SVG Investment Managers

December 2009

SVG UK Focus Fund
A Class Shares
Update Q4 2009

Fund objective

The SVG UK Focus Fund aims to maximise returns by investing in the UK stock markets using private equity techniques. The fund invests in the equity of a maximum of 35 different companies and is not constrained by market indices.

Fund manager's review

The Fund delivered a return of +6.1%. This performance was particularly noteworthy given the 7.7% decline in the smaller companies market over the period, to which the Fund has significant exposure. Over the year the shares in the Fund have gained 48.3% in value outperforming the All-Share index by 18.1%.

2009 was an extraordinary year for the UK equity market and Q4 proved no different. Global macro news, earnings trends, and external shocks, this time in the form of the potential default of Dubai World, all played their part in contributing to another volatile quarter. Resource and commodity stocks remained in favour with the mining and basic materials sectors driving the UK market.

Fund performance was driven more by stock specifics. As has been the case all year, the Fund retained very limited exposure to "beta" driven sectors such as highly geared smaller companies, financials and resource stocks. We believe that share prices in these areas are fully anticipating a significant recovery and so offer a poor risk/reward trade off. All of the top five contributors to Fund Performance over the period were from different sectors, and none from the sectors highlighted above.

Turnover in the Fund has remained low. We have remained in regular contact with our holdings throughout this period and have been consistently impressed with the speed with which management teams have reacted to changing end markets and financial conditions. This is reflected in their results to date and this trend is continuing to flow through in trading updates.

Performance attribution

Key drivers of Fund performance over the period were **KCOM Group**, **Salamander Energy**, **Spirent**, **Burberry** and **Phoenix IT**.

KCOM, the telecoms services business, issued a positive trading update and results. Its turnaround appears to be gaining momentum. **Salamander Energy**, the Asian based Oil and Gas Company, issued a robust trading update.

Spirent, the telecoms equipment supplier, released a trading update showing trading in-line and a positive outlook statement. There is concrete evidence of key customers such as telecom operators and device manufacturers ramping up investments in 4G technology. This augurs well for Spirent's 2010 prospects.

Burberry, the fashion and accessories company, released a strong set of H1 numbers showing good underlying cash generation and continued momentum in gaining market share.

Phoenix, the IT services business, also delivered strong H1 numbers showing strong underlying cash generation, continued contract momentum and a positive outlook statement.

The only material negative contribution came from **Communisis**. The company has recently gone through a management change and we are reviewing our position.

Portfolio activity

The Fund made three new investments: **Redhall**, **Lupus** and **Lavendon**. **Redhall** is a specialist engineer supplying the nuclear power industry. We believe the company is strategically well positioned to benefit materially from future growth in nuclear spend. **Lupus** is a small industrial conglomerate with two business units: Building Products, and; Gall Thompson, a supplier to the marine and offshore industrial sectors. We believe Lupus offers an outstanding investment opportunity, with significant earnings growth potential as the US housing cycle recovers, in addition to re-rating potential as cash flow is used to de-gear the balance sheet. The Fund also took part in a deeply discounted fund raising for **Lavendon**, the specialist equipment rental company. Lavendon found itself with the wrong capital structure for this point in the cycle having overinvested in equipment. The company is committed to using its considerable cash flows to repaying debt on its balance sheet. The Fund raising, we believe provided a highly attractive entry point.

The Fund made two disposals: **Lloyds Banking Group** and **Partners Group Global Opportunities (PGGO)**. The Fund tactically sold its holding of Lloyds Banking Group as we perceived significant execution risk around the company's fundraising activities. **PGGO** was a forced sale following a change of vehicle structure which precluded the Fund from legally continuing to hold the investment. SVGIM voted against the change and views the outcome as disappointing.

Outlook

Although a number of Fund holdings rallied more than 100% over the year, the Funds financial metrics remain highly attractive with a P/E of 10.3x and free cash flow yield of 10.7%.

