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UK Mid Cap strategy

Economic growth continues to be determined by the success and speed of vaccine roll out

- Governments and central banks are fully committed to supporting economies
- We experienced a similar market effect to last November
- We continue to believe that strong balance sheets are necessary

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What's happening?

Global equity markets began the year positively, however they subsequently fell during the course of the month. Vaccine roll-out programs brought with it optimism that governments may soon be able to ease lockdown measures, and life could begin to return to normality. This was short lived as new variants of the virus created concern, particularly around the effectiveness of current vaccines.

On the positive side, the announcement of the \$1.9tn support plan in the US reminded us that governments and central banks are fully committed to supporting economies through fiscal stimulus.

Portfolio positioning and performance

In January we experienced a similar market effect to last November, where companies that have shown earnings resilience, supported by strong balance sheets and positive long-term growth drivers underperformed those companies deemed 'Coved losers'. Many stocks exposed to cyclical end markets (such as oil & gas companies) and those reliant on the congregation of individuals (travel and leisure) performed better.

The strategy underperformed its comparative benchmark, the FTSE 250 Ex Investment Trusts index, in January. From a sector perspective, stock selection within the industrials and consumer services sectors detracted from relative performance.

The fund benefitted from its holding in Clinigen Group, a global pharmaceutical and services company, after trading and cashflows were confirmed as in line with expectations. Both AVEVA (a leader in industrial software) and Just Group (a specialist UK financial services group focusing on the retirement income segment) also contributed positively to performance. Not holding Meggitt (which contributed negatively in December) proved to be positive in January. Detractors on a relative basis included Royal Mail and TUI, both of which are not held in the fund.

We used share price volatility to add to core holdings and make reductions. A new holding was taken in JD Wetherspoon. Holdings in Beazley, DCC and Codemasters Group (following a takeover approach by Electronic Arts) were sold.

Outlook

The return to economic growth continues to be determined by the success and speed of vaccine roll out. Stock market participants remain optimistic that economic recovery is moving ever closer and this is being swiftly reflected in the share prices of cyclically exposed, and in many cases financially leveraged, businesses. The support measures put in place by governments and banks have helped maintain significant amounts of pre pandemic capacity and it is logical therefore to expect economic recovery to be strong (when allowed to be so). It is worth bearing in mind however that during the past year, many companies will have experienced a dramatic shift in their balance sheet structure and this could result in a shift in the balance of power away from equity holders. We remain vigilant and continue to believe that strong balance sheets are necessary in order to sustainably grow and take advantage of a huge opportunity to expand market share.

Mergers and acquisitions were once again a feature and we believe this will continue.

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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