

STOCK TAKE: CHEVIOT ASSET MANAGEMENT

FLEXIBILITY AND CASH HELP PERFORMANCE

Balanced Managed fund co-manager William Buckhurst moved in and out of equities and currencies in 2009

DRAZEN JORGIC

djorgic@citywire.co.uk

Cheviot Asset Management senior investment manager William Buckhurst says flexible cash and equity exposure helped Cheviot's Balanced Managed portfolio outperform its benchmark in 2009.

Over the 12 months to the end of December 2009, the Cheviot's Balanced Managed fund returned 24.54%, while the IMA Balanced Managed sector returned 19.75% and Apcims Balanced index returned 18.84%.

Buckhurst co-manages the Balanced Managed portfolio alongside the firm's chief investment officer Alan McIntosh. He says the outperformance in 2009 was partly driven by an increase in equity exposure to over 60% of the portfolio by June, which included pairing back overweight US holdings in favour of UK positions as the dollar peaked against the pound.

He says: 'We were able to protect ourselves at the start of the year by reducing equities and then increasing them. We also raised cash exposure to 11.5% by March but that came back to 5% in June.'

'What we were also able to do from March was to add to some more aggressively positioned managers and allocate away from the defensive managers.'

Currency plays

Another driver of performance for the portfolio has been currency plays, Buckhurst says.

'Currency has become extra important when looking at most overseas funds. We are aware that sterling has risen quite a lot against other currencies. So if you see a slight flight from risk we will be expecting the dollar to appreciate and sterling to weaken.'

However, with a 34% exposure to UK equities, Buckhurst has been looking for ways to mitigate the impact of the high level of debt saddling the economy. 'We are concerned about the UK economy which is clearly in a weaker state than others,' he says.

'However, by concentrating on large-cap companies with overseas earnings, we don't feel unduly concerned about having a high exposure to UK equities.'

Looking ahead to what will drive the returns in 2010, Buckhurst said he expects gilt yields to rise while the value of sterling falls. With this in mind, he is sticking with his index-linked gilt exposure, which Cheviot bought at the expense of conventional gilts in January 2009.

He says: 'I'm not saying index-linked gilts are immune from a gilt sell-off, they get dragged down as well – but they are a much better play and a good alternative to traditional gilts.'

Direct investment

Buckhurst said Cheviot's preference is to invest directly in government bonds, rather than through collectives. He explains: 'This is an area where we can add value as oppose to other funds. Why buy a fund when we can buy the real thing? It also helps keep our total expense ratio down.'

Buckhurst does not believe inflation will go through the roof but he thinks it will edge higher as sterling falls. In a bid to offset this rise, he has looked towards alternative investment strategies and also acquired gold exposure in August when the previous metal was trading at \$950 a troy ounce.

He says: 'We don't believe gold is in a bubble and we think there is sound and compelling reasons to hold part of a portfolio in gold.'

The Balanced Managed portfolio has attained its gold exposure through an offshore fund, Abydos Holdings.

Buckhurst says: 'It's a fund that invests 50-50 in gold and silver bullion and equities, though it only invests in particularly stable countries.'

'We've avoided gold exchange traded funds as we think this is a more compelling to play that area,' he adds.



William Buckhurst: Believes inflation will edge higher as sterling falls

However, gold is not the only inflation trade enacted by Buckhurst. 'We have been trying to find non-correlated assets, like infrastructure funds. The HSBC Infrastructure Trust has performed well for a while,' he says.

'We've also added the 3i Infrastructure trust to quite a big discount and the discount has narrowed a lot.'

Although he does not believe stock markets will reward wealth managers in 2010 as they did in 2009, Buckhurst thinks a pickup in merger and acquisition activity could support the markets.

However, his overall mood remains cautious.