Investment update

12 October 2011

Daniel Nickols, Head of the Old Mutual UK Mid & Small Cap team

Daniel has been the manager of the Old Mutual UK Select Smaller Companies Fund since 2004. He was appointed head of OMAM's highly successful UK Mid & Small Cap team and manager of the Old Mutual (Dublin) UK Select Smaller Companies Fund in January 2009.

Daniel was previously a smaller companies manager at Gerrard Investment Funds, which merged with OMAM in 2001. Daniel has over 13 years' investment experience of UK smaller companies. He is IIMR qualified

The eurozone...again

As the eurozone sovereign debt crisis edges to yet another decision point, investors need to be taking views on the likely impact on financial markets

You have held bullish views throughout the last 2-3 months in spite of the markets falling. How has the last few weeks affected your thinking?

Equity markets have moved sharply over the course of the summer to discount a renewed global recession in 2012. Risks to growth are present, in particular the ongoing crisis in the eurozone. In that respect, I think it likely that policymakers will put in place the necessary measures to avoid a chaotic sovereign default and a consequent banking crisis.

Have you reduced your cyclical bias?

The fund has had a deliberately cyclical bias since the early part of the year. In July and early August, we somewhat reduced our holdings in stocks exposed to the Western developed markets, while maintaining our positions in cyclicals that are more energy focused. Such has been the magnitude of the summer sell-off that there was little merit, in my view, in continuing to sell down further our cyclical plays into what had quickly become very depressed prices.

Are you still confident of the 3%-4% world growth in 2012?

I recognise that we are to a significant extent in the hands of policymakers who now need to bring forward a credible package of measures to restore confidence in the sustainability of peripheral European public finances. My central case is that such a package can be put in place. In this scenario, global growth of 3%-4% (which is in line with the most recent, end-September IMF forecast) still seems reasonable to us, though we are probably more inclined now to work to the lower end of the estimate. Growth in China remains on course, at around 8%, while the most recent data from the US has tended to be more positive.

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