

enhancing the line-up

September 2009

The Skandia UK Strategic Best Ideas Fund has recently seen two new managers join the esteemed line-up of stock pickers, namely Neil Pegrum of Cazenove and Tim Steer, who joined Artemis in June.

Ryan Hughes gives an update on the strategy behind the latest manager changes.



Ryan Hughes
Senior Fund Manager, Skandia
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The addition of Neil Pegrum takes the number of managers within the UK Strategic Best Ideas Fund back to nine. The line-up had reduced from ten to eight earlier this year as two managers removed in March were not replaced immediately. At the time, we acknowledged that we would only bring in additional managers when we were comfortable that they were of sufficient quality and would enhance the strength of UK Strategic Best Ideas. After considerable research, we decided that Pegrum's investment philosophy and approach was ideally suited to the Fund.

Neil Pegrum has an outstanding track record in investing in UK equities, as well as valuable experience in hedge fund management. He has been known for exceptional stock selection within mid and small caps over many years but has demonstrated a strong ability to pragmatically rotate into large caps when

appropriate, which is highly suited to a Best Ideas mandate. Tim Russell, also of Cazenove, continues to manage a separate mandate for UK Strategic Best Ideas.

Meanwhile Tim Steer makes a welcome return to the fund, replacing John Wood. Steer, who recently joined Artemis, has already demonstrated his considerable capabilities in focused long-short equity investing, having previously managed a mandate for UK Strategic Best Ideas while at New Star.

We continue to research potential managers for the Fund and will ultimately seek to bring the total back to ten, as appropriate. In the meantime, the Fund remains well diversified in terms of stock allocation, indicating that managers are finding different opportunities across the market. This is confirmed by the low level of stock overlap within the Fund – there are currently 15 stock overlaps

(13 long, 0 short and 2 long-short). In addition, even the largest holdings represent less than 4% of the Fund¹.

flexing market exposure

The UK Strategic Best Ideas Fund has a great track record of outperformance since launch, profiting from both long and short positions. The managers' ability to adjust their net market exposure and take short positions proved invaluable during the pronounced market downturn of last year, evidenced by the Fund's number one ranking in the IMA UK All Companies sector for 2008. As equity markets have rebounded sharply since early March, however, the Fund has lagged its peers, hampered by its defensive positioning and some of its short positions.

The underlying managers have repositioned their portfolios in response to the turnaround in investor confidence, generally

what is UK Strategic Best Ideas?

The Skandia UK Strategic Best Ideas Fund is a MultiManager UK equity fund that can make money out of both rising and falling shares, with the flexibility to adjust its market exposure strategically depending on market conditions. The Fund invests in a portfolio of highly regarded managers, who each in turn invest in their ten best stock ideas.

For further details visit www.skandiainvestmentmanagement.com/fa/bi

performance since launch



manager change summary since launch

Out	In	Date
Charlie Tritton (New Star)	Tim Steer (New Star)	May 2008
Paul Findlay (Threadneedle)	Phil Hardy (Polar Capital)	August 2008
Ashley Willing (Gartmore)	Ben Wallace (Gartmore)	November 2008
Tim Steer (New Star)	Not replaced	March 2009
George Luckraft (AXA)	Not replaced	March 2009
John Wood (Artemis)	Tim Steer (Artemis)	August 2009
N/A	Neil Pegrum (Cazenove)	August 2009

Source: Skandia Investment Research as at 7 August 2009.

increasing the number of long positions held and their net market exposure. The Fund's overall net exposure fell to around 40% in early 2009 (the lowest in its history) but in recent months there has been a clear shift towards a higher overall net exposure, which rose to 69% in early August. Long exposure has increased to 80% while short positions have fallen to 11%¹. In addition, managers have also adjusted their sector exposure, significantly increasing the weighting in financials and consumer discretionary and to a lesser extent in materials and IT, while the exposure to defensive sectors and industrials has been reduced. This has helped bring short-term performance more in line with that of its peers.

Despite this recent setback, the Fund is still more than 15% ahead of both the IMA UK All Companies sector and FTSE® All-Share Index since its launch in September 2007

and remains in the top decile of its peer group over this period². Importantly, it has performed with one of the lowest levels of volatility in its sector³ and with substantially lower volatility than the FTSE® All-Share Index.

a stock picker's market

The extreme and indiscriminate sell-off ahead of the March rally created a high level of dispersion in the market and an environment that is extremely favourable for stock-pickers. Some great companies have been left with very attractive valuations, presenting excellent long-term opportunities. Meanwhile, there are as ever plenty of businesses that have fallen out of favour or are trading at stretched valuations following the sharp rebound, making potentially compelling investments for investors able to take short positions.

While UK Strategic Best Ideas may not always be able to keep pace with its peers during rapidly rising markets, it has the potential to outperform as markets stabilise through great stock selection in both rising and falling shares. Moreover, if optimism in the global economic recovery were to falter, the Fund should be better positioned to weather any renewed sell-off than its long-only peers. UK Strategic Best Ideas essentially offers a defensive, lower volatility exposure to UK equities and is an excellent diversifier alongside traditional UK equity holdings. ●

The Skandia UK Strategic Best Ideas Fund is available through Skandia's Life and Pensions fund ranges and the Skandia Investment Solutions platform.

(1) Source: Skandia Investment Research as at 7 August 2009. (2) Source: Financial Express, 19 September 2007 to 14 August 2009, bid to bid, net income reinvested.

(3) Source: Factset, 1 October 2007 to 31 July 2009, bid to bid, net income reinvested.

The linked life assurance fund will not mirror the performance of the underlying fund because of Skandia fund charges, taxation adjustments (if appropriate) and the Skandia investment process. Past performance is not a guide to future performance.

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