

SVM Cautious Managed & Balanced Managed Funds – Introduction

SVM Asset Management has established an enviable track record with their unique multi asset, multi manager approach since the inception of SVM Global Fund plc back in 1990. This strategy has consistently delivered exceptional performance over a range of market conditions. Following the launch of the SVM Global Opportunities Fund in May 2006, two new funds, the SVM Cautious Managed Fund and SVM Balanced Managed Fund now join the stable, bringing the benefits of this unique process within reach of more cautious investors.

Mark Noble, Head of Retail Sales and Marketing

The first fund that SVM launched was SVM Global Fund plc, it's an investment trust and it's really the core of our fund of funds strategy. It's delivered somewhere around about 5% per annum compound of outperformance over and above the FTSE World index, and that is the total return index, so that is reinvesting dividends. That's a remarkable performance. In terms of cash delivery, had you invested £10,000 in this fund at launch, it is now worth approximately £108,000. We can contrast that with the index total return of around £35,000, or cash of about £20,000, so it's an exceptionally strong performance record and it has done it through virtually all market conditions (Source; Lipper Hindsight, Share price TR to 31.12.07)

The funds we run very much on the basis of our existing global portfolios. These are multi asset fund of funds structures. SVM believes that if we are moving outside our own core competence of UK and European equity investment, we have to use the specialisations of others. We've very successfully been doing this from 1990. So we'll be adopting the core model of Global Fund and Global Opportunities and then adding a portfolio of cash and bonds to bring the portfolio into the overall requirements of the IMA Balanced Managed sector and Cautious Managed sector.

Running multi asset portfolios has not really been used by very many cautious funds to date, but the diversity, the not having all your eggs in one basket, certainly can give people a very different type of performance and risk.

I believe these funds should be a core holding of virtually every investor's portfolio. For more adventurous investors, I believe that Global Opportunities or Global Fund will be ideal vehicles for long term performance. For those who are concerned about short term volatility, the Balanced and the Cautious funds are going to offer a dampened volatility and therefore a more acceptable level of risk, but still offering the potential for very good upside over the long term.

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It's been very interesting over the last few years seeing how intermediaries have recognised the value of multi asset investing and have been seeking for more interesting investments rather than the pure equity bond mix. I suppose we saw the start for the stock broking fraternity with some more interesting investment trusts, of which SVM Global Fund is one. Over the last few years, though, IFAs have demanded these products and we've been very happy indeed to be able to offer our expertise into this area by launching Global Opportunities, our OEIC version of Global Fund. I think that the launch of these two new funds broadens the appeal of SVM to a much broader marketplace and gives access to what we think is an exceptional skill level to a much broader investing community.

Donald Robertson, Lead Fund Manager

Our investment approach really is to make shareholders money, not to lose them money more slowly than some of our competitors. So we're into really creating a portfolio that has the ability to generate returns over all markets circumstances. It's very difficult, obviously, when markets correct aggressively not to lose money, but we are here to make shareholders money. What we try and do is mix a portfolio with absolute return funds and relative return funds, which should have the ability to outperform in all market circumstances.

We have two types of asset classes: we have one that basically looks after the absolute performance part of the portfolio, and that includes things like private equity, hedge funds and property, and we have another part of the portfolio which looks after the relative performance, i.e., the benchmark orientated part, and that is specific funds looking at geographical areas like emerging markets, resources, specialist funds, etc.

I think we have slightly different views on property from a number of our competitors. We see property as a very defensive asset, obviously you have to buy it at the right time and at the right level, but I think if you do that it has the ability of generating both relative and absolute performance. I think property over the last few years, well certainly in the last year, has been quite problematic, especially in the UK and in America. We've never had any property exposure in America and very limited in the UK. We much prefer property in emerging markets, so we have exposure in Brazil, in Cuba, in South Africa, China and Japan. They may seem rather odd places to make investments, but they're much more attractive in terms of growth potential. They also yield better than UK and America, so we think that's attractive places to make investments.

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Similarly to property we have two other areas that we believe offer absolute return potential, one is in hedge funds and the other is in private equity. Our hedge fund exposure we like to invest in a number of different strategies. What we are looking for is a 12% to 15% return potential per annum, irrespective of markets. So these positions are not market sensitive positions at all, so we'll have investments in debt, for example, in forestry; we have agriculture; we also have long/short equity, and these types of positions have the ability to generate returns without necessarily having stock markets working in your favour.

