

strategic flexibility

Ryan Hughes reports on a successful first year for the Skandia UK Strategic Best Ideas Fund.



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Traditional investing has historically been very one dimensional. Every equity manager who is trying to make money for investors has one option: focus on stocks they think will rise in value. Over the last year markets have fallen sharply and the numbers of stocks rising in value has been limited – meaning fewer opportunities for the managers of traditional funds to make money. In fact, only 22% of almost 700 stocks on the UK stock market rose in value during the first year of the Skandia UK Strategic Best Ideas Fund*.

UK Strategic Best Ideas is structured to counter this problem by giving the appointed ten world-class managers the flexibility to make money from their best long and short ideas. This maximises the stock picking opportunities relative to traditional UK equity funds that are only searching for rising stocks.

Being able to make money from stocks that are falling rather than just avoiding them therefore represents a huge opportunity. This has proved to be exactly the case during the first year of the Fund, where UK Strategic Best Ideas has outperformed the FTSE All Share

Index by almost 10% and the IMA UK All Companies average by over 12%, placing it third out of 337 funds**.

flexibility

Another really important feature of the Fund is the managers' ability to strategically flex the balance of their best long and short ideas – adjusting the Fund's exposure to the market dependent on available opportunities and market conditions.

This is a feature that has proved hugely beneficial over the life of the Fund as managers have increased their exposure to shares they think will fall in value. Market exposure (measured as percentage in longs less percentage in shorts) has generally been around 50%, but has flexed between 45% and 70% over the past 12 months – compared to 100% for traditional equity funds. This means that UK Strategic Best Ideas has been able to avoid the very worst of the market falls. Indeed, some managers have made full use of this flexibility and had equal exposure to longs and shorts, thus meaning they have been market neutral (0% market exposure).

the best ideas

Low market exposure in the current environment has been hugely beneficial, but the selection of great ideas has been equally important. Our managers have found numerous opportunities – both

shorting rules

Following an unprecedented week of turmoil in markets during September, the FSA introduced rules prohibiting the shorting of 33 financial stocks. Other countries have subsequently followed suit and at the time of writing, UK Strategic Best Ideas had exposure to two of these stocks. This does not have any impact on the fund's ability to operate and our managers have continued to function quite normally since these rules were introduced. It should be remembered that there are literally hundreds of other stocks that are available for investment by our managers.



the managers

The success of the Best Ideas Funds comes down to the quality of the underlying managers selecting the stocks and in UK Strategic Best Ideas we have ten world-class managers who have proven they are highly skilled at identifying both long and short opportunities.

The current line up is:

Richard Plackett – BlackRock
Ashley Willing and Simon King – Gartmore
George Luckraft – AXA Framlington
John Wood – Artemis
Colin McLean – SVM
Andrew Kelly and David Stevenson – ResolutionCartesian
Phillip Hardy – Polar Capital
Tim Russell – Cazenove
Tim Steer – New Star
Mark Lyttleton – BlackRock

This line up shows two changes from the original list following two manager departures. Charlie Tritton at New Star was replaced with Tim Steer (also New Star) while Threadneedle were replaced by Polar Capital.

long and short. Here are some examples of excellent short positions and the managers' comments:

BlueBay (ResolutionCartesian)

'BlueBay Asset Management was introduced to the portfolio from inception. The company grew consistently over recent years, targeting the high yield and emerging market debt opportunities. Our view in mid-2007 was that these successes would be hard to maintain as markets became more risk averse, and credit spreads began to reverse a ten year bull market. Analyst expectations remained very high for the company right into 2008. Forecasts were dependent on achieving very strong performance fees from hedge funds, despite evidence that performance was slipping. Furthermore, fund growth was heavily skewed towards lower-fee long-only money. The company issued a warning in January and the shares fell steadily until we closed out the position in July 2008.'

Skandia notes the stock fell circa 30% in this period.

BHP Billiton (undisclosed)

'We shorted BHP Billiton in July 2008 because we believed it was expensive given the likelihood of a fall in commodity prices as economic slowdown in the West started to impact the East. The market subsequently reacted to a peaking in metals and oil prices and the stock sold off. We covered the stock when it began to look oversold and committed the funds elsewhere.'

Skandia notes the stock fell circa 8.5% in this period.

In summary, the unique structure of UK Strategic Best Ideas has been beneficial for returns in its first year – a year when stock markets have fallen sharply and experienced unprecedented levels of

volatility. The ability to adjust the market exposure controlled the volatility of the fund exceptionally well over the year, with the fund exhibiting roughly 50% of the market volatility.

In addition, holding a fund such as this offers a solution complementary to traditional equity funds and, given current market conditions, the ability to profit from falling share prices could well be hugely appealing. ●

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

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.
* Source: Lipper Hindsight, 19 September 2007 to 19 September 2008.

** Source: Financial Express, bid to bid, net income reinvested, 19 September 2007 to 19 September 2008.

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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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