Old Mutual Asset Managers (UK) Limited
2 Lambeth Hill London EC4P 4WR
Telephone: 020 7332 7500 Fax: 020 7489 5252

Press Release

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MODEST ECONOMIC RECOVERY TO BOOST UK EQUITY MARKET IN 2010, SAYS OMAM'S BRADBURY

Ashton Bradbury, Head of Equities at Old Mutual Asset Managers (UK), expects a modest economic recovery to lead to a gradual rise in the UK equity market, providing the opportunity for good returns for investors in 2010.

Bradbury comments:

"Given that the market has rallied by around 50% from its March lows, economic data is mixed and investor confidence remains fragile, it is easy to be cautious on the outlook for UK equities next year, although I remain positive and expect further progress in 2010. Most forward-looking indicators point to an economic recovery over the next 12 months and growth expectations have gradually risen since the early part of this year. A combination of restocking and some recovery in capital expenditure from depressed levels should provide the economy with forward momentum, even allowing for the likely headwinds of restrictions to government spending and subdued consumer expenditure."

Bradbury expects the economic rebound to be less powerful than is typically experienced in the early stages of a recovery, although does not believe that this will concern investors unduly, as it will allow monetary policy to remain accommodative for a prolonged period

Bradbury continues:

"A combination of modest economic growth and easy monetary policy should make for a positive environment for equities. At this stage in the cycle the UK market is still reasonably valued at around 12 times forward earnings. Corporate profits in 2010 may surprise to the upside as even a modicum of top line growth should lead to a geared recovery, given the

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aggressive cost cutting of the last year or so. Consensus expectations for profits growth of 20%-plus in 2010 do not look unrealistic, given the near certainty of a significant recovery in mining and banking sector profits from depressed levels."

Nonetheless Bradbury acknowledges that there are risks to this positive scenario, but is quick to point out that the point at which there are no obvious risks is the time to be very careful.

Bradbury explains:

"The economic recovery could falter and disappoint, but then my positive scenario only requires modest growth. The authorities could make a significant policy error by withdrawing stimulus measures too soon, although the lengths to which they have gone to initiate the recovery suggest that they are very unlikely to tighten policy in anything other than a very gradual manner. There is also the ever-present possibility of an unexpected shock (such as recent events in Dubai) which may trigger a disproportionate reaction, given the fragility of investor confidence. Such events must be treated on merit, but more often than not are better viewed as opportunities to buy rather than reasons to sell."

A key difference in 2010 is likely to be the drivers of the market. Bradbury expects that whereas the last couple of years have been about getting two big decisions right - being defensively positioned in 2008 and then switching to a more cyclical bias in the second quarter of 2009 - excess returns are more likely to be driven by good stock selection than broader macro calls as the recovery matures.

Bradbury concludes:

"Although the broader cyclical recovery has almost certainly entered its final phase, there will still be selective opportunities to profit from the more cyclical parts of the market next year, meaning that good stock selection will be essential to identify those companies likely to

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enjoy the most significant recovery in profitability as sales volumes improve. Meanwhile, against a background of modest economic expansion, genuine growth companies - those with the potential to deliver strong, sustainable sales and profits growth beyond the recovery phase - will be keenly sought after but hard to find. Such companies are likely to be progressively rerated, providing strong returns, and shrewd stock selection will also be needed to profit from this theme. Overall I expect a modest economic recovery to lead to a gradual rise in the equity market, and combined with judicious stock selection, this should provide the opportunity for good returns for UK equity investors in 2010."

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For further information, please contact:

Simon Wilson | +44 (0) 20 7332 7500
Old Mutual Asset Managers (UK) | simon.wilson@omam.co.uk

Andrew Wilde | +44 (0) 20 7360 4900
Smithfield | awilde@smithfieldgroup.com

Notes for editors:

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2. OMAM manages a range of equity, fixed interest and absolute return funds for retail and institutional clients.

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3. OMAM's investment philosophy and approach are based on our view that talented managers can achieve strong returns for clients if they have the appropriate freedom to use their own proven investment methodology, rather than being constrained by a house style or view.

4. OMAM is one of a number of independently-managed asset managers within the Old Mutual group.

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