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UK Mid Cap strategy

UK Mid Cap companies continue to outperform their large cap counterparts

- The UK equity markets posted positive returns in May
- Our stock selection within Consumer Goods has been positive
- Early signs of economic recovery

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What's happening?

Global equity markets posted positive returns in May, as slowing coronavirus infections resulted in government action to ease lockdown restrictions. With case load data improving in many countries, investors are increasingly prepared to look forward to economic recovery and an improvement in company earnings. Oil prices rebounded strongly over the month as evidence grew of high levels of compliance following the announced OPEC+ production cuts. Political and economic risks remain as US-China relations continue to deteriorate and Brexit negotiations grind on.

In the UK, Mid cap companies (represented by the FTSE 250 index) continue to outperform large cap companies (represented by the FTSE 100 index).

Results from companies so far have reflected the significant disruption being caused by the COVID 19 pandemic. While it is too early to draw broad conclusions, we remain optimistic about the maintenance of productive economic capacity as a direct result of the financial support being offered to companies from banks, shareholders and governments. We continue to monitor how management teams are reacting to the current situation and are optimistic of economic recovery over time.

Portfolio positioning and performance

Over the month, the UK Mid Cap strategy has positively performed in May, outperforming the FTSE 250 Index. Outperformance was driven by stock picking. Our stock selection within the Consumer Good space has been positive to the fund relative performance. Fevertree, a UK producer of premium drink mixers, has seen its share price continue to increase during May following the company report a surge in its off-trades sales during the lockdown (via supermarket, off licences and convenience store). Elsewhere, we have seen positive contribution from names within the Consumer Services sector. Both Dunelm, a home furnishing retailer, and Boohoo, an online global fashion retailer, contributed

strongly to the portfolio relative performance. They both continue to benefit from the shift to online consumption due to the ongoing pandemic. On a negative side, our underweight in Basic Materials detracted to performance.

Outlook

Movements in COVID-19 case load, the incidence of mortality, together with the pace and extent of economic recovery will dictate both economic sentiment and performance over the short term. Central bank support remains widespread and there is no evidence of restricted liquidity for either capital markets or individual businesses. Signs of economic recovery are being met with rising markets as risk appetite improves. It is worth remembering, however, that although economies are showing signs of improvement, the absolute fall in economic output remains significant.

We will continue focus on UK and internationally-exposed businesses, where the fundamental profit drivers remain entrenched and equity holders benefit from the capital allocated and risks taken by management. We continue to believe that a rewarding strategy is to actively invest in UK-listed companies that are compounding their earnings and dividends, where corporate governance is world leading, where contract law and title law are dependable, and where company management teams are permanently accessible.

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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