

Key notes



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Ian Heslop, Old Mutual Global Equity Absolute Return Fund

Fund had strong 2011 against tough backdrop for markets

- Played rotation between equities well, in particular a move to defensive sectors over summer 2011
- System also able to move into defensives within individual sectors

Consumer discretionary – an example of intra-sector play

- Normally sector does not do well at a time when investors are worried about global growth
- But it has been popular with investors because many companies in it have strong balance sheets
- Heslop has built up exposure to the more defensive stocks within this sector

Fund beginning to move from defensives into more pro-cyclical stocks

- Portfolio overweight in classic defensives, eg consumer staples and healthcare
- But now beginning to create a more mixed portfolio
- This is a large and mid cap portfolio so no plans to buy small cap or esoteric investments
- Slightly more speculative stocks now make sense on valuation grounds but Heslop is steering clear of Europe

Fund has overweight in energy as a result of stock specific analysis

- Overall there is more Heslop wants to avoid in the sector than he wants to buy
- Sector offers a mix of defensive and slightly more speculative investments
- Within oil fuel services he can find good balance sheet strength – defensive holdings
- In exploration and production he can find good valuations – a little more speculative

Fund retains a significant underweight in financials

- Heslop believes financials are cheap but he is worried about their quality
- Balance sheets in sector remain weak
- Likely to build up a little more exposure to financials – if the sector bounces back strongly he doesn't want to miss out on the upside potential

A good time to blend some pro-cyclicals in with an overall defensive portfolio

- This is about increasing risk but not going overweight risk assets
- Heslop expects a blend of cyclical and defensives will be needed to cope with risk on/risk off environment of 2012
- Similar strategy to what worked for portfolio in 2011

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