

Key notes



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Dan Nickols, Manager of the Old Mutual UK Select Smaller Companies Fund

Small cap had strong run in 2010 but still looks attractive this year

- Good performance in 2010 was about earnings growth, not re-rating
- Small caps no more expensive now than a year ago on this basis
- These stocks are more economically sensitive than larger companies
- Expect 4% real global GDP growth for 2011, even with higher oil prices
- An attractive backdrop for small cap

Higher inflation impacts on stock selection

- Avoid those businesses that suffer when inflation is higher, eg retail
- Their costs are rising but hard to pass these on to under-pressure consumers
- Lots of internationally-facing companies, selling to emerging markets and US have got pricing power – buy these instead

An example of a core holding is Abcam

- The business is a university spin off which floated in 2005
- Sells online research on antibodies around the world
- Has 90,000 antibodies on its catalogue
- Company has significant growth potential, could add one million more antibodies to catalogue
- A novel business which uses internet to gain a global reach

Fund is maintaining its strategy at sector level

- Overweight exposure to global economy and underweight UK domestic areas
- Overweights include capital goods, chemicals and technology
- Within this is a focus on higher quality businesses
- Underweights include retail, travel, leisure, those with UK government exposure
- Expect building and construction to remain under pressure for some time

UK domestically focused stocks are not cheap enough to buy quite yet

- Possibly time to dip a toe in the water towards the end of the year
- Don't want to do it before earnings forecasts have bottomed
- At some point the market will rotate back into these sectors
- At this stage they will present very cheap stocks with good earnings security
- At present Nickols is expecting further downgrades
- Current forecasts for UK retail are unrealistically high

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