Like private equity investors, we look for our investee companies to create value for our clients in four ways; through earnings growth, re-rating, de-gearing and corporate activity. The current environment we believe is supportive of all four. Positive earnings revisions are occurring at their fastest pace in five years. Valuations are also supportive: On a cyclically adjusted earnings basis the UK market looks fair value, on a price to book basis, the UK market is still only trading on a multiple seen at the trough in 2003. Interestingly also, if return on equity recovers from here, as recent data would suggest is the case, it will have troughed at average levels through the cycle, rather than trough levels, reflecting aggressive and timely cost cutting taken by UK plc. This is also likely to be supportive of higher multiples going forward. De-gearing is being enforced on companies by the macroeconomic environment and continued scarcity of debt funding. Finally while M&A is still at low levels, Q4 saw a significant pickup in activity both by corporate and signs of green shoots in private equity activity. The weakness of sterling makes companies listed in the UK markets particularly attractive to overseas buyers and with the on-going freeing up of capital markets, both debt and equity, we see this becoming an increasing theme in 2010. With a free cash flow yield of 10.7% and a collection of highly attractive strategic assets, we believe the Fund is well positioned to benefit from this going forward.

Top five holdings	% of Fund
KCOM Group	7.8%
Vodafone Group	6.7%
GlaxoSmithKline	6.1%
Spirent Comms	6.1%
RPC Group	5.4%

Top 5 contributors (basis points)	
KCOM Group	+148
Salamander Energy	+108
Spirent	+107
Burberry	+83
Phoenix IT	+79

Bottom 5 contributors (basis points)	
Communisis	-77
Lloyds Banking Group	-49
Wilmington	-30
DMGT	-26
Redstone	-15

Consensus valuation data*

	SVG UK Focus Fund	FTSE All-Share**
Price to earnings (FY1)	10.3	14.8
Price to book (FY1)	1.3	1.9
Yield (FY1)	3.4%	3.5%
SVG cashflow (FY1)	10.5%	n/a

	Q4 2009	YTD	Annualised since inception
SVG UK Focus Fund A Class/Strategy	+6.1%	48.3%	4.1%
FTSE All-Share Index Total Return	+5.5%	30.1%	8.6%

* Data as at 31 December 2009.
**FTSE All-Share Total Return Index.
Past performance cannot be relied upon as a guide to future performance.

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Key investment features

The Fund's investment process is modelled on the processes and disciplines of successful private equity investing and includes:

- Screening – valuation focused on cash flow, asset backing, transaction multiples and financial restructuring opportunities.
- Due diligence – the use of transaction data and private equity due diligence methods.
- Investment strategy – for each holding there is a documented investment strategy. This includes clearly identified catalysts, which will create shareholder value, an estimated internal rate of return and exit plan.
- Use of industry experts – utilising an Advisory Panel of senior industrialists including Stewart Binnie, Alan MacKay, Ken Minton, William Nabarro and Sir Clive Thompson.

Investment managers

Tony Dalwood – Tony is Chairman of the Board of SVG Investment Managers (SVGIM) and sits on SVGIM's investment committees. He originally joined SVGIM in 2002 as Head of Public Equities and became Chief Executive of SVG Advisers in May 2009. Prior to joining SVGIM, he was a Director at UBS Global Asset Management, where he was employed for seven years. While at UBS, he was a member of the UK Equity Investment Committee and responsible for managing over £1.5 billion of UK equities.

Adam Steiner – Adam is CEO of SVG Investment Managers, which he was instrumental in establishing with Tony Dalwood in 2002. Prior to joining, he was a director of UBS Global Asset Management where he was responsible for the management of over £1 billion of UK Smaller Companies equities and, previously, over £1.5 billion of Pan-Asian Equities.

Jamie Seaton – Jamie joined SVG Investment Managers in 2004 and is an investment manager. Prior to joining he was a fund manager at Rothschild Asset Management (RAM). While at RAM, he was a member of the European equity team and helped manage £0.5 billion of Pan-European equities. Jamie is a CFA charterholder and a member of the CFA Institute.

SVG UK Focus Fund facts at 30 November 2009

Structure	Dublin listed Open Ended Investment Company (OEIC) with distributor status
Launch date	5 August 2003
Fund size	£65.4m*
Share price	£12.85
No. holdings	25
Benchmark	5% per annum compounding performance hurdle
Dividends	Yearly
Liquidity	Daily pricing and daily dealing
Currency	GBP
Minimum initial investment	£10,000
Fund charges	Initial charge – up to 3.0% (typically waived by Investment Manager) Management charge – 1.25% per annum Performance charge – 15% on returns above benchmark The fund may also pay fees and charges related to administration, custody and other reasonable expenses
Reference codes	ISIN – IE0033377502 SEDOL – 3337750 Bloomberg – SVIUKFA
Administrator	Northern Trust

Further information

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*I & A Share Class combined.