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UK Mid Cap strategy

UK economy continues to show signs of strength

- Corporate earnings results are strong
- 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 outperformed its comparative benchmark, the FTSE 250 ex IT Index in over the month of May. Stock selection was the main driver of outperformance, particularly within the Health Care and Technology sectors. Vectura Group, who develop inhaled therapies for the treatment of respiratory diseases, announced that it would be undergoing a takeover by global investment firm The Carlyle Group. Future, a special interest media company, saw its share price rise after announcing profits had doubled in the last six months to 31st March 2020. Management also indicated that full-year results are likely to be materially ahead of market expectations. Revenue growth was driven by their Media division's improved performance.

Other positive stock contributions of note include St. Modwen Properties, 4imprint and Chemring. Detractors on a relative basis included First Derivatives and Boohoo group.

¹ IPO: Initial Public Offering

² Source : www.ons.gov.uk

We used share price volatility to add to core holdings and make reductions. We took new holdings in NCC Group, a global cyber and software resilience business and sold our position in THG.

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 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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