

Investment
update

15 August 2011



**Ian Heslop, manager
of the Old Mutual
Global Equity Absolute
Return Fund**

The fund is managed by OMAM's quantitative strategies team which is headed by Ian Heslop. Ian joined the team in May 2004 and has over 13 years investment experience (9 years quantitative investment experience), including OMAM and BGI.

The team includes specialists in portfolio construction, research and systems development. The investment process is designed to exploit market inefficiencies and is based on a proprietary multi factor return model. The process calculates a forecast return for each stock and the resulting portfolio is optimised in terms of risk, cost and return.

Strong performance in tough markets

The Old Mutual Global Equity Absolute Return has seen outstanding performance this year. Fund manager Ian Heslop answers questions on how the fund has done so well in some of the most difficult markets seen in recent years

The fund has just hit its two year anniversary, how has it done?

Well, we're really pleased with the performance of the fund. It's a 6% volatility fund, Sharpe ratio of around about 1 to 1½ so we're expecting to do about cash plus 6% returns and we're on track to do that over the two years. The period's been very difficult to manage through and the changes that we've made to make the process more reactive to what happens in markets have certainly stood us in good stead. Moving the portfolio to reflect short-term investor sentiment has supported good performance.

Fundamentally, has it done well because it's a defensive fund?

Well it's defensive when it needs to be, that's the thing. The good performance we've seen more recently has definitely been due to the fact that the fund has been positioned defensively, particularly in Europe and the US. But over time we would expect to see good returns in periods of good investor sentiment when the valuation strategy, as an example, would perform well. So defensive when we need to be, rotating into good economically sensitive areas of the market when we feel the time is right.

Looking at second quarter performance, consumer discretionary has been a big contributor to returns, is that because you've been short in the sector?

No, the fund's actually long consumer discretionary. It's much more in stock selection that we've added value, going short on specific names. But in general we're reasonably positive towards consumer discretionary stocks right now.

Industrials saw good performance, what's the story there?

Industrials is an interesting one. Airlines have been an important contributor. We've been very cautious on airlines for a period of time now. They're very pro-cyclical and we are, as we've said, quite defensive, so again we've been short specific companies and that's been the right position because the current environment is very difficult for these types of names.

You've been running a short positions in commercial banks – what's your view there?

Again we're very cautious. It depends on what you're actually looking at but again, from a quality standpoint there are questions still out there on the banking sector. So we have been

short commercial banks for a while and we continue to be short. From a value perspective they're actually quite good but from the point of view of quality and balance sheet strength there are still issues which we all are aware of.

You investment approach takes account of investor sentiment, what's that telling us about what's going to happen in the months ahead?

Well I think right now it's unsurprising that investor sentiment is very negative, particularly in Europe and in the US. Interestingly, in Asia it is somewhat more positive, but that is catching up with other regions, so we remain in very defensive areas of the market right now.

Old Mutual Global Equity Absolute Return Fund performance

	1 month	3 months	6 months	1 year	2010
Old Mutual Global Equity Absolute Return Fund	5.4%	9.1%	12.7%	16.9%	14.8%
MSCI World Index	-13.1%	-12.8%	-14.2%	1.2%	13.0%
IMA Absolute Return sector average	-2.2%	-1.9%	-1.4%	2.7%	4.6%

Source: Morningstar, bid to bid, net income reinvested. Sterling. As at 11/08/2011.

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