

SVG UK Focus Fund

I Class Shares

Monthly Update January 2010

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.

Investment manager's review

The Fund continued to build on the success of 2009, delivering a total return of +2.7% in January, including a dividend of 23.6p declared on 31 December 2009. The All-Share Total Return Index returned -3.6%, led down by the financial and resource sectors which today make up more than 50% of the UK market by value, but to which the Fund has minimal exposure. This was a timely reminder of the dangers of an index tracking approach to investing.

Financials declined after Barak Obama's verbal attacks on the excesses of the banking industry, which signalled possible increased regulation. The resources sector was impacted by signals that China would actively move to reduce overheating in its domestic economy.

In addition to avoiding these difficult sectors, the Fund benefitted from its continued smaller company bias, which was significantly increased over the course of 2009, and its convertible investments in companies in the "TMT" (telecoms, technology and media) sectors. The top five contributors to performance in the month; **KCOM Group, Intec Telecom Systems, Spirent Communications, Pinewood Shepperton** and **DMGT**, were all in this category.

KCOM, the Fund's largest holding, performed particularly well rallying 24% in the period in anticipation of strong interim results which were duly delivered at the end of the month. Intec and Spirent saw forecast earnings upgrades and the announcement of new contract wins. Both companies are increasingly perceived as beneficiaries of the rapid growth in mobile data usage. Pinewood was subject to speculation about potential corporate activity as activist investor Crystal Amber announced that it had built up a significant stake in the company. DMGT was upgraded to a "buy" by a number of high profile analysts as optimism about a gradual recovery in advertising spending began to build.

Unsurprisingly the small negative contributors over the period were FTSE100 companies, namely **Glaxosmithkline** and **Vodafone**. These companies offer outstanding cash flow characteristics and are genuinely defensive. We believe Vodafone in particular has a clear catalyst for revaluation as the continued poor performance of Verizon Corp in the USA increases the pressure on that company to bid for Vodafone's stake in the highly successful Verizon Wireless joint venture.

The Fund made one purchase during the month in the media sector in which we are still actively dealing.

As at 31 January 2010

Fund performance

	SVG UK Focus Fund (%)	FTSE All-Share* (%)
1 month	2.7%	-3.6%
3 months	6.7%	3.6%
Year to date (2010)	2.7%	-3.6%
1 year	60.2%	33.2%
3 years	-20.5%	-2.5%

Top 5 contributors

	Contribution (basis points)
KCOM Group	+190
Intec Telecom Systems	+52
Spirent Communications	+51
Pinewood Shepperton	+43
DMGT	+26

Bottom 5 contributors

	Contribution (basis points)
Glaxosmithkline	-48
Salamander Energy	-44
Vodafone Group	-42
3i Group	-16
Filtronic	-10

Consensus valuation data*

	SVG UK Focus Fund	FTSE UK
Median		
Price to earnings (FY1)	10.3	12.1
Price to book (FY1)	1.3	1.6
Yield (FY1)	3.2%	4.0%
SVG cashflow (FY1)	11.67%	n/a

Top 5 holdings

	% of Fund
KCOM Group	9.6%
Spirent Communications	6.5%
Vodafone Group	6.2%
Glaxosmithkline	5.5%
RPC Group	5.2%

*FTSE All-Share Total Return Index.
Source: Factset portfolio analysis and Citigroup.
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.

*I & A Share Class combined.

SVG UK Focus Fund facts at 31 January 2010

Structure	Dublin listed Open Ended Investment Company (OEIC) with distributor status
Launch date	5 August 2003
Fund size	£66.4m
Share price	£13.24
No. holdings	26
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 – 0.75% 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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