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UK Multi-Cap strategy

We continue to focus on companies where balance sheet strength is supportive of that growth

- Investors immediately more optimistic about a global economic recovery
- M&A activity has been significantly increasing in the UK
- Protracted Brexit negotiations should conclude shortly

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What's happening?

Equity markets rose strongly in November following the release of positive late stage trial data from three Coronavirus vaccine candidates. The initial announcement, from Pfizer, catalysed a dramatic 'style rotation' as investors became immediately more optimistic about a global economic recovery.

Companies that have shown earnings resilience, supported by strong balance sheets and positive long term growth drivers, dramatically underperformed those companies deemed 'Covid losers'. Many stocks exposed to cyclical end markets (for example Banks and Oil and Gas companies) and those reliant on the congregation of individuals (travel and leisure) performed exceptionally well, in some cases reversing much of the capital losses incurred year to date. The extent and speed of this reversal has been described as a '6 Sigma' event, similar in quantum to the market moves seen in April 2009.

Clarity on the US Presidential election was welcome by markets. US President Donald Trump permitted the transition to a new administration under Democrat Joe Biden. The move alleviated any lingering worries that the result would face a drawn-out legal battle.

M&A activity has been significantly increasing in the UK. While many investors may still be wary on the UK, some are taking advantage of the discount UK businesses are trading at by buying these undervalued businesses.

Portfolio positioning and performance

The strategy performed strongly over the month. However, the positive performance lagged that of its comparative benchmark, the FTSE All Share index. The market favoured value stocks in November, while the strategy is managed to a

growth with a reasonable price (GARP) investment style. The 'style rotation' created significant divergence in stock performance.

The underweight to the utilities sector contributed positively to performance, however the overweight to technology and industrials sectors were negative contributors. Positive stock performances of note included holdings in On The Beach (an online retailer of beach vacations), Legal & General (a financial services company, providing asset management, general insurance etc.) and AFC Energy (a provider of hydrogen power generation technologies).

The share price of AFC Energy moved higher in November on news it had signed a deal with BK Gulf LLC to support the scale up of manufacturing capacity for its H-Power fuel cell system. The company has also secured a long-term lease over new premises in the UK to serve as its first large scale H-Power assembly and commissioning facility.

Detractors on a relative basis include Future and Spirent Communications and Dunelm (we remain positive of the investment case for all three).

Share price volatility was used to add to core holdings and make reductions.

Outlook

The path to economic improvement and equity returns will be determined, at least in part, by the speed and medical success of the Covid19 vaccines roll out. Although the announcement of vaccine trial success and imminent roll out has been met very positively by equity markets, it is worth bearing in mind that many economies remain restricted via lockdown and many companies are being forced to survive by dramatically increasing their debt burden. The long term effects on business investment, inflation and the cost of capital will clarify over time, as will the impact on productive capacity, and secular/cyclical changes brought about by the devastating economic effect of the virus.

Further, from a UK perspective, the protracted Brexit negotiations should conclude shortly and provide improving clarity on the longer term trading arrangements between the UK and the EU.

In these times of volatile news and capital flow, we continue to focus on those companies that we believe can compound their earnings, where balance sheet strength is supportive of that growth.

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