Fund manager,
Old Mutual Equity Income Fund

Michael Gifford joined OMAM in July 2006, having previously been a Director of UK Equities and an equity income fund manager at F&C Asset Management. He joined F&C in 2004 from Canada Life, where he worked for 14 years, initially as a credit analyst and bond fund manager. He switched to equities in 1998, specialising in equity income funds from 2000. Michael has a degree in Mathematics and Statistics from Sussex University and is a CFA charterholder.

Fund details

Fund manager	Michael Gifford
Launch date	September 1975
Sector	UK Equity Income

Equity income review

Michael Gifford, manager of the Old Mutual Equity Income and the Old Mutual Extra Income funds, reflects on the recent equity market rally spurred by a combination of better consumer expenditure, improved market sentiment towards financials and a rise in commodity exports, and outlines some of the latest investment opportunities.

Economic data released over the past few weeks continued to show a worsening trend but was not as bad as feared, with many commentators calling the bottom of the economic cycle for 2009. This might have been music to politicians' ears but we believe that a real economic recovery is more likely to be a long drawn out affair and any meaningful upturn in activity is unlikely to be seen until 2010.

The UK housing market has indeed seen a seasonal pick up in activity, helped in no small part by better conditions in the credit market. However, its longer term outlook remains under pressure from rising unemployment throughout this year and 2010. Clearly, those in work should feel the benefit of low interest rates, which will continue to boost disposable income, but there is already strong evidence that the lion's share of this cash is being saved or used to repay debts.

Nevertheless, some money continues to find its way to retailers and other consumer-related companies, which have been gaining some support in the equity market. Stronger enterprises are now in a considerably easier competitive environment following failures of some of the weaker market players, such as Woolworths stores, entertainment retail chain Zavvi, furniture specialists MFI, Courts and Land of Leather.

Subsequently, we have increased our weighting in retail and consumer areas, continuing to focus on specialist niche retailers which we believe offer compelling value. In contrast, we have reduced our positions in tobacco companies and other consumer staples.

It remains to be seen if the Chinese authorities' efforts to maintain economic growth by generating domestic demand are enough to kick start the global economy. However, they have certainly boosted imports of raw materials, such as copper and iron ore, and have led to some improvement in investor sentiment towards miners and resource related areas, including shipping stocks and industrials.

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We have increased our weightings in industrials, taking positions in engineering groups Weir, IMI and Tomkins. We also remain positive on BAe, where the outlook for earnings growth looks positive after the recent US defence review confirmed the group's strong position in that market.

We retain our exposure to the resources sector. Our most favoured stock is Rio Tinto, where company prospects have improved following the deal to sell a large stake to the Chinese giant Chinalco. Even if investors demand an alternative deal, it is clear that Rio Tinto's balance sheet issues will be resolved. We are also positive on ATH Resources, an AIM-listed coal miner yielding in excess of 8%.

After a prolonged period of weakness, financials are finally finding some favour with investors following reasonably reassuring financial results. Our position here is neutral, with a low exposure to banks offset by a large weighting in life and non-life insurers and general financials which continue to pay out reasonable dividends and where valuations are compelling in our view.

Elsewhere, we are underweight telecoms but we continue to believe that a number of its constituents, such as Vodafone and Cable & Wireless, have defensive characteristics and pay relatively high dividends. However, we are cautious on BT as we question the sustainability of its dividends in light of the widening pension deficit and difficulties with its Global Services business.

Whilst the medium term outlook for the economy as a whole remains largely uncertain, key market measures, such as trading volumes and volatility, have started to display signs of normality. In common with UK economic data, we believe that an improvement in important indicators globally, such as housing starts in the US, should lead to better UK equity market sentiment.

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