Private equity is for us a very good long term investment. It's one of the original threads that we had in our multi manager strategy right back at the beginning of the '90s. What we are trying and do is to buy private equity not at the start of its life, but sort of half way through its life, where really the return potential is very high. Most private equity funds are looking for a 25% to 35% per annum return over, say, a seven-year life, but if you can get involved after year two or even year three, you're probably more like a 40% to a 50% return potential without the problems of suffering write-downs at the beginning of a fund's life, so that's is the sort of area we are looking to invest in in terms of our private equity and it seems to work pretty well, similarly to buying things on big discount. Similarly to the advantages of buying into a standard investment trust, buying into a closed-end private equity fund, you can buy at discounts of 25%, even 30%, and you have that ability to generate good organic asset value performance, plus the ability to narrow discounts. So we think that on a longer term basis it's a very attractive asset class.

I think on the aggressive side, i.e., the side that is looking after the relative performance parts of the portfolio, we have three areas. The first is one we loosely call specialist funds and tends to be the funds invested in low risk funds in emerging markets and high risk funds in developed markets. Obviously an emerging market has a fair degree of risk attached to it anyway and for us we'd rather be involved in a low risk fund in that particular area. Similarly, in developed markets, there's not that much in a way of economic risk or shouldn't be, so you can take slightly higher degrees of risk on a fund level.

The second area we look at is in resources. We think we're in a long-term cyclical bull run in resources, which probably started a couple of years ago, but probably has another 10 years still to run. There's a massive supply-demand imbalance within resources, principally generated out of the explosive growth in China, which is not going to go away, so resources prices will remain high and supply takes a long time to come through, so having funds exposed to natural resources and commodities is an attractive proposition.

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And the final area is an area which we loosely class as others, which includes corporate activity opportunities. There are a number of funds in the market that are subject to arbitrage interest and winding-up propositions, and we think having a small amount of that in the portfolio offers the ability to generate super returns when discounts are virtually eradicated when a fund is wound up or restructured.

The two new funds, the Cautious Managed Fund and the Balanced Managed Fund, will appeal to a different range of investors than our core portfolio, the Global Opportunities Fund. Simply, the Cautious Managed Fund will have 40% in fixed interest investments and 60% in the core Global Opportunities Fund of Funds strategy, and the Balanced mandate will have 15% in cash and cash equivalents and the balance in the Global Opportunities mandate.

Within the fixed interest oblique cash part of the portfolio I think the first decision we have to make is: Do we want to take any risk in that part of the portfolio at all? At present probably you don't want to take any risk. The credit markets are dangerous to say the least and you get paid quite a large amount of money in terms of interest on a fairly riskless basis. UK government securities, for example, are paying quite attractive yields and in fact cash deposits pay even enhanced yields, so our first question is: Do we want to take that risk? And, if we do want to take that risk, which undoubtedly at some point in the future we'll do, to ensure that we are in good quality assets with good quality yields producing the returns that will be able to give us the absolute performance that we are looking for.

Stability of returns is very important for management choice. We're also looking for the ability for them to offer an edge, we don't want a range of sort of 'me too' funds, we want things that are different, interesting opportunities to make super returns. We also like managers who are a bit like me, with a little bit of gray hair, a bit of experience. I've been doing this for 25 years and we are looking for our managers to have a good deal of experience. We also like them to be domiciled where they are making the investments, so if they are operating a Chinese fund, for example, we want him or her to be in China, we don't want them based in London or god spell up here in Edinburgh. I think that differentiates us from some of our competitors.

I think the advantage of investment trusts over open-ended funds is your ability to buy them on a discount. There are lots of discounts available at the moment, in some cases 20%, 25%, even 30%. So that gives you an opportunity to buy a pound's worth of assets for 80p or even 75p, and I think that appeals to my Scottishness, maybe my meanness, it's always nice to buy something cheap and if you can get a closed-end fund or investment trust that has a discount narrowing potential, I think that gives the best of both worlds: the return that the fund has as an asset value basis and also

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discount narrowing. And specialisation in particular of an investment trust means that you can focus absolutely on the area you want to be invested in rather than investing in a fairly general open-ended fund that probably doesn't offer the attractions that a closed-end specialist fund has.

I think what differentiates us is we are prepared to invest in anything. We'll look at esoteric funds, we'll look at fairly staid and boring funds and hopefully the combination of and a mixture of those put together will give us an opportunity to make money in all market circumstances.



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