

Investment  
update

October 2011



## Investment team

Old Mutual Asset Managers Quantitative Strategies 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.

# Old Mutual Global Equity Absolute Return Fund - Q3 review

The portfolio saw strong performance in the third quarter with returns at 6.2%, bringing year to date returns to 13.6%. 12 month returns are also strongly positive with the fund returning 15.9%. The funds annualised return since inception is now 6.5%. These returns have been achieved with volatility in line with expectations. The fund is currently running with 30 day annualised volatility of just over 5%.

## MARKET PERFORMANCE

The quarter was negative for global equity markets. July was dominated by fears instigated by sovereign debt issues in both Europe and the US and their likely impact on global growth and hence equity markets. As European politicians grappled with the issues facing Greece, larger states such as Spain and Italy were dragged into the crisis. Perceived political stalemate in the US led to a ratings downgrade which was compounded by poor economic news in August. While equities fell and demonstrated a strong rotation into defensives, bond prices soared and gold continued its appreciation, rising more than 12%. Equity markets continued to suffer significant falls during September. The month saw the International Monetary Fund reducing global growth estimates and the US Federal Reserve warning of significant risks to the US economy. Meanwhile in Europe, reservations about the emergence of a credible, managed solution to the debt crisis turned to open scepticism. Added to the mix were increased fears of a downturn in China. From an investment point of view, the story of the month was a largely defensive one, with sterling and the euro falling against the US dollar, a preference for defensive sectors over cyclical, and for high-quality rather than undervalued assets.

Risk appetite fell yet again over the quarter, reflected by investor bias towards quality companies (see figure 1).

**Figure 1 - A swathe of disappointing sovereign debt news together with poor economic figures led to a further deterioration in investor risk appetite over the quarter**



Source: Old Mutual Asset Managers

**FUND PERFORMANCE ATTRIBUTION**

The fund performance was strong over the quarter, coinciding with a period of negative equity market returns. The fund returned 6.2% over the quarter, giving a 1 year return figure of 15.9%. The continued positive performance of the fund maintains confidence that improvements to the forecasting model are able to deal efficiently with rapid changes to investor sentiment. Figure 2 shows the short and longer term performance statistics.

**Figure 2 - Good short and long term performance now evident**

	1 month	3 months	ytd months	1 yr p.a.	Since inception p.a.
Old Mutual Global Equity Absolute Return Fund	-0.7%	6.2%	13.6%	15.9%	6.5%

Source: Old Mutual Asset Managers

The fund is also managed to provide consistent and repeatable volatility. Figure 3 shows annualised 30 day volatility, consistent with returns to the fund not being due to an increase in volatility. Indeed the risk model has coped well with current market fluctuations.

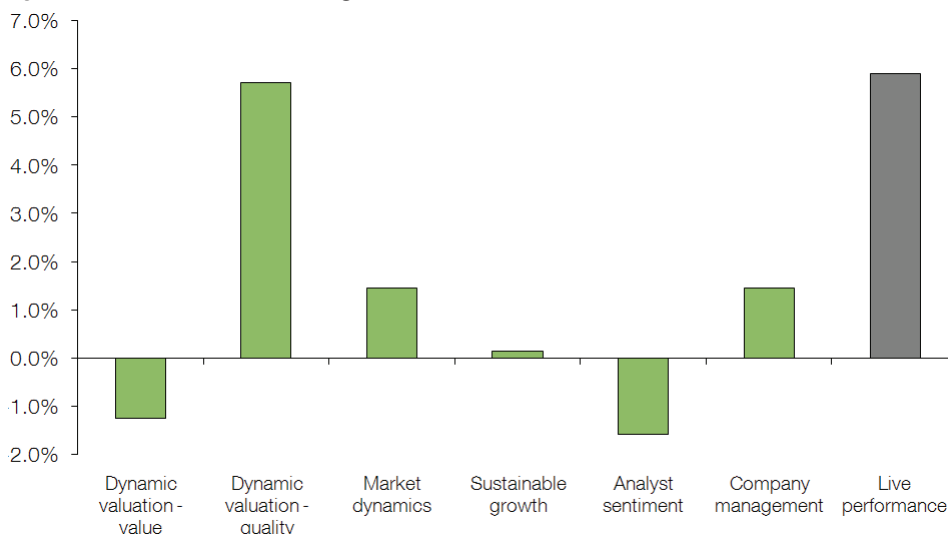
**Figure 3 - Performance achieved without an increase in volatility**



Source: Old Mutual Asset Managers, MSCI. Annualised 30 day rolling volatility using daily returns.

THEMATIC PORTFOLIO RETURNS

**Figure 4 - A strong quarter for strategy returns with the quality component of dynamic valuation dominating**



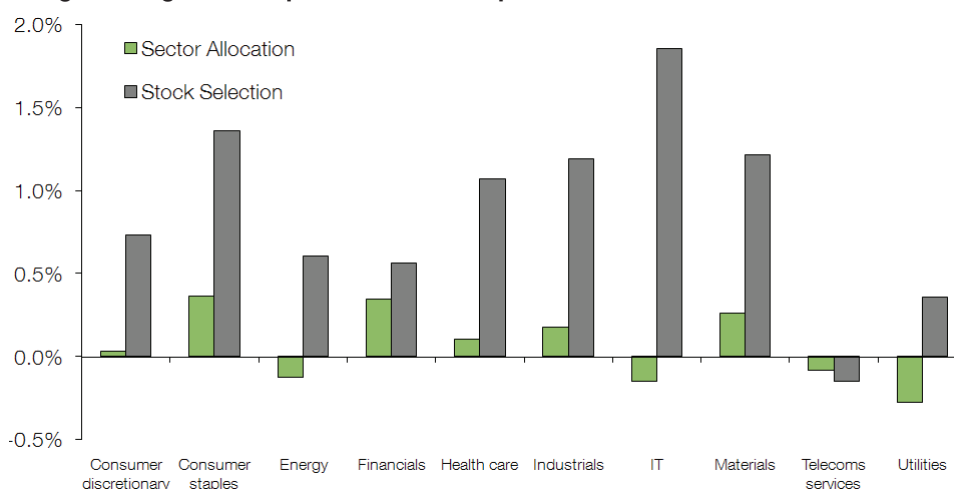
Source: Old Mutual Asset Managers

Performance this quarter was helped by the exposure to quality signals in dynamic valuation. The reduced exposure to valuation also insulated the portfolio from a very difficult time within equity markets. The technical signals in market dynamics held up well in a period of fluctuating market leadership, with the quality of company management also important. Analyst sentiment underperformed in a period when analysts would be expected to lag rather than lead market price returns.

STOCK SELECTION

The quarter was one driven by good stock selection and sector allocation, although the major driver was stock selection. As we can see in figure 5, returns were positive to nine out of ten sectors with six in ten sector allocations also positive over the quarter.

**Figure 5 - Gross returns show good stock selection spread across the portfolio being a strong driver of performance this quarter**



Source: Old Mutual Asset Managers

## CONCLUSION

The quarter was positive for the fund despite difficult trading conditions. The downside risk mitigation afforded by the quality component once again proved its worth, as did the risk appetite prediction part of dynamic valuation. Macro conditions remain in flux and the fund remains defensively positioned for now.