

Quarterly report on Funds and Fund Groups

UK Investors in High Street Horror Show

The September quarter can best be described as a ‘High Street Horror Show’. As the latest Moneyspider.com results reveal, some of the UK’s largest and best known names, the High Street banks and the large life companies have been among the 10 worst performers. Together, companies such as HSBC, Abbey National, Halifax and S&W retain their hold over some £41bn of investors’ hard earned savings in their significantly under-performing ‘monster’ funds. Those who have long trusted their banks for deposit accounts and home loans will be shocked to read the findings in this Report.

This quarter was also characterised by the noise around the split of Anthony Bolton’s Fidelity Special Situations Fund. As our results show, Fidelity as a group was one of the biggest fallers, dropping 15 spots to 38th overall. Over 60% of Fidelity’s funds are rated by Moneyspider as C or worse! Just because an investment house has a fund like Fidelity Special Situations in its stable doesn’t mean

that all their funds will be winners. Investors should not rely solely on the strength of the brand when making important investment decisions.

In this Report, we look at the best and worst performing funds in the third quarter of 2006 and show which fund management groups have been bestowed with the coveted

Moneyspider Maestro Award and

which the dreaded **Moneyspider Monster Award** (see below).

Once again, we reveal which fund management groups have moved up or down the table rankings from the previous quarter. In addition to showing you which UK fund management groups are the overall winners or losers, we highlight the best individual funds across each sector (Table 5).

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Moneyspider Maestro Award

Rathbone has once again been awarded the Moneyspider Maestro Award for the Best Overall Fund Management Group in the UK. Taking out the honour now for three consecutive quarters, 12 of Rathbone’s 14 Funds were rated A or B by Moneyspider.com – no mean feat.

While the first two quarters of 2006 saw the boutique managers dominate the top five places, Q3 has seen a complete about turn, with only two boutiques continuing to occupy the top spots – Rathbone and Neptune.

Moneyspider Monster Award

For the third consecutive quarter, MLC (part of National Australia Bank), has been awarded the Moneyspider Monster Award for the Worst Overall Fund Management Group in the UK.

HSBC once again appears in the bottom 5 worst funds with only 9 of its 30 funds ranked A or B by Moneyspider.com. Investors who happily buy investment funds through their banks, should be wary when investing in funds offered by HSBC and Abbey National. Just because a bank can offer you a good deal on your savings account or home loan, doesn’t necessarily mean they have the skills to manage investment funds.

TABLE 1: Top 5 fund groups

Fund Group	A or B Funds	Total Funds	% A or B	Rank Q2 '06	Rank Q3 '06	Climber or Faller?
Rathbone Moneyspider Maestro Award	12	14	85.71	1	1	No change
Lazard	9	11	81.81	8 =	2 =	Climb
St James’s Place	9	11	81.81	8 =	2 =	Climb
Jupiter	21	29	72.41	7	4	Climb
Neptune	10	14	71.42	2	5	Fall

Source: Moneyspider / Financial Express 30.09.06

TABLE 2: Bottom 5 fund groups

Fund Group	A or B Funds	Total Funds	% A or B	Rank Q1 '06	Rank Q2 '06	Climber or Faller?
Lincoln	4	13	30.76	52 =	51	Climb
Skandia	10	33	30.30	40	52	Fall
HSBC	9	30	30	54	53	Climb
Abbey National	12	42	28.57	49	54	Fall
MLC Moneyspider Monster Award	0	10	0	56 =	55	Climb

Source: Moneyspider / Financial Express 30.09.06

TABLE 3: Top 5 funds overall

Fund Name	Sector	1 yr % return	3 yr % return	5 yr % return	Moneyspider rating	Moneyspider % score
Investec Global Equity S USD	Global Growth	51.9661	181.1363	200.8666	A	99.8918
Schroder UK Mid250*	UK All Companies	29.8589	96.4003	160.2312	A	99.2093
Invesco Perp High Income	UK Equity Income	27.1058	98.0411	130.571	A	99.0662
Threadneedle Latin America 2	Specialist	18.3179	165.7417	233.6311	A	98.7637
Invesco Perp Income	UK Equity Income	27.1904	97.1344	127.0533	A	98.7300

Source: Moneyspider / Financial Express 30.09.06

For the third consecutive quarter, the Investec Global Equity USD Fund has won the Best Overall Fund among the 2,000 Unit Trusts and OEICs in the UK market. The Fund has delivered returns of almost 52% return in the 12 months to 30 September 2006, and has returned more than 200% over five years. With funds under management growing strongly, the Fund is now almost £920million in size and if performance continues, it is likely to reach £1billion very soon. But investors should remember that past performance is no indicator of future performance.

