

Q3 2020 COMMENTARY

UK EQUITY GROWTH FUND

QUARTER TO END SEPTEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-0.60%	16.39%	-8.94%	-2.86%	22.21%	151.17%
FTSE All Share TR GBP	-2.92%	6.95%	-16.59%	-9.33%	18.57%	63.90%
IA UK All Companies	-1.00%	13.07%	-12.81%	-7.88%	17.12%	72.91%
Sector Quartile	2	2	2	2	2	1

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

REVIEW

The UK markets had a mixed performance in the quarter whilst the US markets performed well. The Federal Reserve announced a policy shift which would change its inflation target to an average of 2%. This likely means it will be more tolerant of temporary increases in inflation and lead to expectations of lower interest rates for longer.

The prime minister announced new lockdown measures due to the rapid spread of coronavirus. The chancellor announced that the autumn budget had been cancelled as well as the extension of various government support measures and a new job support scheme. The Monetary Policy Committee unanimously voted to hold interest rates and the level of quantitative easing whilst suggesting that negative interest rates could be a policy tool going forward. The government introduced an Internal Market Bill which caused tensions within both the Conservative party and the EU. This again raised the prospect of a no deal exit. The UK indices were in mixed territory in the quarter. The FTSE 100 was negative in the period whilst the FTSE 250 and FTSE small cap were in positive territory, with the FTSE 250 performing relatively better.

Elsewhere, following an increase, the oil price fell and ended the period roughly where it started. The quarter was dominated by coronavirus, although Europe had started to see a recovery. The President of the European Central Bank (ECB), Christine Lagarde, announced that the exchange rate would be carefully assessed with regard to inflation implications.

PERFORMANCE & ACTIVITY

Fund outperformance versus the FTSE All-Share Index was aided by overweight positions in Support Services and General Retailers and underweight positions in Banks and Oil & Gas. Overweight positions in Media and Life Insurance and underweight positions in Mining and Travel & Leisure impacted performance. At a stock level Future (Media), Applied Graphene Materials (Materials), Frontier Developments (Technology), and Actual Experience (Software) were amongst the biggest contributors to performance whilst detractors included BP (Oil & Gas), SSP (Consumer Discretionary), Royal Dutch Shell (Oil & Gas) and Diaceutics (Health Care Services).

Fund activity included started a position in Instem, a provider of technology applications to the global early development healthcare market, via a placing. We also took part in a placing for Liontrust. We increased our position in BP and took profits in Rio Tinto, Global Data and Ashtead.



OUTLOOK

The prime minister announced new lockdown restrictions in certain areas of the country and this will likely continue due to the spread of coronavirus. The imposition of new restrictions is likely to impair economic activity and the chancellor will have to walk an economic tightrope balancing measures to stimulate the economy whilst being careful with the fiscal position. Brexit talks with the European Union over a future trade deal have become increasingly fraught and are likely to go down to the last minute. Sterling has been volatile against the Dollar and this is likely to continue in light of economic uncertainty. European economic activity is slowly starting to recover although this will likely be accompanied by coronavirus flare ups. The US administration has become increasingly erratic and this has manifested itself with the handling of the coronavirus outbreak. This is likely to continue with the countdown towards the Presidential election. While, as ever, some political and economic risks lie ahead, we remain focused on finding new opportunities in companies that meet our strict criteria of dominant market positioning, earnings growth, high margins and strong cash flows.

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