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# complete conviction

## Frank Blighe provides an update on the Skandia Best Ideas funds.



We first brought our innovative 'Best Ideas' concept to the market in 2006, with the launch of the Global and UK Best Ideas funds. This unique proposition blends ten world-class equity managers each investing in their ten highest conviction ideas, creating a diversified portfolio with tremendous long-term potential.

The launch of the UK Strategic Best Ideas Fund in September 2007 developed the concept further, this time allowing underlying managers to maximise stock picking opportunities through the use of both long and short positions. This additional feature was incorporated to enable the Fund to deliver its returns in a smoother manner than traditional equity funds, including the existing (long-only) Best Ideas funds.

And so it has proved. UK Strategic Best Ideas has consistently been one of the very best performers in the fiercely competitive IMA UK All Companies sector. At the time of writing it is sitting in the number one spot out of 330 funds since launch, having outperformed the sector average by over 20%\*. Crucially, it achieved this return with the second lowest volatility in the sector.

### the long and short of it

The ability to profit from both rising and falling stocks has proved invaluable to UK

Strategic Best Ideas, particularly over the past year as the deepening crisis in the financial sector has driven sharp falls in equity markets worldwide.

Stock selection has also made a significant difference to returns and the positive contribution from stock selection on both long and short ideas has been almost equal since launch, showing that the selected managers have been adding alpha on both sides of the equation.

Another feature of the Fund is that managers have the flexibility to adjust the balance between longs and shorts, depending on their view of markets. This effectively means that, unlike some other long-short funds, UK Strategic Best Ideas is able to capture beta (market exposure effect) as well as alpha (stock selection effect).

There is a compelling case for using long-short funds such as UK Strategic Best Ideas in the UK equity element of your clients' portfolios. However, it is not a panacea. At launch, we made it very clear that we expect UK Strategic Best Ideas to lag traditional equity funds in rapidly rising markets. Just as companies have been sold indiscriminately in the current bear market, they will be bought indiscriminately when confidence returns. At such times, it is unlikely that the ten highest conviction ideas of all

ten managers will all be long positions, and any shorts may act as a drag on returns.

### closely monitored

After an excellent first year, UK Best Ideas has had a very difficult time over the past 12 months. Around 90% of the Fund's underperformance since launch is attributable to its exposure to mid- and small-cap stocks, which have significantly underperformed large caps during the recent market turmoil due to their perceived higher risk.

Within both UK and Global Best Ideas, many stocks with strong company fundamentals and improving results have suffered from poor market sentiment. Nevertheless, the managers remain confident that they will deliver when volatility normalises and investor confidence returns. For our part, we continue to monitor all underlying managers very closely, making changes where we believe that better alternatives have become available.

For investors who believe that we may be near the bottom of the market, UK and Global Best Ideas could represent a tremendous opportunity. On the other hand, those wishing to avoid the thrills and spills and looking for steadier long-term returns from UK equities could be well served by UK Strategic Best Ideas. ●

“Market volatility has seen some extremely sharp daily moves in share prices, which have created many opportunities to open short positions in stocks where prices have often moved significantly higher”

Colin McLean, SVM



## best ideas – your questions answered

We faced some challenging questions from financial advisers at the Skandia Trailblazer roadshows during November. Here is a selection of some of the most frequently asked questions and our responses.

**Q Why isn't UK Strategic Best Ideas in the same sector as other long-short funds such as BlackRock UK Absolute Alpha?**

**A** UK Strategic Best Ideas is a very different kind of fund. BlackRock UK Absolute Alpha is in the IMA Absolute Return sector because it aims to be market neutral at all times and produce positive returns primarily through stock selection. UK Strategic Best Ideas will always tend to have positive market exposure in order to capture the expected long-term returns from UK equities. This means it is likely to lose money during falling markets, albeit to a lesser extent than traditional long-only funds.

**Q Why has UK Best Ideas fallen so far?**

**A** After a very strong first year, performance of UK Best Ideas has been weak over the past 12 months. This is partly attributable to its high exposure to mid- and small-cap stocks. In addition,

some managers identified value opportunities in selected banks, housebuilders and other consumer-related companies following poor performance, but their timing in moving into these stocks proved premature. A lack of exposure to certain mega-cap stocks, notably HSBC, also detracted.

**Q Why haven't you fired more of the managers within UK and Global Best Ideas?**

**A** As active multi-managers, we have taken steps to address performance issues and to ensure that both funds are well positioned to deliver strong long-term performance. Firstly, we reduced the small-cap exposure by replacing Roger Whiteoak, who held a significant exposure to AIM-listed stocks, with River & Mercantile's Dan Hanbury, investing with a larger-cap focus. Secondly, we have verified that all underlying managers

can still support their high conviction ideas with robust analysis and a clear rationale. If our analysis and oversight of the underlying managers leads us to lose confidence in their ability, they will be replaced, as has happened on several occasions.

**Q Why would I want to invest in UK Strategic Best Ideas when UK Best Ideas has done so badly?**

**A** UK Strategic Best Ideas (UKSBI) is a very different product to UK Best Ideas. UKSBI is designed to deliver a much less volatile route to outperformance, as managers are permitted to exploit both long and short ideas, giving them opportunities to profit in both rising and falling markets. Meanwhile, long-short equity portfolios tend to have a low correlation with long-only funds, making UKSBI a great diversifier to a traditional equity portfolio.

### best ideas manager changes

Fund	Outgoing manager	Incoming manager	Date
UK and Global Best Ideas	Roger Whiteoak (AXA Framlington)	Dan Hanbury (River & Mercantile)	March 2008
UK and Global Best Ideas	Stephen Whittaker (New Star)	Tim Steer (New Star)	November 2008
UK Best Ideas	Ashley Willing and Simon King (Gartmore)	Audrey Ryan (AEGON)	November 2008
Global Best Ideas	Hugh Young (Aberdeen)	Peter Sartori (Treasury)	March 2008
Global Best Ideas	Ashley Willing and Simon King (Gartmore)	Richard Buxton (Schroders)	November 2008
UK Strategic Best Ideas	Charlie Tritton (New Star)	Tim Steer (New Star)	May 2008
UK Strategic Best Ideas	Paul Findley (Threadneedle)	Philip Hardy (Polar Capital)	August 2008
UK Strategic Best Ideas	Ashley Willing and Simon King (Gartmore)	Ben Wallace (Gartmore)	November 2008

The Skandia Best Ideas funds are available through Skandia's Life, Pensions and MultiFUNDS fund ranges and the Selestia Investment Solutions investment platform.

The Best Ideas funds are managed by Skandia Investment Management Limited, a member of the Skandia Group.

The linked life assurance funds will not mirror the performance of the underlying fund because of Skandia fund charges, taxations adjustments (if appropriate) and the Skandia investment process.

\* Source Financial Express, bid to bid, net income reinvested 19 September 2007 to 14 November 2008. Past performance is not a guide to future performance.

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Skandia fund platform gives you access to MultiISA and MultiFUND provided by Skandia MultiFUNDS Limited and to products provided by Skandia Life Assurance Company Limited.

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