

Not for Retail distribution: this marketing communication is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

UK Mid Cap strategy

UK companies are reporting robust underlying earnings, forecasts are prudently set and valuations remain attractive

- Last UK Consumer Price Index report showed further than expected fall
- New positions were taken in Genus and Babcock
- UK companies are likely to continue to be targeted for M&A

Chris St John

Portfolio Manager, UK Mid Cap Strategy

What's happening?

Global stocks rallied over the month, stimulated by positive economic indicators, including receding fears of recession in the US and Europe. In addition, China's top officials pledged further stimulus. Positive earnings updates across major developed economies, falling inflation, and central bank announcements all boosted confidence, particularly in the US which is no longer forecast to go into recession.

The FTSE 100 had its best month since April and the FTSE 250 recorded its best monthly performance of the year on expectations that major central banks had reached a peak in their monetary tightening cycle.

The UK Consumer Price Index (CPI) fell further than expected in June to 7.9% amid a sharp drop in petrol prices. In the first positive surprise for inflation since January, the Office for National Statistics said the annual inflation rate resumed its downward trajectory after unexpectedly sticking at 8.7% in May. The fall exceeded City forecasts for a decline to 8.2%. Core inflation – which excludes volatile energy and food prices – remained sticky at an annualised 6.9% but fell from a 31-year high of 7.1% in May.

While inflationary pressures are abating, wage growth, which had already been described as 'unsustainable' by the governor the Bank of England rose further. The Office for National Statistics reported that average weekly earnings, excluding bonuses, had hit an annual growth rate of 7.3% during the three months to May, matching the highest level on record. UK unemployment rose above expectations despite the wage increase. The rate of unemployment rose to 4% in the three months to May, up from 3.8% in the previous three months and in line with analyst expectations. Company management commentary is reflective of easing inflationary pressures, including wage inflation.

Portfolio positioning and performance

In this environment, the strategy underperformed the FTSE 250 ex Investment Trusts, rising 2.6%. The overweight position in Oil and Gas and underweight position in Consumer Staples benefitted relative performance, whereas the overweight position in Industrials and underweight in Financials detracted.

Positive contributors of note included Future (announced share buyback) and Darktrace (rose materially after announcing that E&Y had found no issues of note with its accounting and controls, and that fundamental, underlying trading had continued to be strong).

Detractors included OSB (fell after the release of an unexpected announcement which resulted in a reduction in expected future income), 4Imprint (profit taking – post month end reported that earnings will be ahead of market expectations and shares rose materially), Ascential (awaiting news on restructuring) and Auction Technology.

We continue to focus on well capitalised companies that have growing profits, cash flows and, where appropriate, dividends. Market volatility was used to add to and reduce core holdings.

Taking advantage of share price weakness, a new position was taken in Genus. Additionally, following increasing evidence of improved operational performance, a holding was taken in Babcock. No holdings were sold over the month.

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. 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.

At times of heightened risk and uncertainty, it is easy to focus exclusively on the macro and geopolitical news flow and lose focus on the fundamental drivers of profitability and cashflow at the corporate level. Our approach remains centred on owning good quality businesses that can reinvest and compound their returns over time. We continue to believe that understanding longer term structural trends and identifying responsible, reliable and ultimately sustainable companies, in a targeted, focused and active approach, remains the key to longer-term success

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.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Source: Bloomberg, as at 31/07/2023

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this communication in an European Union country by notification to its authority of supervision in accordance with European passport rules. In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy available in English [here](#)). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (by clicking [here](#)) and informs you, depending on your jurisdiction, about your means of redress (by clicking [here](#)).

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office 22 Bishopsgate, London EC2N 4AJ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.