The Invesco Perpetual High Income and Invesco Perpetual Income Funds, managed by Neil Woodford, continue to be stellar performers, taking out 3rd and 5th spots in the best funds overall.

Only one fund – the Schroder UK Mid250, which is managed by Andy Brough – was among the top five funds last quarter where it ranked 4th.

TABLE 4: Bottom 5 funds overall

Fund Name	Sector	1 yr % return	3 yr % return	5 yr % return	Moneyspider rating	Moneyspider % score
Threadneedle Dollar Bond 1	Global Bonds	-3.9125	-7.6621	-7.7257	E	2.7313
AEGON Technology A	Technology & Telecoms	-6.0013	1.8522	-54.7015	E	2.9529
City Financial Divfd Absol Return	Specialist	-14.7883	-29.3228	-25	E	0.7898
Gartmore US Bear I	Specialist	-9.724	-31.972	-43.1557	E	0.4708
Old Mutual USD Money Market	Unclassified	-2.6231	-7.0699	-15.3585	E	0.3562

Source: Moneyspider / Financial Express 30.09.06

While Gartmore as a group moved up 12 places to rank 23rd this quarter, its US Bear Fund languished at the bottom of the tables. But Gartmore is not alone; three other well-known brand names in Threadneedle, AEGON and Old Mutual also carry 'monster dud funds' among their fund range. Investors in the Threadneedle Dollar Bond 1 Fund should be taking a serious look at their portfolio as the Fund was also among one of the worst last quarter (ranked 4th worst).

Likewise, investors in the City Financial Diversified Absolute Return Fund should heed caution, although the group has just appointed a new manager, John Husselbee, a highly rated fund-of-funds manager, so a change in strategy may well be on the way.

While the Specialist Sector has been the most popular in terms of new investment for most of this year, investors should be careful of what they're investing in. Not all funds in the Specialist Sector are winners – as our results show!

The unique Moneyspider Rating® How does it work?

Moneyspider.com monitors and ranks each one of the 2,000 funds (Unit Trusts and OEICs) available in the UK and provides a unique assessment of the performance of each fund measured against four key parameters:

- **Sector ranking:** comparison with all other funds in the same sector based on the sector definitions used by the Investment Management Association (IMA)
- **All Funds ranking:** comparison with all other 2,000 or so Unit Trusts and Open Ended Investment Company funds available to UK investors
- **FTSE 100:** comparison of the total return of the Fund with the total return of the FTSE 100 index, providing a consistent benchmark for each fund
- **Cash:** comparison of the Fund's performance with the return from an equivalent amount deposited in a 90 day access account

Moneyspider.com's unique system calculates the results, with specific weightings allocated to each of the four categories, analysing and comparing each over 1, 3 and 5 years. A proprietary algorithm involving 34 separate computations produces a percentage score for each fund calculated to four decimal points, which in turn is translated into five straightforward and easy-to-understand ratings:

- from **A** (a very high rating)
- to **E** (a distinctly poor rating).

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Guest writer Sam Liddle from MitonOptimal helps you choose a profitable portfolio

The key driver of investment returns is asset allocation; it's where you invest, not what you buy that determines the absolute performance of your portfolio. Obviously, if you also happen to buy well, that puts the cherry on the icing on the cake. You could start by considering the major influences on the World's financial markets to decide how much exposure you'll have to the asset classes, equities, bonds, property, commodities, alternative strategies or cash. When reviewing your portfolio, try starting from the premise that cash is the best investment, unless you truly believe that there is something else that will beat that return over the next six to twelve months. If nothing really appeals, stick with cash, or if you feel more confident, have a look at alternative strategies that might allow you to profit from "mayhem in the markets".

