

FUND COMMENTARY – JULY 2025

CT UK EQUITY INCOME FUND



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Summary

- The FTSE All-Share returned 4.0% in July.
- Gross of fees, the fund rose 1.5%,¹ underperforming the index.
- The lack of exposure to British American Tobacco and underweight in AstraZeneca weighed on relative returns.
- Positive contributors included the zero weights in London Stock Exchange Group and BAE Systems.
- We opened a position in Croda International.

Market Background

UK equities had a stellar month. The FTSE All-Share returned 4.0% in July and outperformed its developed-market counterparts.

Sentiment was boosted by some better-than-expected corporate earnings in the UK and the US and easing trade war jitters. Despite the Trump administration threatening higher tariffs on some US trade partners as the revised 1 August negotiation deadline loomed, investors remained sanguine, and the US eventually struck deals with several regions, notably the EU, Japan and South Korea.

Shares of UK large-cap overseas earners, which dominate the FTSE All-Share, were further boosted by the pound's weakness against the dollar, with the FTSE 100 hitting a new high in July. The FTSE All-Share was also supported by strength in the sizeable energy and healthcare sectors.

Less positively, concerns about the UK's fiscal position lingered. Following threats of internal revolt at the end of June, the Labour government watered down its welfare reforms, leading to fears of more government borrowing and higher taxes. This was exacerbated by questions over Rachel Reeves's future as chancellor – although Prime Minister Keir Starmer subsequently underlined his support – and data showing above-expectation government borrowing in June.

Economic data also disappointed with the UK economy shrinking again in May alongside weak economic surveys. Meanwhile, annual consumer price inflation in June unexpectedly rose to its highest since January 2024. This was largely driven by increases in petrol prices and air and rail fares but services inflation – a key area of focus for the Bank of England – was also stronger than expected, remaining unchanged from May's 4.7% and well above the central bank's target.

By sector, energy and healthcare were the best performers in the FTSE All-Share, thanks to strong corporate results from major players, and, in the case of energy, some upward earnings revisions. A weaker pound was also a tailwind for the many 'dollar earners' in these sectors and in consumer staples, which also outperformed in July. On the other side, real estate and technology were weakest. The former was pressured as higher inflation and gilt yields dampened sentiment towards rate-sensitive stocks.

Performance

Gross of fees, the fund returned 1.5% over the month, underperforming the FTSE All-Share.¹

At the stock level, the lack of exposure to British American Tobacco (BAT) and underweight in AstraZeneca weighed on relative returns as both companies reported first-half results that exceeded expectations. BAT's US revenue growth

¹ Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

turned positive for the first time since 2022, although total revenue fell year on year. Meanwhile, AstraZeneca benefited from strong demand in the US and for oncology medicines. Positive trial results for a drug designed to reduce blood pressure in treatment-resistant hypertension and rumours of plans to move the company's main listing to the US also supported AstraZeneca's stock during the month.

Our overweight positioning in WPP was another detractor in July. Shares fell after the media company reduced its full-year revenue and profit guidance, citing reduced advertising spending by clients in the second quarter (Q2). Management also stated that it expects the second half of 2025 to remain challenging but that the company will continue its approach of balancing long-term investment against reducing structural costs. We retain conviction in the stock, which is trading at a compelling valuation. WPP is a high-quality business that is diversified by geography and client type. Within a complex and fragmented advertising platform space, the company boasts world-class brands with leading market positions and strong client relationships. A decade of investment has helped WPP cement its competitive position, while the use of AI technology offers potential for the firm to improve productivity and increase personalisation of advertising at scale. WPP is a compelling self-help story, as its versatile business model and simplified structure have led to a high (and improving) return on capital employed. We are positive about the appointment of Cindy Rose as the new CEO and feel that the company has the potential to grow its revenue and improve its operating margin over the long run. Additionally, WPP stands to benefit from the disposal of its remaining stake in Kantar, which is not reflected in already very appealing valuation multiples.

On the other side, key contributors included the lack of exposure to London Stock Exchange Group (LSEG) and BAE Systems. While LSEG's interim results showed higher pre-tax profits and revenues, the shares fell on concerns about slowing year-on-year growth in annual subscription value amid heightened competition. Shares in BAE Systems, which has been a detractor over much of this year, fell back after a period of good returns as the company's interim results showed year-on-year falls in order intake and free cash flow.

