

Lowland Investment Company

February 2021

For promotional purposes

Fund Managers Names

Laura Foll and James Henderson

Macro backdrop

The most material move during February was a steepening yield curve (in other words the cost of UK government borrowing rose, particularly for borrowing over longer time periods such as 10 years and over). This rise in yields came about as expectations rose of a faster domestic economic recovery, possibly leading to a rise in future inflation levels as pent up consumer demand could be spent in a relatively supply-constrained economy. A steepening yield curve led to a sharp rotation within the UK equity market, with defensive sectors such as healthcare and consumer staples underperforming, while financials, energy and materials performed strongly. In this context, the Trust's underweight position in consumer staples, and overweight position in financials were among the largest contributors to relative performance at the sector level.

At the stock level, the largest contributors to performance during the month included companies positively exposed to the 'opening up' of the domestic economy as the vaccination programme continues its successful roll-out. This included Redde Northgate (which supplies vehicles for hire and is therefore positively exposed to traffic volumes increasing) and Johnson Service Group (which supplies textile rentals, including for the hospitality industry).

During the month a new position was initiated in Convatec, a supplier of medical equipment such as wound dressings. Under a relatively new chief executive Convatec are investing heavily in research & development and sales and marketing in order to reinvigorate organic growth. At the last set of quarterly results there was some evidence that organic growth is improving, and in our view a steady improvement in growth is not currently factored into the valuation. This is an area we will be watching closely at the upcoming fourth quarter results and in 2021 guidance. Elsewhere the position in Vodafone was added to following better than expected results, and the position in AstraZeneca was added to as it has (since the Alexion acquisition was announced) de-rated relative to the global pharmaceuticals sector. The position in water utility Pennon was sold, as in our view there are better total return opportunities elsewhere in the UK market.

Glossary

Yield: The level of income on a security, typically expressed as a percentage rate. For equities, a common measure is the dividend yield, which divides recent dividend payments for each share by the share price. For a bond, this is calculated as the coupon payment divided by the current bond price.

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