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UK Multi-Cap strategy

Corporate earnings results are strong

- UK economy continues to show signs of strength
- Retail sales up month-on-month
- IPO¹ market and incidence of UK listed companies attracting take over interest continues

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What's happening?

The UK economy continued to show signs of strength as the government announced further easing of restrictions, with indoor hospitality reopening. Retail sales were up 9.2%² month-on-month for April, which was much higher than consensus expectations, while the unemployment rate fell to 4.8%². UK house prices were also very strong, rising by 10.2%² year-on-year in March, the highest growth for almost 14 years. The suspension of the stamp duty tax has been a large factor behind the rally in house prices.

Corporate earnings results have continued to be very strong through the month, with some companies upgrading earnings expectations.

Portfolio positioning and performance

The strategy performed positively in May, both in absolute and relative terms to the FTSE All Share index. Stock selection was the main driver of outperformance, particularly within the Technology sector with the position in Future. The company's share price rose after announcing profits had doubled in the last six months to 31st March 2020. Management indicated that full-year results are likely to be materially ahead of market expectations. Revenue growth for the business were driven by their Media division's improved performance.

The fund also benefitted from its positions in Chemring Group, Ashtead and Morgan Advanced Materials. Detractors from a relative perspective include Antofagasta and Diversified Energy Company.

We used share price volatility to add to core holdings and make reductions. We sold our position in THG.

¹ IPO: Initial Public Offering

² Source : www.ons.gov.uk

Outlook

Macroeconomic events arising from the rate of economic recovery are likely to drive capital flows over the short term. Inflationary pressures, both short and longer term, the incidence of COVID infections (globally), together with the commensurate rate of economic growth are likely to influence investor sentiment and allocation of capital. Central banks remain steadfast in their view that inflation will be a temporary phenomenon and monetary policy remains accommodative.

From a business trading perspective, companies in aggregate are reporting profits ahead of analyst expectations and this is helping support equity valuations. Both the IPO market and incidence of UK listed companies attracting take over interest continues. Supply chain tightness is distorting several markets and we will continue to monitor both the severity and duration of this. As ever, we continue to focus on those companies that we believe can compound their earnings, are operating in end markets that are expanding and where balance sheet strength is supportive of that growth.

No assurance can be given that the UK Multi-Cap Strategy will be successful. Investors can lose some or all of their capital invested. The UK Multi-Cap strategy is subject to risks including; Equity; Smaller companies risk; Liquidity risk; Investments in small and/or micro-capitalisation universe; Investments in specific countries or geographical zones.

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