

## Royal London UK Mid-Cap Growth Fund celebrates fifth anniversary with strong performance

The £85 million Royal London UK Mid-Cap Growth Fund was launched five years ago this month and has enjoyed excellent performance. Since 1 June 2006 it has returned 82.5%, 31% ahead of its benchmark, the FTSE Mid 250 (ex Investment Trusts) Index, and 59% ahead of its peer group average. Since launch the fund is ranked 5th out of 253 funds in the IMA UK All Companies sector (source: Financial Express, as at 31/05/11).

Managed by Citywire A-rated Derek Mitchell, the fund aims to maximise capital growth over the medium to long term through a high conviction portfolio of 40-60 stocks. Derek's approach combines top-down macroeconomic analysis with bottom-up stock research, aiming to identify those sectors capable of delivering consistent earnings performance given the prevailing economic environment. He also seeks to profit from existing or future themes, such as emerging markets growth. He then selects companies whose market value is below their long term worth and where there is a catalyst to exploit this undervaluation and provide positive earnings surprises.

Outlining his expectations for the mid cap sector, Derek Mitchell comments:

"Despite outperforming large caps of late, mid caps have not been immune to the current poor newsflow and what we are witnessing is a mid-cycle slowdown. However, the broader spread of businesses found within the mid cap index has limited the extent of underperformance relative to the less diverse FTSE 100, which has a high degree of concentration in the poorly performing banks and mining sectors."

Mitchell believes that as companies are now more robustly financed and are turning expansionary once again to exploit their strong balance sheets, they are exploring M&A opportunities and returning cash to shareholders at a rapid pace. He sees this as a significant positive for the overall equity market, providing a cushion to any short-term risk, while he expects that further market weakness could lead the pace of M&A activity to increase, potentially providing further support for mid cap stocks, given that they are more likely to be acquired than acquire.

Detailing recent portfolio activity, Mitchell continues:

"I have been gradually reducing industrial cyclical exposure to mitigate against slowing economic growth, while broadening exposure to other sectors such as aerospace and defence, travel and leisure, financial services and IT software. Recent drivers to performance have been quite diverse, including buy-to-let lender Paragon, oil services provider Cape, consumer electronics company AZ Materials and cash & carry operator Booker."

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