

STOCK TAKE

CAREFUL BALANCING ACT FOR CHEVIOT'S MILLER

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Citywire Wealth Manager's new 'Stock Take' feature aims to identify the wealth management firms that have delivered on performance and navigated challenging market conditions. We focus on the breakdown of an average balanced private client portfolio and examine what has helped and hurt performance.

David Miller, head of alternatives at Cheviot Asset Management, believes fixed income and equity calls have driven performance for the firm over the past year. The firm was launched in May 2006 by former UBS investment managers and staff, who now manage

around £2.5 billion in assets for clients on a bespoke basis. In the 12 months to the end of September, its core balanced strategy, which is tailored to the client's objectives and risk profile, posted a total return of 11.5%, compared with an 8.6% rise in the Apcims Balanced benchmark.

Over the past two years, the same portfolio has posted a 4.2% loss, while the Apcims benchmark is down 6%. Since the firm's strategies were launched at the end of March 2007, the balanced portfolio has posted a 0.7% total return, compared with a 2.9% fall by the benchmark.

Miller said: 'Our approach to a balanced mandate is to generate real growth over the medium term. For us, this is down to security and stock selection.'



David Miller: stock selection

Equities

The average balanced private client portfolio has an allocation of 67% towards equities, 42.5% of which is invested in the UK market primarily through direct equity holdings. Specialist funds are used to gain exposure to UK smaller companies.

Miller said: 'We have added value this year by being in equities and taking a view on the types of companies we have invested in, alongside taking advantage of opportunities to invest at cheap prices and gain access to good yields. We have been prepared to accept volatility over the short term.'

He is particularly positive on companies with pricing power, which he expects will prove critical in the next two years, such as Unilever.

Fixed income

Cheviot's balanced strategy has a 14% allocation towards fixed income. Within this area, Miller believes the decision to switch from conventional gilts into index-linked gilts in December last year, capitalising on cheap prices, helped to drive performance.

Miller said: 'Prices of index-linked gilts had fallen throughout autumn of last year and there was an opportunity to buy cheap assets. We were not taking a view on inflation. Our house view on inflation versus deflation is that it is still too early to tell. Portfolios need to be flexible and have liquidity.'

Alternatives and new opportunities

Cheviot has been increasing exposure to hedge funds since early this year, particularly through closed-ended vehicles. Hedge funds now form 10% of a balanced mandate, up from 5.5% in October of last year. Miller said: 'We were keen to buy into the ones we favoured at a discount to NAV earlier in the year. If you look at the performance from the NAV level, a lot of listed vehicles have done well and discounts have narrowed.'

The 9% cash position in the firm's balanced strategy is either allocated towards short duration bonds or used as liquidity for opportunities in other asset classes. Chief among this is private equity, which does not currently sit in balanced portfolios, but is seen as a viable option for clients with a long time-horizon who are aware and willing to accept the potential risks.

Miller said: 'I think 2009 and 2010 could be good vintages for private equity investors, but you are talking about several years before there is a pay-back and this needs to be understood by clients.'