

Introduction

by **Jeremy Richardson**, Chief Executive



In my introduction to our last newsletter, I commented that the global financial markets were going through an unprecedented level of turbulence – the pace and level of activity has barely slackened! At Cornelian it has also been an extremely busy period.

We are delighted to welcome the many new clients who have joined us over the past few months. In addition to the establishment of these new portfolios it has been a period in which we have continued to increase the level and frequency of client contact and reporting.

The market conditions encountered in recent months go beyond the experience of many investors, but we realise that it is in times like these that it is particularly important for investment managers to stay in close contact with their clients to explain our strategy and to help to put events into perspective. Retaining the discipline to look through the short term volatility and concentrate on the long term view has been a key focus for Marcus Brooks and his Investment team.

As a result of the high levels of business activity we have again expanded our investment team and I am pleased to report that we have recruited Richard Alexander, who joins us from BlackRock and brings many years of experience in investment businesses. Ben Drury also joins us from HBOs as an Investment Manager.

We held our first Investment Seminar in Perth last month. This event was very popular and well-attended and this is a format that we intend to repeat in the future.

In our Autumn 2008 issue we

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mentioned the development of the Cornelian Residential Property Fund. Due to the conditions in financial markets in late 2008 we felt that this was not the correct time to launch the fund. I am now pleased to advise that the launch is now scheduled for June or July.

Once again, I would like to take this opportunity on behalf of Cornelian to thank all our clients – new and existing – and their advisers for their continued support.

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Richard Alexander joins Cornelian

We are delighted to welcome Richard Alexander who joined the team on 30th March. Richard gained a BSc(Hons) in Computer Science from Aberdeen University and an MSc in Computation (Mathematics) from Oxford. He is also an associate member of the CFA, having obtained the qualification of the Institute of Investment Management & Research.

Following his qualification in Computer Science, Richard spent the early part of his career in the fields of IT and Business Process Analysis. However, whilst working at Scottish Widows, he became interested in investment management, qualified as an investment manager and undertook a number of roles within Scottish Widows.

He joins us from BlackRock Investment Management where he has held the position of Director – Global Equity Dealing and was responsible for the implementation of many projects and improvements. Richard brings a very broad experience to Cornelian covering leading edge technology and processes for dealing and for management of risks in portfolio construction processes. At Cornelian he is in charge of all of the dealing activity and the processes employed in constructing portfolios. In addition he will play a key role in the identification and implementation of appropriate technology and supporting systems as we continue to improve our procedures and develop our business.



Patience the name of Personal Finance Game as wheel of fortune turns

by **Marcus Brooks**, Investment Director



The past eighteen months has proved to be disastrous for most investors, even those with ostensibly diversified portfolios. The received wisdom from investment theory – that combining such asset classes as quoted equities, private equity, bonds, cash, property, hedge funds and commodities should at the very least help to reduce volatility over short time periods and to protect capital value – has proved flawed. Portfolios including these assets with a reasonable degree of balance between them are likely to have lost significant value over this period. A confluence of deflating asset price bubbles (residential property, commodities and so on), excess debt throughout the economic system, financial sector distress, and a rapid slowdown of the global economy have conspired to affect virtually all asset classes.

Developed country sovereign bonds and cash have offered a positive return, while currency movements have offered the opportunity for enhancing returns in these asset classes, especially for Sterling-based investors. In truth, the performances of most asset classes are likely to be positively correlated to economic activity in some way

and are thus not immune to a global economic slowdown of the scale and rapidity that we have witnessed over the last year. It is the timing of the decline that has been the major difference – property prices started falling before equities which started falling before commodities and so on. In addition, investors may have been taken in by the more extravagant claims of some of the newer asset classes such as hedge funds. Many of these purported to offer a low correlation to other asset classes or, at the very least, to produce much less volatile returns, but which, as a group – with notable exceptions – have failed to protect value.

After such a period, the temptation for many investors must be to give up on investment theory and confine their savings exclusively to the safest of assets – generally considered to be cash or government bonds. This course of action runs the distinct possibility of compounding the problem rather than protecting the value of assets remaining. Government bonds (and cash) may well be the final asset price bubbles to be pricked because the actions of governments to reflate their economies through fiscal (government spending) and monetary policy both conventional (cutting interest rates) and unconventional (quantitative easing), may well result in a resurgence in inflation. If this is the case, real and absolute returns from government bonds and real returns from cash are likely to fall sharply, while those from ‘real assets’ (property, equities, index linked gilts) will offer a measure of

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protection over time. It is only if deflation takes hold that government bonds and cash will continue to perform from here.

