Investment update

26 January 2012

Ian Heslop heads OMAM's quantitative strategies team. He joined OMAM in August 2000 and has over 13 years investment experience (9 years quantitative investment experience), including OMAM and BGI.

The 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

Blending cyclicals with defensives

As conditions appear to improve, the time seems right to add an element of risk to the portfolio

You had a good year in 2011, what went right?

It's been a very interesting year, using that word advisedly. We have a process in place which looks at the rotation within equities and that was the stand-out characteristic over 2011. We caught the rotation early on and caught it well, in particular moving to defensive positions both at a sector level and intra-sector, which is more interesting from a stock perspective.

You were overweight consumer discretionary for most of 2011. That's not a typical defensive sector. What's the story there?

It's important to look through the sector positions because it is very much which stocks we are holding within sectors that are more interesting. The reason we have been drawn to the sector is due to the strength in the balance sheets of the specific stocks. That is effectively what we were overweighting.

The fund is currently overweight classic defensive sectors like consumer staples and healthcare. What does that tell us about your view of 2012?

Our present stance is less defensive than it was in the summer and autumn months of 2011. We have moved to a more mixed portfolio, to a balance between defensives and stocks you would class as pro-cyclical. Overall, though, we remain overweight what we would class as quality stocks and I think that's the right place to be. In Europe, in particular, we remain circumspect about taking positions in more cyclical stocks.

The portfolio is also overweight energy. What companies are you buying?

Again, it's interesting when you look at the energy sector because there are many moving parts. The stocks that we like tend to be larger than the stocks that we don't like. We can find in oil fuel services good balance sheet strength, and that allows us to take positions that are more defensive. Examples include TGS-NOPEC and Core Labs. However, in the exploration & production area, we can find stocks attractive on valuation grounds, such as Petrominerales.

You're significantly underweight financials. What is the risk they will bounce back strongly?

On our valuation metrics financials tend to flag as cheap. What's keeping us on the sidelines is the quality measure. Financial stocks still have issues at a balance sheet level which they need to work through. I think it's true that we absolutely don't want to be very, very anti-financials because there have been times in recent years - 2010 and 2011 - when they have sprung back powerfully. So in increasing cyclical investments, financials are an area where we would be looking to take some positions.

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So now is the time to take more risk?

Yes, I believe it is, but within reason. I'm absolutely not arguing that you should throw out your defensive positions for a strong pro-cyclical stance. That is certainly not what we're doing. It's about blending defensive and cyclical characteristics in a way that will navigate the continued risk on, risk off environment we expect to see in 2012.

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