

# Key notes



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## Richard Watts – manager of Old Mutual UK Select Mid Cap Fund

### Quality companies have not been sufficiently rewarded with share price rises in 2011

- A volatile and difficult year for FTSE Mid 250 index
- Watts is sticking to his fundamental investment style
- Ashtead a good example of stock with poor share price performance despite delivering earnings upgrades of 30%

### Watts is not planning to change his investment approach

- Developed market economic growth will be lower than predicted
- But emerging market economies are still doing 6% pa
- Overall global rate of 3.5% for the year
- This is a supportive environment for holdings in the fund

### Watts remains positive on technology stocks

- This is a long-term theme in the portfolio
- A lot of tech stocks are not sensitive to the economic cycle, they represent structural growth
- Valuations are not cheap but they are consistent with the rate of earnings growth being delivered

### A favoured long-term hold in the fund is TeleCity, a data centre owner and operator

- Think of data centres as the warehouses that store everything needed to power the internet
- Group has plans to roll out new data storage capacity over next five years – so future growth is very visible
- Internet is a long-term growth story – so this gives stock defensive qualities in uncertain times

### Watts continues to hold Rightmove, despite strong run of performance

- Rightmove has great business model and management team
- Benefits from advertising houses for sales online – much better way to do it than via print
- Fixed costs in running the business but revenue is rising - so most of top line growth hits the bottom line
- Expects Rightmove to produce good returns in the future

### Mid caps have upside potential

- FTSE 250 has already had strong total returns in last two and a half years
- Despite this mid cap market is trading on 10x forward earnings – a very low figure
- The long term average for mid caps is about 14x
- Company newsflow continues to be very strong, despite recent economic weakness
- Company balance sheets are in a robust state, much better than during financial crisis of 2008

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