

Key notes



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Simon Murphy, manager, Old Mutual UK Select Equity fund

Natural resources

- Overweight in oil equipment suppliers/service companies but light exposure to oil majors
- Lots of capital expenditure being invested into exploration of and access to new oil reserves
- Therefore these companies will benefit from increasing cap ex by the oil majors
- A similar story holds true in mining and mineral resources

Diversified financials

- Diversified financials are a key active position in the portfolio
- Manager is seeking niche, interesting businesses that are strengthening post-credit crunch
- For example, businesses that have benefited as competition has left their sectors
- Paragon is a good example – a buy-to-let lender which gained market share as many big banks exited that space
- Company is now market leader and can lend on attractive terms giving them competitive advantage

UK domestics - ITV

- ITV is an example of an 'internal change' stock
- New management is creating structural improvements
- Company has faced decade of headwinds – eg regulatory change, shift in TV options people pay for, loss of audience share – but now environment is stabilising
- New management team has turned ITV into its most efficient and productive in c. 10 years
- Self-help exists in the business independent of the cycle with good future prospects

Pharmas – Shire

- Shire is a speciality pharmaceutical stock – one of the portfolio's best performers this year
- Success is due to market realising the longevity of growth of its main franchises
 - ◊ Core franchise is attention deficit disorder (ADD) – a growing area in the US
 - ◊ Human genome therapy is second key area which exploits niche drug options
- Business is performing well and growing strongly – fund took some profits but will retain position as a core holding

Outlook

- Market has rotated consistently through fear and greed over last few years
- Sovereign debt crisis in Europe is the primary economic issue to be dealt with
- When greed is prevalent, right to take a cautious stance; when fear is prevalent, right to be more optimistic
 - ◊ Currently in sway of fear – as issues are resolved and growth picks up, outlook will become more optimistic
 - ◊ Sticking with current positions, hoping equity markets pick up towards year end

Old Mutual Asset Managers (UK) Limited
2 Lambeth Hill
London, EC4P 4WR, UK

Client Services 0808 100 8808
Broker Services 0808 100 2715
Dealing 0808 100 3570



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