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UK RESOURCES STOCKS SET TO BENEFIT FROM EMERGING MARKET GROWTH, SAYS OMAM'S SIMON MURPHY

Simon Murphy, manager of the Old Mutual UK Select Equity Fund, has increased his exposure to the resources areas of the UK market following signs that economic stimulus measures, particularly in China, have started to help demand. The fund, which is rated "A" by Standard & Poor's, invests across the capitalisation spectrum of the UK equity market, with a bias towards constituents of the FTSE 100 Index.

Murphy says:

"We are taking an increasingly positive view on mining and oil exploration & production stocks in particular, as data shows that the authorities in China, the world's key user of resources, are succeeding in boosting domestic demand."

He explains that economic indicators suggest that the Chinese economy began to recover in March, with industrial production growth rising sharply from the low levels seen in January and February.

Murphy continues:

"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."

In the mining area, Murphy favours large 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. His favoured oil sector

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stocks are predominantly exploration & production companies such as Cairn Energy, BG Group and Tullow Oil.

Murphy explains:

“Energy company shares have received a boost from the recent rise in oil prices with exploration & 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.”

In terms of the wider market, Murphy says that his medium term outlook for UK equities is moderately optimistic as he believes signs of stability are returning to the economy and shares are continuing to trade at attractive valuations. With this in mind, he has moved the fund further towards economically sensitive areas, such as general retail and travel & leisure.

Murphy says:

“Within general retail, we hold 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 have a holding in tour operator Tui Travel, a beneficiary of a favourable trading environment in the travel & leisure sector which resulted from industry consolidation a couple of years ago. More recently, we have added a holding in Galiform whose principal business, Howden, is the UK market leader in the manufacture of kitchens.”

Murphy concludes:

“As economic stimulus measures have started to show signs of gaining traction, we have been taking advantage of attractive equity valuations in more cyclical areas of the UK

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market. However, we know that full resolution of the issues in the financial system is likely to take some time and will impact the speed of any meaningful economic recovery in the immediate future. As such, picking the relative winners in the recovery environment will be more important than ever.”

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