

Investment update

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Simon Murphy,
manager of the
**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.

Growth will muddle through

Macro issues have dominated equity markets, driving down valuations. But fundamentals remain strong, with many companies continuing to prosper

Looking at the UK equity market, it seems to be either triumph or tragedy. Is it really that simple?

The last year or so has been a very difficult period. Markets have been binary, with risk on in one period and risk off in the next, and you have needed to be very defensive in the risk off period or very aggressively positioned in the risk on period. It's been unhealthy really from the perspective of a stockpicker trying to find good fundamental stocks, as well as for general confidence in equity investing.

If we are to move away from that, we need clarity around certain key issues, particularly European and sovereign debt. But as and when we start to see resolutions to some of these big problems, economic activity and company fundamentals should become much more important to making decisions about stocks. It should also end the tight correlation between stocks of a particular type moving violently one way or the other depending on the market's mood on any particular day.

Given that you're a stockpicker, what gives you the confidence you're making the right decisions?

Well what we try to do is keep close to the companies we invest in, maintaining regular dialogue with management, certainly once a year if not twice a year and often more frequently as well. We pay close attention to what they're saying to us, what they said to us in previous meetings, how things have changed, how analyst expectations for the company may have changed.

You have an active position in RPS, what does the stock do? Why do you like it?

That's a great example of staying close to a business. RPS provides consultancy on commercial property, the environment, infrastructure. One of its core areas is energy, which makes it a great business for tapping into the need to find new sources of energy in difficult locations and geographies. The business has shifted over several years from being an almost purely UK-focused consultancy to being much more international, particularly around the energy infrastructure business, and that's the bit we're really excited about.

Why buy this rather than a straight energy company?

What I like about RPS is that it's not a play on any one development. It benefits from the significant increase in spending as the entire industry tries to find more resources globally.

You've been adding to your holding in Burberry recently. Why add economic sensitivity to a portfolio that's already highly cyclical?

Burberry is another example of being really stock specific. What we like about Burberry is the strength of the brand, but there's also a story of structural change that we think will lead it to be a much better business than it's been historically. It's taking much greater control of its brand globally. That opens the way for the business to be rolled out more aggressively in areas like China, Spain, Japan. It's also shifting to owning much more of its own retail

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distribution and again there's much greater margin benefits from that. So we see it as a business that's capable of strong growth well into the medium term, irrespective of short term cyclical considerations.

Did you buy in cheaply or did you have to pay up for that quality?

When we started buying was in the extreme volatility we saw in the market in August and we took advantage of some aggressive price falls in Burberry, paying what we think will prove to be a very favourable price.

UK equities seem to be on a low valuation today. Are they cheap for a reason?

I think they are on a low valuation. When I look at the strength of company finances and how profitable businesses are in the UK market right now, I think shares look very, very cheap. But I do understand there's a considerable amount of uncertainty out there, and it's big macroeconomic uncertainty around what will happen to the eurozone, what might happen in America once they start reigning in government expenditure, or the impact of monetary tightening in China.

My own feeling is that we will muddle through in terms of global economic growth. Companies will continue to grow profits from here, maybe not as fast as we would have seen in previous recoveries, but if we start to see some of these big macroeconomic events start to subside then I think there will be scope for the equity market to make progress and for valuations to rise.