



## **Sentinel OEIC**

### **Fund Manager Quarterly Questionnaire**

Period 3

1<sup>st</sup> October 2008 to the 31<sup>st</sup> December 2008

## **FUND DETAILS**

Fund: Defensive Fund

Managing Group: Premier Asset Management

Manager: Paul Branigan

## **PERSONNEL**

Please detail any significant changes to the personnel involved in the management of the fund and the analysis of underlying stocks/funds. In particular, please detail the length and type of experience/qualification for any new team members.

There have been no changes to the team involved in the management of the fund

Please give an approximation of total funds under management by the team managing the portfolio.

£80 million

## **INVESTMENT POLICY**

Has there been any change to your investment research systems or your style of management?

No change

What changes have you made to the Asset Allocation of the Fund?

During the past quarter, most of the cash flow into the fund has been invested into the fund of hedge funds section of the portfolio. This is not immediately obvious in the percentage allocated to this section as the value of existing stock fell markedly in the third quarter.

What is the rationale for these changes and what impact do you expect this to have on performance?

As prices in this area fell rapidly due to discount widening the opportunity for gains on a six to twelve month time horizon became clear. The combination of asset values being marked down (possibly too far) and widespread action to tackle the wide discounts in the sector should produce useful gains in the first half of 2009. Any failure by the managers of these funds to address the issue sufficiently will result in continuation votes in Q2 and Q3 not attracting sufficient support and consequently the funds will have to wind up.

What has been your portfolio turnover level and is this higher or lower than you would normally expect?

Whilst cash flow into the fund remains strong I would expect turnover to remain low. It was slightly higher than usual due to a few trades switching between different currency classes of the fund of hedge funds.

Are you confident that you have negotiated the best possible terms and have all discounts and rebates against initial charges and AMCs on underlying funds been negotiated by you and notified to Premier so that they can ensure these are received by the fund? Are you actively aiming to reduce the TER of the fund?

No initial charges incurred and trail fee claimed where available. The TER is very low and we aim to keep it that way.

Please supply 1 or 2 examples of good investments decisions you have made at stock level which have contributed to your performance.

The FTSE Stepped Growth structured product from Merrill Lynch rose nearly 10% since being purchased in the middle of October. The stock will payback a maximum of 175p in December this year unless the FTSE falls below 2360 before then.

The purchase of the Euro class of Dexion Absolute shares at 120 in early November at a wide discount has paid off as we tendered the stock back at a price of 138.5 last month. We also reduced some of the downside in existing holdings by switching out of the sterling classes into dollars or euros at bigger discounts.

Please also provide an example of a poor investment and how you have dealt with this to minimise the loss to the fund.

The purchases of Acencia Debt Strategies at the end of August have proved to be very costly. A combination of widening discounts to NAV, illiquidity in the underlying portfolio and the investment in a fund that in turn invested with Madoff has resulted in the share price halving. As a result we have had meetings with the company broker and called two of the three non executives (including the Chairman). We have a meeting with the management team scheduled for Monday 8<sup>th</sup> Feb and have held discussions with other disgruntled shareholders. The alternative is to sell the stock at a 40% discount and leave money on the table.

How have you managed the cash content in the portfolio with a view to maximising the return to the fund?

Yes. This is dealt with by my colleague Andrew Houghton who looks after our Treasury operations. Andrew compares the daily rate available on cash from our administrators with what is available from overnight rates from Treasury. Invariably this involves him putting the money out on overnight.

Are you happy with your stock selection across each sector?

In general I am happy with the stock selection across the sections of the portfolio. The zeros are performing in line with our expectations with the exception of REO, as previously discussed. The future for this company remains unclear and we await further news from the management team. Stock selection within the structured product area is ok with all the autocall products within sight of their kick out levels and a long way from the soft protection levels. Generally speaking the FOHFs that we own are reacting in a positive manner to the challenges in the sector however we are unhappy with the approach being taken by Acencia debt Strategies which remains at a very wide discount. FRM Diversified is also at a significant discount but we believe they will address this shortly.

If, not what changes are you looking to make over the next quarter and why?

We believe that to sell the REO holding at what would be a very distressed price is not in the interest of the fund and we are talking to the board and the management of Acencia about their future and do not intend to make a change here if we can achieve some progress. No other changes in stock selection are being contemplated at the moment. New cash is likely to find its way into all three areas but in particular the FOHFs.

Are there any particular factors which you feel have affected the performance or volatility of the fund?

Yes. Market conditions have been very unhelpful reflecting the widespread uncertainty about the global banking system and more recently about the length and depth of the recession. The banking crisis particularly as it has impacted Ireland has been bad news for the REO zero holding as it has impacted on their ability to reschedule debt.

The deleveraging that has taken place across the market has hit asset values of the FOHFs particularly hard as investors have tried to get out of similar positions. This has been compounded by the rush for the exit by a number of wealth managers reluctant to send year end valuations to clients showing large book losses. Therefore I would estimate that more than half the value that has been lost in the Defensive fund is attributable to this area. Of this I believe around two thirds is hopefully recoverable and does not represent a permanent loss of value.

Structured products have cost the fund around 6% due to the impact on mark to market pricing. This has been adversely impacted by the unprecedented rise in levels of volatility, combined with a significant widening of credit spreads as well as the severe falls in equity markets.

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