dynamic performance

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François Zagamé reports on an impressive first year for the Skandia Global Dynamic Equity Fund.

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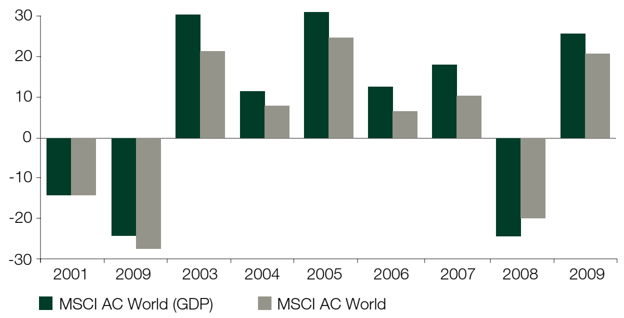
The Global Dynamic Equity Fund is a flexible global equity solution that combines both manager selection and active asset allocation in a single package. The fund invests in a diversified portfolio of high-quality investment managers, each running specialist regional or country-specific mandates which combined access the full global equity opportunity set.

Since launch the fund is substantially ahead of both the IMA Global Growth sector and its benchmark, the MSCI AC World GDP Index*. Manager selection has been the main source of alpha, accounting for around two-thirds of outperformance versus the benchmark, while asset allocation positions have added the remainder. On the manager selection side, highlights include Marsico (US Equities), FuNNeX (Japan), Schroders (UK) and MIR (Asia Pacific), all of which have substantially outperformed their respective benchmarks. The fund's overweight in Asia Pacific ex Japan and Emerging Market equities and underweight in developed Europe ex UK have been key contributors to performance since launch.

manager selection

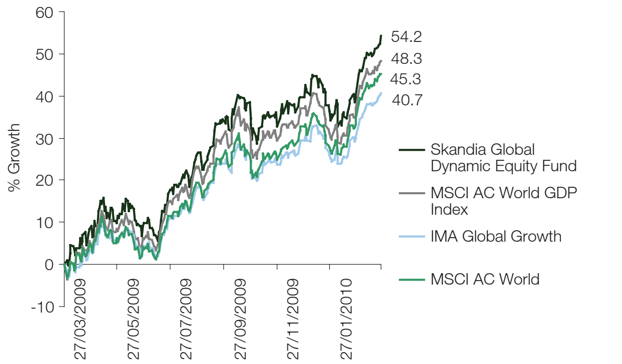
When selecting managers for the fund, Skandia Investment Group's (SIG's) portfolio managers draw on the expertise and resources of SIG's investment research team but also take an active role in meeting and researching managers. The depth of our research allows us to find outstanding managers that are less widely available in the UK, such as MIR and FuNNeX. Meanwhile, our size and the relationship we have with fund groups enable us to obtain bespoke mandates from well-established teams, such as Gartmore, who manage an Emerging Market ex Asia portfolio designed specifically and exclusively for the Global Dynamic Equity Fund.

For larger markets and regions, we seek to combine managers with different figure 1 – GDP-weighted benchmark



Source: Factset. Gross return, in sterling terms.

figure 2 – dynamic performance



Source: Lipper Hindsight, 27 March 2009 to 26 March 2010. Bid to bid, with net income reinvested, in sterling terms. Past performance is not a guide to future performance.

investment styles, with a view to adjusting exposure to each as market conditions change and depending on our medium- to long-term outlook for each approach. In Europe and the US, this may be through investing in value and growth managers, as well as those with a pragmatic approach or quality bias. However, for some regions such as Asia, we believe there are better ways to capture alpha than the traditional growth/value blending. In these markets, our research shows that portfolio beta is a bigger performance differentiator and so we have combined one high beta (aggressive) manager, MIR, with another more defensive, quality-focused manager, First State. The fund is currently overweight MIR given our positive outlook on the region. For smaller markets, we have selected high-conviction managers who we believe can add value in a variety of market conditions.

tactical asset allocation

Our asset allocation positioning has also added value since launch. Through the use of a derivative overlay, the portfolio management team are able to implement tactical positions away from the strategic asset allocation in a timely, cost-effective manner. The overlay removes the need to trade the underlying portfolios, which would incur significantly higher transaction costs and affect the overall blend of managers. The tactical asset allocation component is managed with clear risk parameters, which allow the portfolio managers to adjust the allocation to each region by up to 30% either side of the target weights but not to exit regions entirely. This framework ensures an appropriate level of investment flexibility while managing benchmark risk effectively.

The asset allocation positioning is influenced by the views of SIG's Global Asset Allocation Committee (GAAC), which comprises senior members of the portfolio management, investment research and asset allocation teams. The GAAC debates and agrees a series of recommendations, drawing on a variety of sources including extensive economic and market analysis, views of key managers in the industry, and in-depth quantitative analysis of valuation, growth and momentum trends. The portfolio managers seek to reflect the GAAC's views within the fund, where applicable, but have discretion on all positions. Importantly, all recommendations are considered in the context of the fund's existing allocations and the characteristics of the underlying holdings to ensure any changes are implemented in the most effective way.

In addition to seeking alpha through geographic positioning, the portfolio managers actively manage the fund's allocation to different styles (eg growth/value) and market capitalisations. These positions, which tend to reflect longer-term views, are achieved primarily through adjusting the exposure to the underlying mandates.

The fund may also take advantage of thematic or specialist investment opportunities via collective investment schemes (up to 10% permitted). One current example is the holding in the JPM Global Financials Fund. Financials are significantly out of favour across the asset management industry at the moment but we believe they are attractively valued on both a relative and absolute basis. Allocations to specialist funds such as this provide another potential source of alpha and are kept at a relatively low weight to both ensure they do not dominate manager selection and given the somewhat higher tracking error such funds may exhibit relative to the fund's benchmark.

strategic asset allocation

The fund has a GDP-weighted benchmark, giving greater exposure to economies enjoying the highest growth rates. Since strong economic growth tends to result in strong profit growth for a country's corporate sector (which ultimately drives its stock market returns), this choice of benchmark should add value over the long term. As shown in figure 1, the MSCI AC World GDP Index has outperformed the MSCI AC World Index in almost all of the past eight years, in many cases by a very clear margin, and over the long term. The choice of a GDP-weighted benchmark sets the fund apart from many of its peers, which are typically benchmarked against a market cap-weighted index. This is highlighted by figure 2, which shows that the IMA Global Growth sector average has performed much more in line with the MSCI AC World Index since the launch of the Global Dynamic Equity Fund in March 2009.

The Skandia Global Dynamic Equity Fund is available across the Skandia UK fund ranges.

*See figure 2. Past performance is not a guide to future performance.

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