

The Sentinel Fund



To watch over and guard

Sentinel OEIC

Fund Manager Quarterly Questionnaire

Period Q4 - 2011

30/09/2011 to the 31/12/2011

FUND DETAILS

Fund: [Sentinel Universal](#)

Managing Group: [North Investment Partners](#)

Manager: [John Husselbee](#)

PERSONNEL

1. 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.

[No change.](#)

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

[Total funds under management stand at approximately £435m as at 31st December 2011.](#)

INVESTMENT POLICY

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

[There have been no significant changes to our investment research systems or style of management in the period under review.](#)

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

- [Cash increased mainly due to net creations](#)
- [Equity exposure reduced across the board in favour of a macro fund and a specialist insurance vehicle offering attractive returns in an asset class lowly correlated to equities and fixed income](#)
- [Property reduced](#)

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

[Markets are being driven by macro events and policy decisions, investor sentiment is having a greater impact on the direction of markets than fundamentals. We do not believe this is going to end anytime soon. Due to the lack of exposure to sovereign bonds within the portfolio, the Sentinel fund tends to underperform relative to the peer group when risk assets sell off. Gilts, treasuries and bunds continue to act as safe-haven assets, although we question the merits of this argument and are not prepared to buy into the asset class at these valuations. Instead we have sought to increase diversification in the portfolio through a 5% purchase in the CF Eclectica Macro Fund – a global macro hedge fund which has displayed uncorrelated returns to equity markets and continues to be positioned to benefit from a](#)

prolonged and deeper period of economic weakness than is priced in by fixed income and equity markets.

We continue to look for assets that are lowly correlated to equities and fixed income whilst offering attractive returns. CATco aims to deliver returns of Libor+ 12-15% through investment in fully collateralised re-insurance contracts providing reinsurance protection to global reinsurers. Following the recent spate of natural disasters reinsurance rates are likely to be set substantially higher when they are re-negotiated in the coming weeks. For those writing the reinsurance, in this case CATco, this is the ideal scenario. Following initial discussions on likely rates, the team believe 20-25% is a more realistic target. Whilst the return is obviously dependant on future natural events which are out of anyone's control, CATco seem to have engineered themselves a niche in the market which ensure they are in a far stronger position to protect the potential downside than their peers. Despite being a listed vehicle, this is one of the least correlated investment ideas we have come across and given the attractive climate for rates we have taken a 5% position.

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

As for Q3, the portfolio's turnover for Q4 has been higher than would normally be expected. This is for a number of reasons:

- Change in market climate – increased volatility in markets has led to changes in asset allocation.
- Active managers – a number of passive funds have been replaced by active funds. The large swings in asset prices and clear signs of capitulation in certain areas of the market have thrown up a huge number of opportunities within both fixed income and equity markets. Active managers are far better placed to take advantage of such dislocations and hence a number have been added to the portfolio to take advantage of the recent moves.
- Full sector review – all sectors were subject to a full review over the period which resulted in some changes at a fund level.

These changes have been completed and turnover is likely to return to more normal levels.

7. 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?

The negotiation of investment charges remains a key chain in the investment process and the team always push for the most competitive terms possible. As our assets under management with certain providers grow, we consistently re-evaluate the terms of business agreed with those fund providers.

8. Please list any funds that where the underlying TER of the fund NET of any rebate is greater than 1.5%. (If yes please complete the additional TER slide in the IC quarterly presentation)

- Absolute Insight Credit – TER 2.21% (1.18% excluding performance fee).

- Investec Enhanced Natural Resources – TER 3.59% (1.17% excluding performance fee).
9. Please supply 1 or 2 examples of good investments decisions you have made at stock level which have contributed to your performance.

- Our two recently added positions in US Equities, Threadneedle American Extended Alpha and Harris Associates Concentrated US Value performed strongly in Q3, significantly outperforming our existing holding in AXA Framlington American Growth which we continue to like even though it's growth style has underperformed over this period.

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

Our exposure to Japan significantly underperformed global equity markets in Q4 2011 but this equity market remains cheap on both a relative and historic basis and continues to be a play on a recovering global economy.

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

We have allowed the cash content of the portfolio to increase from net creations with a view held that the problems in Europe have not been resolved and are likely to create buying opportunities at a later date.

12. Are you happy with your stock selection across each sector?

We have completed most of the stock selection changes that we wish to over the last two quarters. We may make some changes to Asia in due course.

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

Schroder ISF Asian Total Return is our core holding within in Asia and we are currently reviewing whether we wish to switch First State Asia Pacific Leaders for an alternative fund.

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

In Q3 our overweight in Japan, Asian and the Emerging Markets has held back the performance of the fund versus holding the US and the UK, but our underweight Europe position added value. Our underweight position in gilts continues to impact the volatility of the fund but we are not prepared to change this position at current yield levels and have instead looked to close some of this position through the purchase of Eclectica Absolute Macro fund, where the manager has a bearish view on the world but invests in trades which are near their floor, i.e. if he is wrong the downside risk to his portfolio is limited.