

Key notes



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Stephen Message, manager of the Old Mutual Equity Income Fund

Markets driven by macro concerns at present

- We are yet to see how market volatility feeds into business behaviour
- Danger that market volatility tips over into the real economy
- Companies are cash rich and if executive confidence improves expect higher dividends, share buybacks and more M&A

Tullow Oil – a key stock in the portfolio

- Held for its growth characteristics, does not have a significant dividend
- Has had successes in exploration and production in Africa and latterly, Latin America
- This has helped to boost share price in Q3

Filtrona – a recent addition to the portfolio

- It was demerged from Bunzl and it produces fibre and plastic products
- The stock is undergoing big internal change, with new management team in charge
- Business is now looking to grow sales aggressively through better incentivisation plan
- Expect higher sales and better profit margins in the future
- In addition stock has healthy dividend yield of around 3.5%

UK market presents attractive yield opportunities

- Overall market yield of some 3.8%
- Good dividend opportunities in some non-traditional areas, eg Sky (pay TV) or Restaurant Group (restaurant operator) or Melrose (industrial engineering)

Bias towards international earnings in portfolio

- Some 30% from UK and balance from overseas
- UK earnings has a focus on strong domestic franchises
- Important to build broad diversification in portfolio's revenue base

Outlook for UK equity market

- Equities are cheaply rated on a long-term view
- Markets assume profits will decline but Message not convinced this will happen
- Macro-economic data is not consistent with a return to recession

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