In fact, after such a severe test, today is not the moment to be giving up on investment theory and the lessons of over a century of financial statistics. Economies move in cycles and, with the world increasingly one economy rather than a number of national and regional entities, the current downturn is part of another cycle. This is not to downplay the seriousness of the economic situation or the scale of distress felt by companies, investors and people, but simply to put it in context. Severe economic crises are felt every so often and can endure for considerable periods – such as in the 1930’s or 70’s – but eventually recovery takes hold, an event almost always preceded by recovery in equity and other real asset prices. Equities, property and other out-of-favour investments may not regain their previous highs for many years but that is to miss the point. It is from this vantage that we should be considering their merits, not two years ago. After the performance of the last eighteen months, now should be an attractive entry point for those prepared to be patient and it could be close to the moment where the correlation of returns between asset classes begin to act in investors’ favour as values start on their upwards cycle again.

*This article was first published in **Scotland on Sunday** on 29 March 2009.*

The CF Cornelian British Opportunities Fund

In December 2007 the management of the First State British Opportunities Trust transferred to Cornelian with a majority of the Fund's unit holders electing to retain their holdings. The name of the trust was changed to the CF Cornelian British Opportunities Fund.

Returns from the direct holdings of UK equities within multi-asset portfolios have been a cornerstone of the investment performance that we have achieved for our clients over the last five years and our management of this portfolio allows investors to gain access to the expertise of our investment team in this specialist area.

Our strategy is to hold a relatively concentrated list of UK quoted equities – around 30 to 50 – with the objective of

producing a stronger return than that of the FT All Share Index over the medium to long term. We invest in UK listed companies of all sizes, and the investment style of the fund is similar to that employed in the UK equity element of the CF Cornelian OEIC funds and for our segregated client portfolios. Our philosophy is to invest in well financed companies with products or services and market positions that should enable them to grow profits, earnings and dividends in most economic conditions. Our investment decisions are based on financial research and meeting with management of companies in which we invest to understand their strategy and the key drivers to their business.

For performance comparison

purposes the fund is in the Investment Managers Association (IMA) UK All Companies Sector. In what have been very challenging market conditions, it is ahead of the average fund within that sector since we assumed the management of it (period 10 December 2007 – 28 February 2009). Returns are also ahead of those for the FT All Share Index over the same time period (Source: Financial Express).

The value of investments and any income from them, may fall as well as rise and you may not get back all that you have invested. Past performance is no guide to future performance.

For further information please contact Richard Allison on 0131 243 4144 or richard.allison@cornelianam.com

On-line Services from Cornelian

We provide our clients with a range of information about their portfolios and investments which can be accessed via our website – www.cornelianam.com.

Overall commentary on the markets can be found in the latest Investment Commentary from our Investment Director, Marcus Brooks.

For those clients who have invested in the CF Cornelian Growth, Balanced or British Opportunities Funds, or our Diversified Portfolio Service, details of the performance of these investments can be found on the factsheets which are

updated on the website on a monthly basis.

Clients who hold Discretionary portfolios or ISAs, or those who are invested in the Cash Investment Management or Diversified Portfolio Services also have the opportunity to view details of their investment portfolio on-line through a secure section of our website. This service is free of charge and provides up-to-date valuations (as at the previous day's prices), details of all transactions since the last full report was issued and details of all income since the

last report. All that we require to activate this service is your account number and a password of your choice. Should you wish, you may also authorise your financial adviser to view the data. As security is given a high priority, all data to your internet server is encrypted and your name does not appear on any of the information transmitted.

To subscribe to this service, or if you would like to know more, please contact Elle O'Donnell on 0131 243 4136 or eleanor.o'donnell@cornelianam.com

Cornelian welcomes Ben Drury

We are delighted to welcome Ben Drury to Cornelian as Investment Manager.

Ben graduated in Economics from the University of St Andrews and then joined PricewaterhouseCoopers where he qualified as a Chartered Accountant. He initially worked in Edinburgh and then transferred to the PricewaterhouseCoopers office in San Francisco. During his time there he worked in the Financial Services division and as a result of his exposure to both the UK and US markets gained broad

experience in the audit of several leading investment management companies.

On his return to the UK, Ben joined HBOs as a Senior Analyst in the Private Equity, Fund Investments Group during which he was involved in the analysis and assessment of several large private equity transactions.

Ben brings strong technical experience to Cornelian where his role involves an active contribution to our investment research process and assisting in the construction of client portfolios.



