FUND COMMENTARY – JULY 2025
CT UK FUND

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Summary

- UK equities enjoyed a very strong month.
- Gross of fees, the fund underperformed its benchmark, the FTSE All-Share.[1]
- Relative performance was impacted by the holdings in WPP and London Stock Exchange Group.
- Top relative contributors included ICG and Standard Chartered.
- In terms of activity, there were no significant changes.

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 underperformed the FTSE All-Share in July.[1]

At the stock level, key detractors from relative performance included WPP and London Stock Exchange Group (LSEG).

[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.

Shares in WPP 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.

LSEG's first-half results showed higher pre-tax profits and revenues, and the company raised dividends, announced share buybacks and upgraded its full-year guidance. However, shares fell as year-on-year growth in annual subscription value slowed amid heightened competition. LSEG is a high-quality company trading at a material discount to global peers, and we believe capital market reforms should allow this discount to start to unwind. We are positive about the potential for earnings growth to increase.

The lack of exposure to British American Tobacco also weighed on relative returns. The shares rose on news that first-half results exceeded expectations, with US revenue growth turning positive for the first time since 2022, although total revenue fell year on year.

Positive contributors included ICG and Standard Chartered.

Private-equity firm ICG – formerly known as Intermediate Capital Group – reported an increase in assets under management (AUM) for its fiscal Q1, including a double-digit percentage year-on-year increase in fee-earning AUM. Management also noted a strong start to fundraising for the firm's Europe IX private credit and Infrastructure Europe II funds. ICG boasts a global reach, while its fund management business is expanding and has strong growth prospects.

Shares in Standard Chartered rose in anticipation of strong Q2 earnings. These were released at the end of the month, and pre-tax profits beat forecasts, driven by strength in the wealth management business. The bank also hiked interim dividends, announced a new share buyback and raised forecasts for full-year operating income. Standard Chartered has a robust capital position and a strong management team with a focus on cost controls and growing capital returns. The firm offers exposure to growth in emerging markets, with 80% of revenues coming from Asia, Africa and the Middle East. Standard Chartered is also making headway towards its multi-year targets for green financing – an area with high potential revenue growth.

Relative performance was also aided by the zero weight in BAE Systems, which has been a detractor over much of this year. The shares 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.

Activity

We made no significant changes to the fund in July.

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 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.

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.

Overall, we will continue to focus on company fundamentals and use volatile markets to top up and buy favoured stocks to deliver solid 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.

The fund may exhibit significant price volatility.

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.

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.