**Fund Manager December 2021 Commentary – Lowland Investment Company**

***Laura Foll, Co-Portfolio Manager of Lowland Investment Company***, delivers an update on the Trust, highlighting the key drivers of performance, recent portfolio activity, and provides an outlook for the UK equity market.

UK equity markets rose strongly during December following growing evidence that the Omicron variant of Covid-19 is less severe (with, for example, a lower estimated hospitalisation rate). There is, therefore, potentially less requirement for trading restrictions beyond the UK government’s existing ‘plan B’ measures. During the month, the Trust’s net asset value rose 5.8%, while its FTSE All-Share benchmark rose 4.7% and AIC UK Equity Income peer group rose 4.5% (all figures on a total return basis).[[1]](#footnote-1)

Among the best performers during the month was flexible vehicle hire firm Redde Northgate, following encouraging interim results where profit before tax for the full year was guided to being ‘at least’ in line with market expectations. Redde Northgate earnings have benefitted from several factors, including the growth in online shopping, resulting in increased demand for van hire for last-mile delivery. Also among the good performers in December was corporate services firm K3 Capital, following reporting results in line with market expectations. Detractors from performance during December were largely ‘underweight’ positions in large benchmark stocks that performed well, including AstraZeneca and HSBC.

Turning to transactions during the month - the position in retailer Halfords was added to in a placing to fund the acquisition of a national chain of garages. In our view, the acquisition looks complementary to their existing Autocentres business, with the potential for significant synergies from the combination (such as enhanced purchasing power and removing duplicate costs). We also added to the position in Kingfisher (the owner of brands including B&Q and Screwfix). In our view, Screwfix has the potential for good future earnings growth, both within the UK and in countries such as France.

Looking ahead into 2022, there are several reasons to be optimistic about the UK backdrop. Consensus estimates real UK economic growth in ’22 of 4.8%, and the UK is starting the year with a low unemployment rate and a better than historic average household balance sheet (which should give households more of a savings ‘buffer’ to counteract rising prices). The UK equity market also enters 2022 at a valuation (measured by 12-month forward price/earnings) which is not out of line with its own historic average and is lower than other developed equity markets (particularly the US). This is not to say there are not risks, the most material in our view being persistent high inflation, which brings alongside it the risk of central bank policy error and pressure on household real disposable incomes.

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| --- | --- | --- |
| Discrete year performance  % change (updated quarterly) | Share  Price | NAV |
| 30/09/2020 to 30/09/2021 | 53.3 | 55.1 |
| 30/09/2019 to 30/09/2020 | -24.6 | -24.8 |
| 28/09/2018 to 30/09/2019 | -11.9 | -9.6 |
| 29/09/2017 to 28/09/2018 | 4.2 | 3.0 |
| 30/09/2016 to 29/09/2017 | 16.4 | 17.0 |
| All performance, cumulative growth and annual growth data is sourced from Morningstar. | | |

**Glossary**

**Forward price/earnings** - Forward price-to-earnings (forward P/E) is a version of the ratio of [price-to-earnings](https://www.investopedia.com/terms/p/price-earningsratio.asp) (P/E) that uses forecasted earnings for the P/E calculation.

**Inflation** - The rate at which the prices of goods and services are rising in an economy. The CPI and RPI are two common measures.

**Net Asset Value (NAV)** - The total value of a fund's assets less its liabilities.

**Valuation** - Metrics used to gauge a company’s performance, financial health and expectations for future earnings eg, price to earnings (P/E) ratio and return on equity (ROE).

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1. Source: Bloomberg as at 18/01/2022 [↑](#footnote-ref-1)