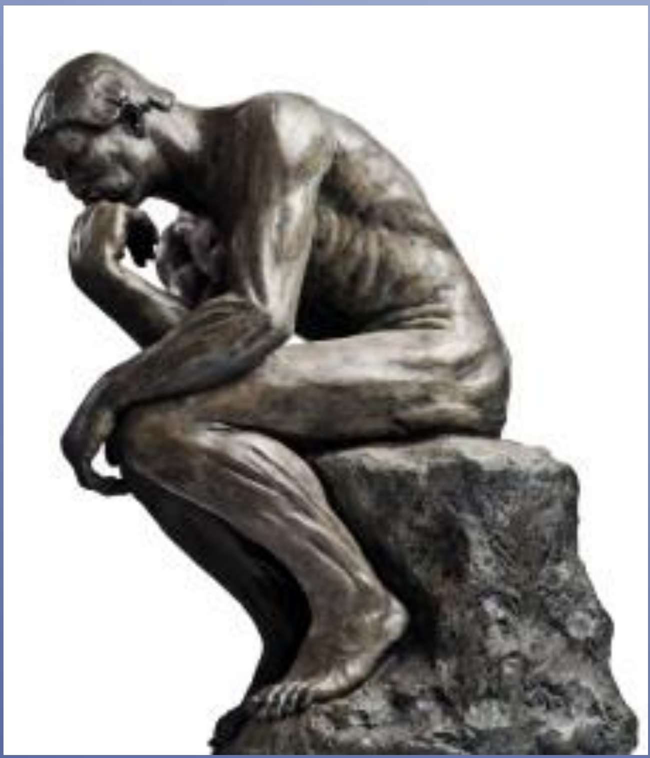

Fund Bites

SLI UK Equity Unconstrained Fund

The SLI UK Equity Unconstrained Fund is part of our more adventurous portfolios. This "fund bites" is a summary of the recent telephone conference we had with the fund manager, Ed Legget.

Introduction

The SLI UK Equity Unconstrained Fund has been part of our adventurous portfolios since 2011. Ed Legget has managed the fund since 2008 and it has constantly out performed over this period. However it is more volatile and rather than a straight steady return it will be much lumpier than some of the other funds we use.

We have met Ed on a one-to-one basis and this telephone conference call was about getting an update on the UK macro picture as well an update on how the fund is positioned to benefit from this.

It is a conviction portfolio with around 50 stocks; although Ed will pick FTSE 100 companies he is more likely to focus on Mid 250 companies where he sees greater value.

The Fund

Since June 2012 the markets have shown significant upturn especially from the lows of 2008 / 09. This has been as a result of a number of factors.

The macro fears around Europe have lessened and the feeling of a break up in the Eurozone seems very low. This sentiment has come from moves from the ECB and the reduction in yields from bonds. The politicians have started to accept that any breakup would be too serious for the markets and the cost far too high.

Monetary policy still continues with QE from the UK and the US as well as Japan. The ramifications from Japan still need to play out.

Ed's is seeing bond yields hitting new lows and investors are searching yields. This means people start to turn to equities. In relative terms equities still look cheap compared to other asset classes and there is scope for more growth if investors gain confidence in the markets.

There are particular areas of the market that Ed is avoiding. So for example infrastructure and the likes of Balfour Beatty who they believe are at the whim of government spending cuts. With big pharmaceuticals Ed believes that the likes of Glaxo will struggle to grow earnings. In the food retail space Morrison has also struggled to grow earnings.

So the fund is about best ideas. Ed likes banks like Barclays and Lloyds. He has sold some of the profit and used this to buy into Standard Chartered which has a strong emerging market play.

Ed also likes what he calls end of market recovery stories like Taylor Wimpey. They are building a significant amount of houses but these are below their peak level and with the government incentives this is clearly an opportunity stock. Another company in this area is Signet which is a US jewellery retailer, sales are down significantly from the peak as confidence comes back into the market then their sales will increase.

Ed also favours what he calls market share winners; the likes of EasyJet are examples of this. They expect strong earnings growth through market share gains and also smaller competitors going out of business.

This fund is about conviction and what Ed believes will be long term winners. It will not be a smooth ride but the long term performance is excellent and for this reason we continue to believe this is an important part of the portfolios.

Conclusion

We have blended this fund with the likes of Liontrust to provide a counter balance to its more adventurous approach. We know that there are times when this will underperform however in the current market it is performing strongly and long term we believe this remains an excellent hold.