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UK Multi-Cap strategy

UK equities moved higher in March

- The start of a phased easing of lockdown restrictions boosted optimism
- UK stock market continues to offer multinational & domestic investment opportunities
- Short-term inflation remains topical, long-term structural drivers remain undiminished

Chris St John

Portfolio Manager, UK Multi-Cap Strategy

What's happening?

UK equities moved higher in March. The speed of the COVID-19 vaccination program in the UK and the start of a phased easing of lockdown restrictions boosted optimism about an economic rebound. Investors also largely welcomed the Chancellor's annual budget, which included an extension of the government's wage support scheme until at least September of this year. Broader market gains were mostly driven by a continuation of the rotation from growth into value names.

A third wave of COVID-19 infections across Europe led to concerns about the pandemic at a global level, as many countries were forced to reintroduce lockdown measures.

Portfolio positioning and performance

The strategy performed positively in absolute terms over the month, but underperformed its comparative benchmark, the FTSE All-Share Index. From a sector perspective, the strategy benefitted from being underweight the basic materials sector, and overweight the industrials sector. The underweight to the consumer staples sector detracted from relative performance.

Positive stock contributions of note included Ashtead Group (an international equipment rental company) and Legal & General (a provider of financial services). Selling the position in Royal Dutch Shell and not owning BHP also contributed positively from a relative perspective. Detractors on a relative basis include Weir Group and not owning British American Tobacco.

We used share price volatility to add to core holdings and make reductions. We took new holdings in Restaurant Group, Antofagasta and Pets at Home. Recent steps taken by the management team at Restaurant Group to recapitalise and reposition the business position it for growth once pubs and restaurants can reopen. Pets at Home continues to benefit

from accelerating growth in pet ownership and their owners propensity to spend on them. We sold our position in Royal Dutch Shell.

Outlook

Inflation may be topical, however the many secular thematic areas that form part of our investment process have not diminished. The internet, accelerated by COVID-19 in many cases, will become more pervasive in all areas of our lives, rapidly growing demand for data manipulation, storage and transfer will not cease, individuals will still get older, and human beings will remain social creatures.

The UK stock market continues to offer both multinational and domestic UK-focused investment opportunities, exposed to the many themes available to US and other international stock markets. The significant amounts of recent M&A¹ activity suggests that corporate and private equity buyers are willing and able to take advantage of the many opportunities on the UK stock market. Given the ongoing spread between the cost of debt and the earnings yield of UK businesses, combined with their prospects, we continue to believe that UK-listed companies will continue to be targeted.

Looking ahead, the path to economic growth will be determined by the speed and success of the vaccine rollout on a global basis. Inevitably, the trajectory of economic growth, inflation, currency movements, and the cost and availability of capital will prove unpredictable, at least on a short-term basis.

In these times of volatile news and capital flow, we continue to focus on those companies that we believe can compound their earnings, and where balance sheet strength is supportive of that growth.

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.

¹ M&A: Mergers and Acquisitions

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