

Key notes



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Richard Watts, Manager of the Old Mutual UK Select Mid Cap Fund

2011 a tough year for equities

- Response has been to focus on 'balance'
- He has introduced quality stocks and more structural growth
- Retained exposure to cyclicals in the strongest parts of the market

Added to Domino's Pizza

- Looks like a domestic consumer stock but it is a structural growth story
- It is opening more franchises in the UK and in Germany (where takeout pizza is an underdeveloped market)

Likes pub company Greene King – a resilient business

- Average spend per head in one of its pubs is around £8
- This is where people eat out or have a drink at relatively low cost
- Traditionally pubs have done well during recessions – a cheap treat
- Dividend yield is 5% and earnings growth of around 7.5%
- Has robust earnings stream which is attractive even though Watts is underweight the UK consumer overall

Structural growth stocks are increasingly sought after

- Many investors are now looking for them given current market conditions
- But some attractive investment opportunities still remain
- TeleCity is a technology stock operating data centres, vital for internet and mobile telephone networks
- This trades on around 20 times' forward earnings, a relatively attractive multiple

Watts underweight property sector but likes Capital & Counties

- Its property portfolio has a heavy skew to Covent Garden, with strong rates of rental growth
- Last three years has seen tenants such as Burberry, Apple, Polo Ralph Lauren moving in to Covent Garden
- Capital & Counties' portfolio also exposed to Earl's Court – owns 72 acre exhibition site valued at £7m an acre.
- It plans to knock it down and put up luxury apartments – this will increase the value

Expect 2012 to be a challenging year

- Economic growth forecasts are coming down
- Profits growth likely to be hard to come by, but not impossible
- Watts is sticking with balance of structural growth, quality and selected cyclicals

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