The holding in Burberry was also beneficial for relative returns. The luxury goods firm's fiscal first-quarter results indicated a smaller-than-expected drop in comparable store sales, providing hope that its "Burberry Forward" strategy reset is already having an impact. The results showed improvements in performance across all regions, including an uptick in sales in North America, bouncing back from a decline in the previous quarter. There is still significant uncertainty over Burberry's near-term earnings trajectory owing to the tough backdrop for luxury goods companies. However, brand resonance remains strong. Having reviewed the strategy he inherited, which was elevating the brand to higher price levels but leaving core Burberry customers behind, the firm's CEO is seeking to reinvigorate the appeal and revenue generation of the brand. We feel the current share price is highly attractive, having only been lower during the global financial crisis in 2008.

Activity

We opened a position in Croda International, which produces ingredients for use in sectors including industrials, life sciences and consumer care. A former darling of the market, Croda has seen its earnings decline due to a combination of destocking in its end markets and the end of Covid-related tailwinds. Croda's shared manufacturing facilities require a steady state in all end markets to see benefits in terms of operating leverage and margin growth, which remains difficult to forecast. However, increased focus on cost controls and the end of a heavy capital expenditure cycle should help the company to improve free cash flows in 2026.

We topped up our holding in Chesnara as part of a rights issue to fund the company's purchase of HSBC Life UK. Established in 2004, Chesnara is a life insurance and pension consolidator with a presence in the UK, Sweden and the Netherlands. The acquisition of HSBC Life UK will bring on board approximately £4 billion of assets under administration (AUA), taking Chesnara's total AUA to £18 billion, and over 450,000 policies. The deal could also support Chesnara's cash generation through cost and capital synergies, which should provide additional scope for the company to increase returns to shareholders. Moreover, the track record of Chesnara's current management team for integration of acquisitions has been very strong. The takeover is expected to conclude in early 2026, pending regulatory approvals.

We also continued to build our position in Bellway, a quality, highly cash-generative, diversified housebuilder with a consistent track record. Valuations across the homebuilding sector are very attractive, and Bellway is well positioned to capitalise on a recovery as interest rates fall and the UK government pushes to build new homes. Due to the increasing complexity of scheme applications and climate reports, major housebuilders such as Bellway have a huge competitive advantage. Bellway is conservatively run and has a great brand at the lower price spectrum, so the company should be able to achieve higher densities in new sites and has the largest strategic landbank relative to its size. This should provide a high degree of control in releasing more space. In addition, the firm's return on invested capital (ROIC) is currently lower than its peers, meaning that the discount to its net asset value is larger. Bellway's chair has expressed confidence in improving the ROIC.

In terms of sales, we trimmed our position in Legal & General.

Outlook

The US exceptionalism trade has been challenged this year, while the UK market has outperformed. There are also signs that the long-term structural sales of UK equities by major asset allocators are now ending.

Moreover, with a stable government, the UK is becoming a more attractive place to invest, despite recent concerns about the elevated fiscal deficit. Speculation is already rife around whether the government may be forced to break its pledge not to raise taxes during the current parliament in this year's autumn budget. Nevertheless, we expect consumer spending to be supported by lower interest rates and the resulting easing in credit conditions. Households' Covid-era "piggy banks" are still largely intact and given the rise in house prices, there is potential to draw on home equity.

While there are concerns about the impact of US tariffs on trade under the Trump administration, the UK has so far avoided the worst potential outcomes. We believe this is due in part to the UK market's heavier exposure to defensive sectors, in which the fund is overweight, and low trade surplus with the US. In addition, while the details are still unclear, the limited UK-US trade deal reached in early May included concessions on some of the higher levies previously announced, including for steel and automobiles.

At the same time, the fund has limited exposure to the top five index constituents (HSBC, Shell, AstraZeneca, Unilever and Rolls-Royce), where most of the gains in the FTSE All-Share have been concentrated this year. We suspect that hedge fund and index repositioning has to some degree been at work behind the gains from these mega-caps given the diverse nature of their business activities.

Meanwhile, with 75% of the UK market's revenues coming from overseas, UK businesses are generally resilient to any potential domestic economic headwinds. The UK equity market as a whole is still attractively valued relative to its own history and to international peers, despite its outperformance this year. We therefore expect UK companies to remain attractive targets for overseas takeover and private-equity bids.

Our focus remains on long-term ownership and quality stewardship. As patient conviction investors, we will continue to avoid whipsaw momentum trades and concentrate on company fundamentals to target strong risk-adjusted returns.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The investment policy of the fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions.

The fund may exhibit significant price volatility.

All the risks currently identified as being applicable to the fund are set out in the "Risk Factors" section of the prospectus. Please read the Key Investor Information Document and the fund prospectus if considering investing.

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