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# UK Mid Cap strategy

## UK economic output should continue to improve as businesses reopen

- Investors continued to focus on improving economic data
- Ongoing monetary and fiscal stimulus continue to be supportive
- UK GDP<sup>1</sup> showed signs of recovery as the month progressed

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### What's happening?

Global equity markets rose again in June as investors continued to focus on improving economic data resulting from the easing of lockdown restrictions. Volatility remained elevated, however, as global stock markets fluctuated between 'risk on' and 'risk off'. Plentiful ongoing monetary and fiscal stimulus continued to support asset prices and maintain broader liquidity. Expectations of a swift economic recovery will depend on any rise of new Coronavirus cases not leading to additional, widespread societal lockdown.

UK equity markets rallied strongly at the start of June, before falling back towards the end of the month as concerns grew over a second wave of Coronavirus cases. Economic data remained volatile with a confirmed 20.4%<sup>2</sup> fall in UK GDP during April 2020 showing signs of recovery as the month progressed.

### Portfolio positioning and performance

The UK Mid Cap strategy performed positively in June, outperforming the FTSE 250 Index. Stock picking was the main driver of outperformance. From a sector perspective, Consumer Services was the largest positive driver of relative performance. The underweight position to Travel & Leisure companies and stock picking within General Retailers contributed to outperformance. Dunelm, a home furnishing retailer, continues to contribute positively to relative performance. The company has benefitted from the accelerated shift to online due to the pandemic. Other stock performances of note include Codemasters Group, which develops and publishes video games, and Ashtead Group, an international equipment rental company. Codemasters Group saw its share price increase on news it had won a five year

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<sup>1</sup> GDP: Gross Domestic Product

<sup>2</sup> Bloomberg

contract to develop and publish FIA World Rally Championship video games and esports tournaments. Lockdown has also increased the number of video game players. Detractors on a relative basis included Future and Clinigen Group.

## 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.

UK economic output should continue to improve as businesses reopen and welcome back furloughed staff. The UK economy has had to absorb a significant shock and continues to be supported by government and Central Bank policy. As ever, there will be winners and losers as the long term changes to individual behaviours impose themselves.

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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