UK Multi-Cap strategy
Not much has to go right for sentiment, and hopefully returns, to improve

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- We remain focused on well capitalised businesses
- We sold our holding in HSBC

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What's happening?

Global equity markets fell in October as cases of coronavirus continued to increase in Europe and the US. Several countries in Europe announced lockdown restrictions in an effort to slow the spread of infections. In England, local lockdowns based on a three-tier approach were later replaced by the announcement of a second national lockdown. The second lockdown will likely further impact the economy; however, some parts of the economy that closed during the first lockdown are being encouraged to remain open.

The UK market welcomed the UK and EU's agreement to extend trade talks beyond Prime Minister Boris Johnson's original Brexit cut-off date of the 15th October.

Portfolio positioning and performance

The strategy benefited from positions in Chemring, (global business providing a range of advanced technology products and services to the aerospace and security markets), Future (specialty media company) and Weir Group (engineering solutions provider focused on the minerals, oil and gas and power markets).

Weir Group's share price rose on news that it had agreed to sell its' oil & gas division to Caterpillar, a global market leader in the manufacture of construction and mining equipment. This sale leaves the company able to focus on the minerals and mining end markets, increases the focus on spares and consumables and materially reduces the debt on the company's balance sheet.

Not owning British American Tobacco – which fell over the month – proved positive for the strategy on a relative basis. Detractors from relative performance include HSBC, Boohoo and Clinigen.

Share price volatility was used to add to core holdings and make reductions. We sold our holding in HSBC.

Outlook

The equity market is likely to remain volatile as the outcome of the US presidential election, final Brexit negotiations, ongoing central bank stimulus programmes, and the effects of COVID-19 continue to influence capital flows globally. At the time of writing, constructive sentiment is in the ascendancy following exceptionally positive results from the Pfizer (phase three) trial. This is undoubtedly a 'good news' story for equities and is having a dramatically positive effect on those companies seen as 'COVID-19 losers'; for example, airlines, banks, travel and leisure), particularly those with high levels of debt, many of which have significantly fallen in value this year.

In these volatile times, we remain focused on UK and internationally-exposed, well capitalised 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.

Given the discount that the UK equity market trades at versus other global equity markets, even after neutralising the sectoral biases of the UK stock market, not much has to go right for sentiment, and hopefully returns, to improve.

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.