

Not for Retail distribution: this marketing communication is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

UK Multi-Cap strategy

Contrary to many market economists, the UK economy once again beat gloomy economic expectations

- Weak stock market reflected concerns about a global economic slowdown over the month
- Strong relative performance from technology and industrials sectors drove outperformance
- We remain focus on well capitalised companies with growing profits

Chris St John

Portfolio Manager, UK Multi-Cap Strategy

What's happening?

May was a weak month of stock market returns on concerns about a global slowdown following China's continued weak economic data and uncertainty around the US debt ceiling, which outpaced optimism around slowing inflation in many developed market economies. The FTSE 100 hit a two-month low at the end of the month on these combined headwinds as the Oil & Gas and Metals & Mining sectors came under pressure.

Contrary to many market economists and indeed the Bank of England (BOE) and the International Monetary Fund (IMF), the UK economy once again beat the rather gloomy economic expectations. Indeed, the IMF no longer expects a recession in Britain this year. It said the steps taken by the government to stabilise the economy and fight inflation would help GDP grow by 0.4% in 2023 rather than contracting 0.3% as it had predicted in April. The Bank of England also upgraded their 2023 forecasts in May, showing that it too had become overly pessimistic.

While the Consumer Price Index (CPI) rate of inflation fell to 8.7% year-on-year in April 2023, the lowest since March 2022, the rate still exceeded market expectations of 8.2% and remains well above the Bank of England's (BoE) 2% target. Inflation is currently being driven by 'shop inflation' which reached its highest rate since industry records began in 2005. The British Retail Consortium said prices in supermarkets and retail chains rose 9.0% in the year to May, after an 8.8% increase in April, although food prices cooled slightly. In response the BOE increased the cost of borrowing by another 25 basis points (bps), in line with its central bank peers in the US and Europe, to reach 4.5%.

The FTSE All Share (-4.72%) and its constituent parts (the FTSE 100 -5.04%, FTSE 250 ex-Investment Companies -4.11% and FTSE Small Cap ex-Investment companies -1.71%) all posted sizable declines¹.

Portfolio positioning and performance

The strategy outperformed its comparative index, the FTSE All Share. The overweight positions in the Technology and Industrials sectors contributed positively to performance.

¹ Source: Bloomberg, as at 31/05/2023

Positive contributors of note included Bytes Technology and Melrose. Bytes reported strong organic growth numbers, helped by the demand for Microsoft and cyber security products. Not owning British American Tobacco and Unilever was positive.

Detractors included Future, Prudential and not owning HSBC. Future reported in-line interim results but were more cautious on the outlook for the remainder of their financial year. The UK part of their business posted more resilient performance while media revenues in the US fell.

We continue to focus on well capitalised companies that have growing profits, cash flows and, where appropriate, dividends. Market volatility was used to add to and reduce core holdings. No new holdings were taken over the month. The position in RS Group was sold following a change of management team and cyclical concerns over its growth potential. The position in iEnergizer was also closed.

Outlook

Inflation, interest rate expectations, macro-economic data points and the path of conflict in Ukraine are likely to govern capital flow, volatility and short term returns of both equities and debt.

Equity market returns continue to be governed by movements in global bond markets. Market volatility will remain in the near-term as central bankers move into a new data dependant framework and investors will pay close attention to the immediate data releases, along with the forthcoming central bank meetings, which will be key in the assessment of how close central banks are to ending their tightening cycle. Growing evidence suggests that inflation has peaked, however the speed of decline and the trough level continues to be debated.

UK equities remain at a mid 20% discount to global equities and with circa 10 take over approaches of UK listed businesses in April, private equity funds, in particular, are becoming increasingly active in releasing this value and opportunity.

While the outlook for equities may be finely balanced, our approach remains centred on owning good quality businesses that can reinvest and compound their returns over time. We continue to believe that understanding longer term structural trends and identifying responsible, reliable and ultimately sustainable companies, in a targeted, focused and active approach, remains the key to longer-term success.

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.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate, London EC2N 4AJ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly.

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients



wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.