

June 2009

# absolute expertise

.....

Last month in *informer* we investigated absolute return strategies, including why picking the right manager is so important.

This month, *informer* spoke to **Ben Wallace**, Fund Manager of the Gartmore UK Absolute Return Fund, to find out what qualities he believes a good absolute return fund manager needs.

.....

**i: Ben, define absolute return investing?**

**BW:** Absolute return investing can mean different things to different people. Our interpretation, at Gartmore, is that absolute return funds aim to deliver a positive return regardless of market conditions, although this is not guaranteed. Investors need to understand that when markets surge, these funds may not necessarily deliver the same high returns, but instead look to deliver a steady rate of return.

**i: How do you achieve this?**

**BW:** Absolute return funds aim to achieve their goals by using a variety of tools. In my Fund, for example, I am able to take short positions which allow me to potentially make money when markets fall. The principle behind shorting is, obviously, that if done successfully we will sell a share at a higher price and then buy it back at a lower price, therefore generating a profit for the Fund.

**i: How do you short in an absolute return fund?**

**BW:** Importantly, under UCITS III, absolute return funds are not allowed to sell shares they do not own, in the hope of buying them back at a later date. Instead, the manager can short stocks by what are known as 'synthetic shorts'. The mechanism by which we generate a short position is via an instrument called a Contract for Difference (CFD).

**i: Are absolute returns strategies new?**

**BW:** Although relatively new to the UK retail investor, absolute return strategies have been around for decades. In fact, the world's first absolute return investment strategy was launched in the US in 1949.

It aimed to neutralise the effect of overall market movements on the portfolio by using shorting, enabling investors to benefit when markets fall.

Until recently, absolute return strategies were often out of reach for retail investors. Only unregulated offshore hedge fund managers could run such portfolios, restricting their investor base to sophisticated investors. But, with regulatory changes, and in particular with the EU's UCITS III directive in 2002, absolute return fund managers can now offer these strategies to mainstream investors within an authorised and regulated structure.

**i: Tell us about yourself, what is your background and what qualifies you to run an absolute return fund?**

**BW:** I've been involved in the UK equity market running UK funds for over ten years. My background was as a traditional long-only manager, benchmarked relative to an index, but I started running absolute return portfolios back in 2004 and have had good success at generating absolute returns for my investors over the last five years.

**i: How do you construct your portfolio?**

**BW:** About a third of the positions are longer-term, core ideas. So, typically, these tend to be in the portfolio for well in excess of 12 months, sometimes quite a bit longer. Two thirds of the portfolios tend to be in shorter-term, more tactical ideas. These ideas typically have less upside or less downside than the core ideas, but generally the payback period is quicker.

The key driver behind the Gartmore UK Absolute Return Fund is stock picking, so ultimately the skill lies in being able to pick

//  
I started running absolute return portfolios back in 2004 and have had good success at generating absolute returns for my investors over the last five years. //

companies that can go up as well as those that will fall. The objective of the Fund is to successfully identify both sets of stocks, with an aim of delivering absolute returns to our investors, regardless of market conditions.

**i: How does the current market volatility affect absolute return funds?**

**BW:** I believe volatility can be the friend of an absolute return fund. Volatility potentially helps us make money on both the long and the short book within the tactical part of the Fund. As we move to a more volatile world, people will look at managers who have been able to generate positive returns in both up and down and stock markets. I think that's what's really encouraged investor interest in absolute return funds, knowing that they can give their money to a fund manager and if they do their job correctly they'll get a positive return no matter what the market circumstances.

**i: What other factors beside fund manager experience and ability do you think are important in managing an absolute return fund?**

**BW:** Risk management is fundamental and can not be overlooked. Gartmore has a lot of experience in managing risk, not only on the long-only side but also from having had the benefit of running absolute return portfolios since 1999. A lot of the work we do on the risk side is to reduce factor risk, eg exposure to oil or the US dollar, so not to overly expose the Fund to any external events. We then try and isolate more stock specific risk, which is where we believe we have the competitive advantage.

**i: What kind of investor would an absolute return fund suit?**

**BW:** Anybody and everybody, from private individuals to those running a discretionary portfolio. Of course everyone will have a different investment aim; however, this Fund could potentially have a place in all diversified portfolios. ●

The Gartmore UK Absolute Return Fund is available through Skandia's Life and Pensions fund ranges and Selestia Investment Solutions platform.

The Skandia fund will not mirror the performance of the underlying fund because of Skandia fund charges, taxation adjustments (if appropriate) and the Skandia investment process.

The Gartmore UK Absolute Return Fund invests in shares and derivative instruments, which are more volatile than other asset classes such as cash or bonds. The Fund aims to typically deliver absolute (more than zero) returns in each year, although an absolute return performance is not guaranteed. Over the short term it may experience periods of negative return and consequently the Fund may not achieve its objective.

[www.skandia.co.uk](http://www.skandia.co.uk)

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Selestia Investment Solutions investment platform gives you access to an ISA and Collective Investment Account provided by Skandia MultiFUNDS Limited, a Collective Retirement Account and Collective Investment Bond provided by Selestia Life & Pensions Limited and an Offshore Collective Investment Bond distributed by Skandia MultiFUNDS Limited for Old Mutual International (Guernsey) Limited.

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.

Skandia Life Assurance Company Limited, Skandia MultiFUNDS Limited, Skandia Investment Management Limited and Selestia Life & Pensions Limited are registered in England & Wales under numbers 1363932, 1680071, 4227837 and 4163431 respectively. Registered Office at Skandia House, Portland Terrace, Southampton SO14 7EJ, United Kingdom.

All companies are authorised and regulated by the Financial Services Authority with FSA register numbers 110462, 165359, 208543 and 207977. VAT number for all above companies is 386 1301 59.

Old Mutual International (Guernsey) Limited is regulated by the Guernsey Financial Services Commission and is licensed to write long-term business under the Insurance Business (Bailiwick of Guernsey) Law 2002. Registered number 2424.

Registered Office at Fairbairn House, PO Box 121, Rohais, St Peter Port, Guernsey GY1 3HE, Channel Islands.