

Key notes



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Kevin Lilley, Old Mutual European Equity Fund

Lilley took on the fund in December 2011

- A portfolio of high conviction ideas designed to beat the market and the peer group
- Look for attractive stocks that are undervalued
- Focus on stocks with sound business models and where analyst earnings forecasts are too low
- Identify short-term catalyst that will lead to upward re-rating of stock

BNP Paribas one of the largest active overweight positions in the fund

- Lilley sees it as good quality, well run bank on a cheap valuation
- It is being penalised because of Europe's broader banking woes
- BNP is on a price to book ratio of around 0.5x, generating return on equity of around 10% and has a dividend yield of almost 5%
- Any likely bad news is more than in the price
- Strong upside potential when European sovereign woes recede

Fund has holding in Publicis, an advertising agency

- Economic environment tough in Europe but not across the globe
- This company has 50% of sales in the US
- 2012 sees US election, Olympics, European Football Championship – all positive for advertising
- Publicis strong on internet advertising – which is the future of the industry
- Company generates strong return on reasonable valuation

EADS, maker of Airbus, a key position in the portfolio

- They make planes that are very fuel efficient – airlines are replacing existing fleets
- The civil aviation cycle is picking up: Chinese, Indian and Middle Eastern airlines are all growing
- The order book for EADS has a lot of growth visibility
- Euro weak against the dollar – another reason to buy the stock, looks cheap globally
- EADS did have problems related to its A380, or super jumbo, but these are now in the past and the plane is a success

European equities are attractive – cheaper valuations than elsewhere in the world

- EuroStoxx 50, the large cap index, trading on a 2011 P/E ratio around 9x, a price to book of 1x and yield of more than 5%.
- This is much cheaper than other regional markets
- Bad news is priced in by the market
- As Europe's politicians start to sort out eurozone crisis expect a rally

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