Fund manager, Old Mutual UK Select Equity Fund

Simon Murphy has been the manager of the Old Mutual UK Select Equity Fund since he joined OMAM in March 2008. Prior to joining OMAM, Simon worked for almost 10 years at M&G Investments, spending the last three as the manager of the M&G UK Growth Fund. He is a qualified chartered accountant and a specialist in corporate taxation.

Fund details

Fund manager	Simon Murphy
Launch date	March 1971
Sector	UK All Companies

Investment opportunities presented by reduced competition, industry consolidation and emerging market growth

By Simon Murphy, manager of the Old Mutual UK Select Equity Fund

Despite the economic decline and high risk aversion continuing to weigh on equity markets at the beginning of 2009, we took the decision to progressively move away from traditional defensive sectors which we felt offered ever more limited relative value, such as utilities, beverages, food producers and food retailers.

A few months later, as economic stimulus measures began to show signs of gaining traction, we have moved further in that direction, taking advantage of attractive equity valuations in more cyclical areas of the UK market. We have been particularly interested in those sectors which have seen significant business failures, or industry consolidation, or have an exposure to resurgent emerging market growth.

Within general retail, for instance, we are invested in Kingfisher and HMV, which in our view have scope to grow their profit margins, aided by reduced competition since the demise of key players in their industries, namely MFI in home improvement and Zavvi in music and video entertainment. We also recently invested in Galiform, whose core business, Howden, is the UK market leader in the manufacture of kitchens which has benefited from reduced competition and displayed signs of a stabilisation in trading.

With respect to industry consolidation, we bought a stake in tour operator Tui Travel, a beneficiary of a favourable trading environment in the travel & leisure sector resulting from industry consolidation a couple of years ago. Due to the contraction in key players from four to just two companies, we believe the UK package holiday market is now much better placed to deliver profitable growth by matching supply with demand more precisely than in the past.

As far as emerging market growth is concerned, we have taken a more positive view on resources sectors, such as mining and oil exploration & production, reflecting growing evidence that economic stimulus measures in China in particular, the world's key user of resources, are working. Indicators suggest that the Chinese economy began to recover in March, with industrial production growth rising by over 8% from under 2% in January and February. This improvement is mainly due to state sponsored infrastructure spending, supported by a huge recent increase in bank lending, although there are also tentative signs of a rebound in activity in the Chinese property sector.

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Please see important information overleaf

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In the mining sector, we favour big multi commodity companies, such as BHP Billiton and Rio Tinto, two market leaders specialising in a wide range of natural resources, from gold and diamonds to aluminium, industrial minerals and iron ore.

Our focus in the oil sector is primarily on exploration and production companies such as Cairn Energy, BG Group and Tullow Oil. Energy company shares have received a boost from the recent rise in oil prices with exploration and production companies benefiting to a greater extent than the big integrated players. Additionally, many of these companies have the potential for exciting new oil discoveries within their portfolios and drilling activity this year is expected to be high.

We are moderately optimistic about the medium term outlook for the UK equity market. There are definitely signs of stability returning to the global economy and equities do continue to look attractive in our view. However, we would offer a note of caution in that it will take some time to fully resolve the financial system issues and that will exert a significant drag on any recovery in economic activity that we might see in the immediate future.

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