

TakeNote

UK EQUITY FUND (RIC) – MANAGER ADDITION



In August 2006 we improved the manager line-up by adding Alliance Bernstein (Bernstein), primarily by reducing the allocation to Fidelity.

Reasons for the changes

The manager addition was made to further enhance the Fund's outperformance potential. Bernstein's high quality fundamental research together with its quantitative tools ensures a disciplined, long-term approach that we believe will help to add further value to the Fund. It also broadens the range of investment processes in the Fund and increases the exposure to our best research ideas.

Who is Alliance Bernstein and what is its investment process?

Bernstein is a well-known manager with a value orientation, using a disciplined long-term approach to capturing mis-valuations (discrepancies between market prices and intrinsic values). It uses a proprietary quantitative model to screen and rank stocks within global industries and countries. Its team of highly regarded industry analysts then thoroughly researches the companies that are put forward by the models as the most attractive in terms of expected returns. Analysts are organised into global sectors groupings and are located in offices around the world.

We also like Bernstein due to its structured and focused process which is underpinned by its extremely strong research engine. We believe Bernstein represents best practice in terms of the quality of its quantitative tools and consider its fundamental analysts to be amongst the best in the industry. The depth of research is undoubtedly one of Bernstein's key attractions.

Bernstein's analysts study the most attractive stocks from the model, conducting extensive field research and analysing in detail their financial statements. Based on this research they will estimate normalised earnings growth, cash flow and balance sheets for each company for the next five years which is fed back to the models.

The analysts' recommendations drive stock decisions within the portfolios. The analysts' stock ideas are thoroughly scrutinised and debated by the Investment Policy Group and only those stocks with the most undervalued business prospects and highest expected returns are selected for inclusion.

Impact on the fund?

One of the most significant benefits the addition of Bernstein brings to the Fund is further process diversification. By using a combination of valuation and success factors as a starting point, its portfolio has distinct characteristics that differentiate it from other managers in the Fund. In comparison with GMO, which uses quantitative models within its process, Bernstein's qualitative overlay is the key differentiating feature. With respect to Standard Life, which also incorporates screening elements in its process, Bernstein is more focussed on valuation relative to other stock characteristics and allows less individual portfolio manager discretion in the stock selection process.

The hiring of Bernstein, a manager with relatively low correlation of excess returns with the other managers in the fund, has enabled a reduction of the allocation to Fidelity. This has not had a significant impact on the overall fund characteristics. The number of holdings remains around the 300 mark and concentration levels are unchanged.

Changes to manager weights in the UK Equity Fund

Manager	Mandate	Previous Fund Weight (%)	New Fund Weight (%)
Standard Life	Quantitative screen Fundamental research	15	15
GMO Core	Active Quantitative	17	15
Majedie	Adaptive Stock Picker	17	15
Threadneedle	Macro-driven Aggressive	22	22
Fidelity	Contrarian/Growth Bias	22	10
RIC II UK Equity Plus	High Alpha Fund	2	3
Select Holdings	"Best Ideas"	5	5
Alliance Bernstein	Focus on valuation Fundamental research	-	15

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