

selecting the best

August 2009

Skandia's Global Best Ideas Fund has enjoyed a great first half of 2009, outperforming the IMA Active Managed sector by more than 6% during the first six months of the year and ranking in the first quartile.*

Ryan Hughes explains the drivers of performance.

The strong performance of the Global Best Ideas Fund so far this year is evidence of the excellent stock-picking capabilities of the ten underlying managers, who each invest in their ten highest conviction ideas. It is also partly attributable to an improvement in the market environment.

It's well documented that the second half of 2008 brought some of the worst conditions for financial markets in history, causing investors' risk appetite to plummet. The Global Best Ideas Fund came under significant pressure against this backdrop of largely unprecedented developments. However, the high level of dispersion in the market following this extreme and indiscriminate sell-off has created some excellent opportunities for stock-pickers as many companies with strong fundamentals have been left highly undervalued.

That is not to say that the Global Best Ideas Fund will only perform well in rising markets; equities were in a broadly downward trend for the whole of 2008 and the Fund continued to outperform its sector for the first eight months of the year.** Indeed, the level of dispersion in share price valuations tends to increase during bear markets. The Fund does, however, have a bias away from

mega-cap defensive stocks and may underperform during periods of extreme risk aversion, such as we saw last autumn.

Our decision to replace two of the managers within Global Best Ideas in November 2008 has also aided performance. These managers failed to acknowledge the huge shift in market sentiment and the need to be pragmatic during exceptional circumstances: losing positions were not cut and the managers began to deviate from their agreed investment approach. The incoming managers, Richard Buxton (Schroders) and Tim Steer (New Star), had already demonstrated their capabilities in our UK Best Ideas and UK Strategic Best Ideas funds respectively. Tim Steer was subsequently replaced in March (on news of his resignation from New Star) by Audrey Ryan (Aegon) who has a very pragmatic style and had also proven her skills in the UK Best Ideas Fund.

adding value

Attribution analysis for the first half of 2009 reveals two banking stocks, Barclays and Royal Bank of Scotland, as the top contributors to the performance of Global Best Ideas. Excellent market timing has

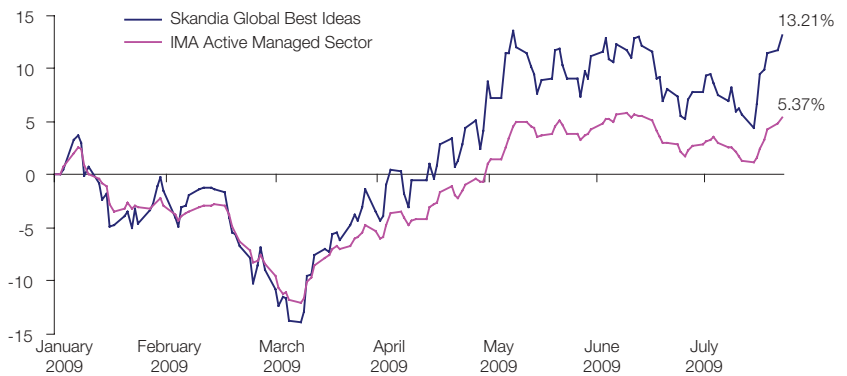
helped the Fund to capitalise on the strong and rapid rally in both companies' shares this year.

For example, one manager invested in Barclays on 23 January 2009 at 51p per share, the lowest level in decades, making a profit of more than 450% in the months that followed as shares reached 280p at the end of June. The size of the position was trimmed around this time to lock in gains but a significant exposure has been maintained and Barclays' share price has since risen above 300p (correct as at 21 July 2009). Similarly, one manager significantly increased their holding in Royal Bank of Scotland at 11p in late January, taking profits when the share price exceeded 50p and realising gains in excess of 400%.

These examples highlight that the underlying managers are not afraid to add risk to their portfolio where they have high conviction regarding the potential gains that can be achieved through market timing. Taking such positions at a time when negative news on the banking sector showed few signs of abating demonstrates just that. The remaining top contributors are



performance in 2009 to date



Source: Financial Express, total return bid-to-bid with net income reinvested, in Sterling terms, 31 December 2008 to 21 July 2009. Past performance is not a guide to future performance.

top 10 contributors to performance

	Fund Average Weight	Relative Average Weight	Relative Contribution
Barclays Plc	2.26%	1.58%	2.62%
Royal Bank of Scotland Group Plc	1.78%	1.52%	1.46%
Apple Inc	2.05%	1.86%	0.77%
Premiere AG	1.24%	1.24%	0.76%
Anheuser-Busch InBev	1.19%	1.08%	0.55%
Google Inc	1.99%	1.83%	0.49%
Kasikornbank	1.20%	1.19%	0.47%
HSBC Holdings Plc	0.33%	-3.01%	0.47%
ITE Group Plc	0.76%	0.75%	0.46%
AngloGold Ashanti Ltd	1.13%	1.11%	0.44%

Source: Factset 31 December 2008 to 30 June 2009. Based on average holding size over the period. Relative weighting against a benchmark comprising 50% FTSE All Share Index/50% MSCI AC World (GDP weighted) index. Past performance is not a guide to future performance.

a mixture of large, well-known companies including Apple and Google, and less familiar names such as German pay-TV company Premiere, Thailand's Kasikornbank and ITE Group, which organises exhibitions and conferences in emerging markets.

reasons for optimism

The Global Best Ideas Fund is well diversified in terms of country, sector and stock allocation, indicating that managers are finding opportunities in different areas of the market. This is confirmed by the low level of stock overlap within the Fund (currently only nine stocks are held by more than one manager[#]). The Fund's top 10 holdings are also well diversified, with all but one of the positions at less than 3% of the portfolio.

The underlying managers have mixed views on the outlook for their respective markets in the short term but there are plenty of reasons to be optimistic. Following last year's heavy sell-off, equity markets now

look attractively valued on a number of measures. Meanwhile, it is clear that we have now entered a more favourable environment for stock-pickers and some great companies have been left with very compelling valuations, presenting excellent long-term opportunities.

Regardless of the future direction of equity markets, all of our underlying managers maintain a consistent and disciplined approach to investment decision-making, continually reviewing their level of conviction in each stock held. With each portfolio investing in just ten stocks, there is little room to hide poor decisions. This is not just limited to cutting losses on a weak position; it can be equally challenging to exit a favoured stock that has performed exceptionally well. However, profit-taking and recycling those gains are essential and we take an active role in ensuring managers do not become wedded to certain stocks and are constantly thinking about their 11th and 12th best ideas.

Stock selection is expected to be the main driver of performance within the Global Best Ideas Fund going forward. That said, with the UK leading the economic recovery in developed markets, the Fund's bias towards this market should have a positive impact. Meanwhile, the Fund's allocation to overseas equity markets is determined in relation to the MSCI AC World (GDP-Weighted) Index, which offers greater exposure to faster-growing economies, notably emerging markets, than its market-cap-weighted counterpart, the MSCI World Index. Again this should prove beneficial as many emerging economies are in better financial shape than their debt-burdened developed counterparts. ●

The Global Best Ideas Fund is available through Skandia's Life and Pensions fund ranges and the Skandia Investment Solutions platform. For further details visit

www.skandiainvestmentmanagement.com/fa/bi

*Source: Financial Express, total return bid-to-bid with net income reinvested, in Sterling terms, 31 December 2008 to 30 June 2009.

**Source: Financial Express, total return bid-to-bid with net income reinvested, in Sterling terms, 31 December 2007 to 31 August 2008.

#Source: Skandia Investment Group, correct as at 30 June 2009.

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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