Charity Update

It is no secret that charities are finding it more challenging than ever to make ends meet in current markets. Not only are charities earning much less interest than in the past, dividends are also being reduced – especially those of the Banks who have in the past provided a good flow of dividends – but donations are also suffering as people tighten their belts in tough times.

Appropriate strategies to address these challenges have been the subject of much discussion in recent months. Falls in income from investment portfolios this year may be as much as 10%–20% compared to last year and charities are tending to suffer more than most with much of their portfolios in cash or interest-earning assets.

Much of my time at present is spent on helping charity trustees to work through the issues and to identify how the investment portfolio should be shaped strategically to fit in with the charities' objectives and obligations in current conditions.

Understandably, some Trustees may be tempted to either ignore current conditions and hope things will get better or to place most, or all, of their investment portfolios into fixed interest securities. Neither of these approaches will generate the best outcome for the charity. Clearly, there has to be an acceptance of the reality of the current situation – we are in a low interest rate environment which may persist for some time to come. Charities must review their

plans at this time and their investment strategy should also be reviewed to ensure that it aligns with the charities' anticipated needs.

For those tempted to turn all of their investments into fixed rate securities now, the risk is that they sacrifice the potential future growth of the charity. I do not believe that now is the time to make large shifts in asset allocation away from equity markets into fixed interest securities. The focus must be on retaining a prudent balance – taking long term growth prospects into account, but ensuring that those assets held in cash or interest bearing securities work as hard as possible without increasing the risk profile for the charity. We are constantly on the look-out for these opportunities. As an example, last year we identified that more active management of charity cash, and taking advantage of the interest rates on offer for short term deposits with major banks, could significantly enhance the returns on cash and consequently we have invested in a range of Certificates of Deposit.

In these markets, I believe that charities need to think like corporate treasurers and ensure that, without making dramatic shifts and giving up on the investments that will secure a charity's future, every effort is made to optimise returns.

If you would like to discuss any aspects of our charity services, please contact June Jessop on 0131-243-4142 or june.jessop@cornelianam.com

Cornelian-hosted Perth Investment Seminar

'...designed to help our clients and advisers meet the investment challenges ahead.'

In these difficult times we recognise the importance of a good flow of communication to our clients and advisers. From time to time we have received requests to hold our investment seminars outside Edinburgh and we felt it was an ideal time to host our first event in Perth at the Royal George Hotel.

The seminar was designed to help our clients and advisers meet the investment challenges ahead. One of the most difficult challenges in turbulent markets is to look beyond the current uncertainty and remain focused on the long term goals without being influenced by short term events.

Our Investment Director, Marcus Brooks provided a view across asset classes, with particular reference to UK equities and fixed interest, looking at the prospects of each in turn and considering how they might be used in a portfolio at the current time.

The guest speakers each concentrated upon an asset class placing its current performance into long term context. Dale Robertson, Investment Partner of Edinburgh Partners brought his insight into the fundamental analysis and value in the UK equity markets to bear and discussed how that could be interpreted in the current market. Angus Tulloch, Joint Managing Partner of First State Asia brought his extensive experience in the Far East to look at the impact of the global economic downturn on the region and the lessons and implications for investors.

Our next Annual Investment Seminar in Edinburgh will again be held at The Royal Society, George Street, on Thursday 24 September 2009 to which clients and professional connections are invited.

To receive information about our next seminar, or for copies of presentations from the Perth Seminar, please contact Richard Allison on 0131 243 4144 or richard.allison@cornelianam.com

Are ISAs still worthwhile?

We encourage all of our clients to use their annual ISA allowance of £7,200 if they are eligible. Holding investments within an ISA 'wrapper' protects the investor from incurring tax on any capital gain and also protects higher rate tax payers from the additional 22.5% tax arising from dividend income earned from these investments.

We do not charge our clients additional fees for setting up and maintaining ISAs and consider this as an integral part of our investment management service. We believe it is in our clients' long term interests to build up as much tax efficient investment as possible, particularly since the

government has guaranteed ISAs to have an indefinite life. The tax benefits of accumulated subscriptions can be significant, especially if tax rates increase in the future, which is a realistic threat.

When the economy emerges from recession we would anticipate significant recovery in stock markets. With investments made in ISAs at the current time and in the future, we believe that our clients should benefit from the tax status afforded by the wrapper, as the exchequer seeks to generate tax revenue from as many sources as possible.

For further information please contact Stephen Hunter on 0131 243 4145 or stephen.hunter@cornelianam.com