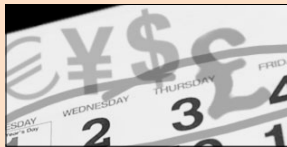


FINANCIAL TIMES

MONDAY OCTOBER 31 2005

'Adaptive' style key to long-term gains

Martin Gray tells Josephine Cumbo he's no index hugger, preferring the freedom to select assets at different stages of the investment cycle



FUND FOCUS

Martin Gray, manager of CF Miton's £24m Special Situations fund, does not like to think himself an index hugger.

The fund, which is a mix of worldwide equities, fixed interest stocks, property and cash, is not based or managed against a specific index or benchmark.

Mr Gray, who has managed the fund since its launch in 1997, says not being tied to a benchmark allows him to put his energies into getting the right asset mix.

"Most managers are looking over their shoulders at indices and are not focusing on asset allocation for ongoing returns," he says.

"We believe that most of our returns come from macroeconomic asset allocation and not fund selection."

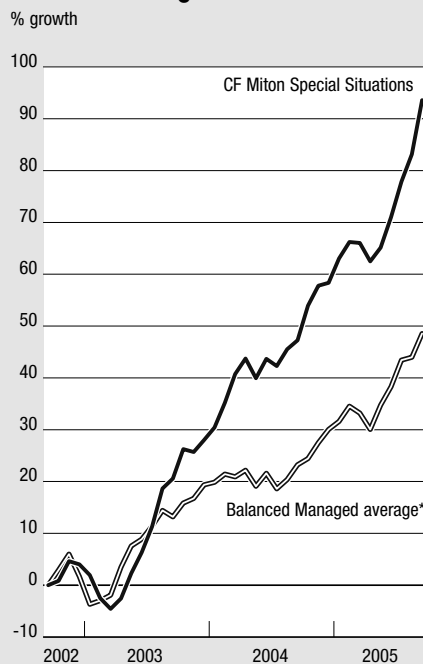
In spite of not operating alongside an index, the fund places itself in the Balanced Managed sector, against which it sets a performance target of beating over rolling three-year periods.

On this basis, Miton Special Situations has outshone its rivals, outperforming 88 funds over three years to produce a 94 per cent return over the period, according to Citywire.

Over the past 12 months, the fund is ranked second out of 113, producing a 31 per cent return.

Mr Gray describes the fund's asset allocation strategy as a "fund of funds" approach, using both unithised funds and investment trusts. He believes that

Balanced Managed



Source: Lipper Hindsight

* IMA sector

"adaptive" asset allocation is the key to successful longterm investment as different assets suit different stages of the investment cycle.

A recent example of this strategy in action, was his flight out of UK, European and Pacific equities and into cash.

"I felt very uneasy about the way the market had gone up in a straight line," says Mr Gray of his September move to shift 15-20 percent of his equity holdings into cash.

"There were a lot of definite signals, in terms of who was doing what and what they were doing, that the market had run too far ahead of itself.

"My decision has since turned out to be a reasonably good move." Mr Gray has also pulled money out of the bond markets, after

boosting his fixed interest holdings in May. "With oil prices rising so strongly in the short term we didn't feel bonds were the appropriate places to be and moved into cash," he says.

The fund, which Mr Gray runs from the company's headquarters in Reading, has 20 percent of its holdings in cash, 19 per cent in Japanese equities and 9 per cent in global bonds.

Of all the equity markets, Mr Gray is most bullish about Japan where the fund is overweight. "There is a lot of change happening in Japan, with domestic debt and the economy picking up. He says it is still too early to think about restoring his equity positions, and is most bearish about the UK and US. "When we feel a little more comfortable with the market, I could see an increase in the Pacific and

Lipper league table Best and worst performing funds

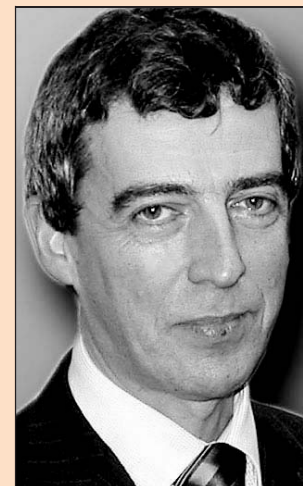
% growth
total returns
Sep 30 2002-
Sep 30 2005

Top ten

1	CF Miton Special Situations Portfolio A Acc	93.6
2	CF Ruffer European Acc	89.2
3	CF Midas Balanced Growth	86.5
4	Framlington Managed Balanced Acc	76.6
5	Newton Global Balanced Exempt 1 Net Acc	71.0
6	Fitzwilliam Multi-Manager	69.9
7	M&G Managed X Inc	69.3
8	GAM Portfolio Acc	66.2
9	Practical Investment	65.1
10	Newton Global Growth & Income for Charities	65.1

Bottom five

83	MLC Balanced Portfolio	38.7
84	SEI UK Fund of Funds Balanced	38.2
85	Bank of Ireland Exempt Managed	36.8
86	Legal & General (Barclays) Growth Portfolio (D)	36.4
87	HSBC Ash	35.6



Martin Gray: a move to cash

Europe," says Mr Gray. "But the US we see as being overvalued and I think the UK is heading for a massive slowdown."