Having decided that maybe equities will outperform cash, consider which stock markets might provide the best returns. It has been suggested that increasing globalisation of economies and industries means that all markets are correlated so that if the US falls, so will all others. However, there is still genuine risk diversification benefit and opportunity to be gained from asset allocation across different regions.

Sector allocations are worth considering too. A portfolio which over the last three years did not hold significant exposure to resources, whether through commodities or mining shares, will have under-performed one that did. Look also at the size of the companies you're investing in. If you like the prospects for the UK economy and its stock market but are less sure of the outlook for the global economy and the dollar, you will be better placed in mid or small sized companies. These are a more true reflection of the UK than FTSE 100 index stocks which derive the significant proportion of their earnings in dollars from non-UK activities.

Above all, if you don't like, don't hold it. There is no point in maintaining exposure, even if "underweight" to an asset class, market or sector just because it's a major component of some benchmark. Buy and hold what you believe will do well and sell everything else. Also, keep re-assessing your views.

In equity markets at present, our assessment is that in 2007 there will be a global economic slowdown, led by the US. As the economic cycle moves from strong growth and fears of inflation to slowdown and fears of recession we have sold our cyclical positions, in commodities and mining shares, and have turned to sectors that are under-owned, undervalued and less economically sensitive. The principal areas in which we have invested are healthcare, biotechnology, technology, Asian property and financials. We also do not believe that all markets will necessarily suffer so have increased exposure to Russia, the third wealthiest nation in the world, China and Japan. We have also been buying bonds and have a lot of cash set aside for future opportunities.

Sam Liddle, Director, MitonOptimal

Moneyspider.com looked at the top funds across the 10 most popular IMA sectors.

Despite the volatility of the September quarter, six funds topped the tables in their respective sectors for two consecutive quarters (as noted by * in the table) – a clear sign of consistent fund manager performance.

Exiting the tables was the JPM Natural Resources Fund which took out the top award in the Specialist Sector in Q1 and Q2 but has been knocked off its perch by the Threadneedle Latin American Fund.

According to the Investment Management Association (IMA), the specialist sector continues to be the most popular among UK retail investors, and has been for eight consecutive months this year. Around 98% of new sales poured into UK and Global Property Funds – many of which have only been around a year or two and are not yet eligible to receive a Moneyspider Rating® (a fund must have a 5 year track record to receive a full Rating or more than 1 year for a provisional Rating). Once they are eligible

TABLE 5: Top funds across each sector

IMA Sector	Fund Name	Moneyspider Rating	Moneyspider % Score
Global Growth	Investec Global Equity S USD	A	99.8918
UK All Companies	Schroder UK Mid 250*	A	99.2093
UK Equity Income	Invesco Perp High Income*	A	99.0662
Specialist	Threadneedle Latin America 2	A	98.7637
Europe ex UK	Jupiter European Special Situations*	A	98.0117
Asia Pacific ex Japan	Gartmore China Opps*	A	96.1021
Global Emerging Markets	JP Morgan Emerging Markets	A	95.8650
Japan	AXA Framlington Japan*	A	93.0731
North America	Threadneedle American Select 2 USD	B	74.2683
UK Corporate Bond	Schroder Long Dated Corp Bond I*	B	70.1448

Source: Moneyspider/Financial Express 30.09.06

*Was also top performing fund in sector in Q2 '06.

for a Rating, investors will be able to really know how their funds are performing against their peers.

Well-known fund groups, Threadneedle and Gartmore boast winning funds across their respective sectors. But if you take a closer

look at the five worst funds in the UK market (Table 4), Threadneedle and Gartmore again both have funds in this category! Another reason not to be blinded by big marketing budgets and big brands.

The Moneyspider Rating[®] was applied to 55 groups this quarter, compared to 57 in Q2. Barclays Global Investors (BGI) and Thesis dropped off the list this quarter with less than 10 funds available to the UK retail market.

