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# UK Mid Cap strategy

## Mid-caps outperform in March

- UK's inflation rate is forecast to fall below the 2% target by the end of June paving the way for potential rate cuts.
- FTSE 250 Ex IT rose by 5.7% in March driven by M&A, real estate, consumer discretionary and financials.
- UK Mid-Cap Strategy is top quarter over 1 year.

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### What's happening?

March started with the Spring Budget in the UK. The chancellor, Jeremy Hunt, announced amongst other initiatives, a cut to National Insurance, a 'British ISA', spend targeted at digitising the NHS, a new tax on vaping and an extension to the 'windfall' tax on energy firms. The Budget was delivered alongside the welcome news that the UK's inflation rate is forecast to fall below the 2% target by the end of June, falling further to 1.5% next year. The market took this as an indication that the BOE would potentially begin to cut interest rates as early as the summer. This was further reinforced when the key rate was left on hold, with members Haskel and Mann dropping rate hike votes in favour of holding rates.

The Office for Budget Responsibility released forecasts that indicated the UK economy is set to grow by 0.8% in 2024, followed by 1.9% in 2025. UK flash PMI for March reinforced expectations that the economy has recovered from last year's brief recession.

The announcement of a 'British ISA', allowing savers an extra tax-free allowance for owning UK equities, forms part of a package of measures aimed at boosting investment in UK listed companies. The government is also said to be looking at a public sale of their holding in NatWest and have confirmed plans to increase pension fund transparency by introducing a new requirement on defined contribution and local authority pension funds to disclose their allocation to UK equities.

### Portfolio positioning and performance

Markets reacted positively with the FTSE All Share posting a positive return in March of +4.75%, its constituent parts posting divergent returns. The FTSE 100, FTSE 250 ex-Investment Companies and FTSE Small Cap ex-Investment companies returned +4.84%, +5.70% and +2.70% respectively. In this environment, the strategy outperformed the broader equity market, as judged by the FTSE 250 (Excluding Investment Trusts).

In corporate news, Spirent Communications received an initial bid from Viavi at a 61% premium, which was superseded by a higher bid (86% premium) at the end of the month from Keysight. Darktrace reported a pickup in cyber security demand, together with a cost driven earnings upgrade, which surprised the market positively. Just Group reported very strong results on increased pension annuity demand from both corporates and individuals. Trainline results were bolstered by continuing market share gains in the UK as consumers move away from paper tickets to digital. Convatec reported strong revenue growth, increased their 2024 guidance and delivered margins that exceeded market expectations.

Conversely, FDM and One Savings Bank both reported an underwhelming outlook for earnings growth in 2024. Despite a positive trading update, Bytes shares showed further weakness following the resignation of the CEO (personal share dealing impropriety). Following a discussion with the chair, we are comfortable that for now this does not impact the investment case. Additionally, Virgin Money (Takeover approach from Nationwide) and ITV both performed well but are not held in the strategy.

## Outlook

On the whole, UK companies are reporting robust underlying earnings, forecasts are prudently set, and valuations remain attractive in the context of history and relative to global equity markets. Strong cash generation and robust balance sheet health is resulting in a lengthening list of UK companies buying in their own shares with surplus cashflow and share prices are responding positively to this. It is worth noting that global economies are slowing as the impact of higher rates is taking effect, however peaking inflation and interest rates will be supportive of valuations and those companies that can grow and compound their earnings and cashflows should be rewarded. UK companies are likely to continue to be targeted by corporate and financial acquirors. It is worth noting that after the month end, one of our holdings, Spirent received a cash bid for its entire share capital from Viavi, a US listed competitor.

**No assurance can be given that the UK Mid Cap Strategy will be successful. Investors can lose some or all of their capital invested. The UK Mid Cap strategy is subject to risks including; Equity; Smaller companies risk; Liquidity risk.**

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