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UK Mid Cap strategy

The impact of the pandemic continues to disrupt as well as provide opportunity

- Global equities performed well in August
- The UK equity market trades at a discount versus other global equity markets
- The development and outcome of the Brexit negotiations will impact sentiment, currencies and the UK equity market

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What's happening?

Global equities performed well in August, supported by continued monetary and fiscal policy, economic improvement and optimism around the development of a coronavirus treatment. However, a rise in infection rates across the world increased the risk of further restrictions.

At its policy meeting in early August, the Bank of England revised its GDP forecast for 2020 from a fall of 14% to a fall of 9.5%¹, with the economy recovering more quickly than previously expected. Interest rates remain unchanged despite official GDP data stating a second-quarter fall of 20.4%¹ from the previous quarter. On a positive note, retail sales rose strongly in July, growing by 3.6% from June¹.

Portfolio positioning and performance

The UK Mid Cap strategy posted a positive absolute return in August, however it slightly underperformed its comparative benchmark the FTSE 250 ex IT. From a sector perspective, financials contributed positively, with consumer services and industrials contributing negatively to relative performance. Overall, stock selection was negative.

Positive stock performances of note included holdings in OneSavings Bank, a specialist lending and retail savings bank, Dunelm, a home furnishing retailer, and IWG, an owner and provider of office space. OneSavings Bank's share price rose

¹ Bloomberg data

in August after the company announced an increase in pre-tax profit as well as in net interest income for the first half of 2020. Detractors on a relative basis included William Hill (not owned), Avast and Pets At Home.

Share price volatility was used to add to core holdings and make reductions.

Outlook

The equity market is likely to remain volatile as the forces of central bank stimulus, government support and the economic impact of increasing or decreasing COVID-19 cases battle for supremacy. The impact of the pandemic continues to disrupt as well as provide opportunity as the effect of the virus impacts economic sectors and businesses differently.

As economic support measures such as the UK furlough scheme unwind, unemployment will inevitably rise. The extent and manner in which the government responds, in terms of additional monetary and fiscal support or via taxation increases will be a long-term determinant of the shape of the economic recovery. In addition, the development and outcome of the Brexit negotiations will impact sentiment, currencies and the UK equity market. Given the discount that the UK equity market trades at versus other global equity markets, not much has to go right for sentiment to improve.

We remain focused on UK and internationally-exposed 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.

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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