second World War, at a time when the government is running the largest budget deficit in peacetime history.

All gilts now have negative real yields – that is, with UK inflation currently at 4% (the average of RPI & CPI). At the time of writing, every gilt-edged stock yields less than 4%, making it impossible for investors to achieve a positive real rate of return. Furthermore, UK inflation looks sticky and shows a marked reluctance to fall. Gilts imply too much risk and too little potential reward.

Equities, however, look excellent long-term value. The gilt-equity relationship is at its best for almost 60 years and is back to levels last seen in the 1950s, when Ross Goobey pioneered the ‘cult of the equity’ with sensational long-term returns relative to the fixed instruments he switched out of.

We favour overseas earners rather than stocks that are overly reliant on the UK consumer. This is where many of

our private client portfolios are situated. Equities are cheap and offer the prospect of dividend increases that even index-linked gilts cannot match. But not every sector is favoured. We do not own property shares and we have a minimum weighting in retail.

We are also bearish on service-type firms that are overly reliant on public spending. We are underweight big oil but overweight the large mining shares. Together the resource sector is in line with benchmark weightings, but skewed towards base metal producers and away from big oil.

Overweight utilities

We are also overweight utility shares, as they are cheap relative to gilts and offer safe, attractive dividends. So our sector preference in UK equities is driven by our assessment of a booming global economy in the emerging world, offset by a stagnant economy in the developed world.

As the stagnation in the developed world is down to a transfer of economic activity to the emerging economies, it is unlikely that further quantitative easing (QE) and budget deficits will do anything other than generate inflation further down the line.

We have a higher weighting in gold shares, as we see the yield price moving substantially higher. Large sections of our private client portfolio base were exposed to gold at the start of the bull market in 2002 and are seeing tremendous

benefits. As central banks compete to devalue their currencies and indulge in more QE, it increases the value of gold as these moves are potentially inflationary, as some commentators suggest.

The reason is that unsterilised foreign exchange intervention to hold down a particular currency directly boosts the domestic money supply of the country concerned. If the world is now embarking on a global printing spree, gold will be the ultimate beneficiary.

MORE ON . . .

Ian Williams

Ian Williams is CEO of Charteris Treasury Portfolio Managers and manager of the City Financial Strategic Gilt and Elite Charteris Premium Income funds. He was a stockbroker and member of the London Stock Exchange prior to 1986. Post-big bang, he worked at Dresdner Kleinwort Benson and Chase Manhattan bank (now JP Morgan) and Guinness Mahon. Among other things, he has been a research analyst, a foreign exchange proprietary trader and a gilt-edged market maker.