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# UK Mid Cap strategy

## The UK market welcomed the UK and EU's agreement to extend trade talks

- Global equity markets fell in October
- We remain focused on well capitalised businesses
- We added new positions in Synairgen and Draper Esprit

**Chris St John**  
Portfolio Manager, UK Mid Cap Strategy

### 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 15<sup>th</sup> October.

### Portfolio positioning and performance

Stock selection within the consumer goods and industrials sectors contributed positively to relative performance against the strategy's comparative benchmark, the FTSE 250 ex IT index. However, stock selection within the consumer services sector detracted from relative performance, particularly within general retailers.

Positive stock performances of note included holdings in TI Fluid Systems, a leading global manufacturer of automotive parts (fluid storage, carrying and delivery systems) and Codemasters Group, a leading UK publisher of racing games on Console, PC and Mobile. As well as serving established automotive OEMs<sup>1</sup> on current Internal Combustion Engine ("ICE") platforms, TI Fluid Systems is helping vehicle manufacturers to transition from the ICE, through its work on Hi-bred and pure Electric Vehicle platforms. The company reported in October and stated that although revenues for the first half of

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<sup>1</sup> OEM: Original Equipment Manufacturer

the year were down on last year, it continued to take market share in the light vehicle market. The company was able to generate positive free cash flow and remained profitable despite market challenges as a result of the coronavirus pandemic. The share price of Codemasters rose after its trading update, where it has raised guidance for the remainder of the year. The company is best known for its racing games, including the Dirt Rally series and Formula 1.

Detractors on a relative basis included Boohoo and Clinigen Group.

A new position was taken in Synairgen, a drug discovery and development company focused primarily on severe asthma and chronic obstructive pulmonary disease, and Draper Esprit, a venture capital firm who invest in disruptive, high growth technology companies.

## 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 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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