Among the big brand names, Lazard, Jupiter and Invesco Perpetual were the top performers, ranked 2nd, 4th and 7th respectively. Some other well known fund management groups in Artemis, New Star and Aberdeen managed to recover some of their losses last quarter and moved up the ladder to 6th, 8th and 14th spots respectively.

Two notable fallers this quarter were Fidelity, down 15 spots to 38th, and boutique fund manager, Marlborough down 11 spots to rank 16th.

For many investors questioning whether they should invest with a 'boutique' or a 'big-brand', as the results show, size doesn't necessarily matter!

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TABLE 6: Ranking of all fund groups

Fund Group	A or B Funds	Total Funds	% A or B	Rank Q1 '06	Rank Q2 '06	Climber or Faller?
Rathbone	12	14	85.71	1	1	No change
Lazard	9	11	81.81	8=	2 =	Climb
St James's Place	9	11	81.81	8 =	2 =	Climb
Jupiter	21	29	72.41	7	4	Climb
Neptune	10	14	71.42	2	5	Fall
Artemis	7	10	70.00	5	6	Fall
Invesco Perpetual	25	38	65.78	13 =	7	Climb
New Star	31	48	64.58	12	8	Climb
JP Morgan	20	31	64.51	11	9	Climb
First State	7	11	63.63	4	10	Fall
M&G	37	63	58.73	10	11	Fall
Schroder	28	48	58.33	13 =	12	Climb
Scot Mutual	8	14	57.14	33 =	13	Climb
Aberdeen	14	25	56.00	26	14	Climb
Cazenove	10	18	55.55	31 =	15	Climb
Marlborough	10	18	55.55	5	16	Fall
Baillie Gifford	11	20	55.00	15 =	17	Fall
Baring / BAM	19	35	54.28	41 =	18	Climb
Rothschild	8	15	53.33	39	19	Climb
Merrill Lynch	12	23	52.17	27	20 =	Climb
Old Mutual	12	23	52.17	15 =	20 =	Fall
Threadneedle	39	75	52.00	18 =	22	Fall
Gartmore	29	56	51.78	35	23	Climb
F&C	20	39	51.28	33 =	24	Climb
Newton	22	45	48.88	29	25	Climb
Investec	12	25	48.00	17	26	Fall
WAY	9	19	47.36	31 =	27	Climb
Norwich Union	19	41	46.34	36	28	Climb
Dalton	6	13	46.15	3	29	Fall
Standard Life	22	48	45.83	37	30	Climb
Allianz	7	16	43.75	18 =	31	Fall
Prudential	10	23	43.47	30	32	Fall
SWIP	16	37	43.24	22	33	Fall
Henderson	60	139	43.16	48	34	Climb
AXA	17	40	42.50	46	35	Climb
Insight	18	43	41.86	38	36	Climb
Credit Suisse	19	47	40.42	28	37	Fall
Fidelity	20	51	39.21	23	38	Fall
Premier	9	23	39.13	45	39	Climb
Royal London	5	13	38.46	41 =	40	Climb
SG	9	24	37.50	25	41	Fall
Scottish Widows	15	42	35.71	44	42	Climb
AEGON	6	17	35.29	55	43	Climb
UBS	7	20	35.00	41 =	44	Fall
Legal & General	15	44	34.09	52 =	45	Climb
Halifax	5	15	33.33	24	46 =	Fall
Thornhill	4	12	33.33	56 =	46 =	Climb
NatWest	5	16	31.25	50 =	48 =	Climb
Resolution	5	16	31.25	50 =	48 =	Climb
S&W	13	42	30.95	47	50	Fall
Lincoln	4	13	30.76	52 =	51	Climb
Skandia	10	33	30.30	40	52	Fall
HSBC	9	30	30.00	54	53	Climb
Abbey National	12	42	28.57	49	54	Fall
MLC	0	10	0	56 =	55	Climb

Source: Moneyspider/Financial Express 30.09.06

To be eligible for inclusion in the Moneyspider Quarterly table rankings, groups must have at least 10 funds available to the UK retail market and of those 10 funds, each fund must have a performance history of at least one year.