

FUND COMMENTARY – JULY 2025

CT UK SMALLER COMPANIES FUND



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Summary

- UK small caps made further gains in July.
- Gross of fees, the fund outperformed its benchmark (the Deutsche NSCI Ex Investment Trusts Index).¹
- Top relative contributors included Microlise, Oxford BioMedica and ActiveOps.
- Detractors included Kitwave and PayPoint.
- We opened positions in Trustpilot and Funding Circle.

Market Background

UK small-cap stocks advanced further in July, with the Deutsche NSCI Ex Investment Trusts Index up by 1.5%. However, small caps trailed the FTSE All-Share, which returned 4.0%. This was largely because the overseas earners that dominate the latter index benefited from the pound's weakness against the dollar. The FTSE All-Share was also supported by its sizeable weighting in energy and healthcare stocks, which had a good month on the back of better-than-expected earnings. The small-cap index has less exposure to these sectors; however, a number of UK smaller companies also reported good earnings.

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.

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 level 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.

Performance

Gross of fees, the fund returned 2.2% in July and outperformed its benchmark.¹

Relative performance was boosted by the holdings in Microlise, Oxford Biomedica and ActiveOps.

Microlise provides logistics solutions for the transportation, defence and agriculture industries using a software-as-a-service (SaaS) platform. Management recently expressed optimism about the company's outlook for 2025, citing the expanding product pipeline and growth opportunities globally. The firm reported strong trading for the first half of 2025. Both recurring and non-recurring revenues were higher, and Microlise secured more than 200 new clients, while customer churn remained low. Profits before tax also rose, and management reiterated its full-year forecasts.

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.

ActiveOps is a SaaS provider that develops workforce management and employee productivity software for enterprises, primarily within financial services. The company reported higher revenues and pre-tax profits for its fiscal year. Revenue growth was particularly strong in North America thanks to new client wins and increased demand from existing customers. Robust recurring revenues from the company's SaaS-based products are supporting high growth margins. ActiveOps has focused on strengthening customer engagement and boasts strong relationships with clients around the globe. The company is increasingly helping businesses use AI in the management of human resources and operations.

Oxford BioMedica – a biotechnology company that operates as a contract development and manufacturing organisation specialising in cell and gene therapy – reported strong order growth in its trading update. The firm is expanding globally, and has ramped up capacity and strengthened its presence in the viral vector segment.

Detractors included Kitwave and PayPoint.

Food wholesaler Kitwave reported higher like-for-like revenues for the first half of its fiscal year. However, shares fell as pre-tax profits declined and the company downgraded its full-year profit forecasts. A challenging consumer environment and increases in National Insurance contributions have dampened the outlook. However, our investment thesis remains intact. Kitwave is the third biggest player in the UK market for the distribution of ambient, chilled and frozen foods to the independent and food service sectors. Operationally, the company has executed flawlessly. The business is extremely well invested, with a strong network effect, and over half the market still highly fragmented. Kitwave has successfully integrated recent acquisitions and, in our view, is well positioned to take market share over the medium term from smaller competitors that lack scale.

Shares of payment processing business PayPoint were impacted by concerns over weakening UK consumption.

The zero weight in Just Group was also unhelpful. The shares surged at the end of the month after the company accepted a bid at a considerable premium from Canadian wealth management business Brookfield Wealth Solutions.

Activity

We opened positions in Trustpilot and Funding Circle.

Trustpilot is a leading consumer business review website whose product is increasingly becoming a necessity for consumer-facing enterprises – it currently boasts 100,000 active businesses and 27,000 paying customers, with limited direct competition, especially in the US. The company operates an open market “freemium” model, which helps it to build independent credibility and allows it to amass as big a dataset as possible. There are some questions around net revenue retention, with churn higher than would be ideal, but this is believed to primarily be an issue with SME clients. Meanwhile, the firm is increasingly winning enterprise deals in the US, growing the amount of its overall revenues that comes from such customers. In addition, the business appears to be successfully transitioning from a growth-at-all-costs model to a more balanced approach, with increasing focus on profitability while maintaining growth.

Funding Circle is a UK-based finance platform for SMEs. The business now combines a payments provider with a term loan provider and has the capacity to scale with only a moderate balance sheet requirement. Funding Circle has also shown its ability to grow its term loan business, where it is a market leader but has opportunities for further growth. In addition, the business has significant cash on the balance sheet and very substantial operational leverage. Meanwhile, Funding Circle's use of a large, long-term dataset allows it to price more competitively across the SME space versus other speciality finance players. The business also has a stable and sophisticated risk model and a funding structure that is well diversified.

We also added to our holdings in Auction Technology Group, SSP, GlobalData and Celebris Technologies.

We profitably sold FD Technologies ahead of its takeover by US private-equity firm TA Associates, which was completed in July. We also made small trims to a number of holdings to increase the fund's cash position, including Galliford Try, Knights Group and Shaftesbury Capital.

Outlook

Markets have recently been volatile given the uncertainty around US tariffs. Our focus is on attempting to assess the longer-term impact of trade tensions. While we are starting to see some positive headlines on trade deals, their substance and economic impact is far more marginal. We think the damage to the US economy is likely to be long lasting even if tariffs were fully reversed today, which we think is unlikely. Early indications from companies suggest that the disruption to businesses involved in global cross-border trade with the US is

already being felt. Additionally, UK businesses are likely to be affected by a weaker dollar; we feel this period of disruption has embedded more structural weakness regardless of the outcome of the trade negotiations.

That said, UK corporate results have been improving in aggregate since the start of the year, with a more stable domestic demand picture and outlook. Corporate profits should improve further over the rest of 2025. Most of the companies we have engaged with have already priced in rising National Insurance contributions from employers and the increase in the national living wage.

Moreover, the UK is becoming a more attractive place to invest, despite recent concerns about the elevated fiscal deficit. Speculation is already rife around this year's autumn budget and whether the government may be forced to break its pledge not to raise taxes for the duration of the current parliament.

The UK small-cap market continues to offer significant value relative to its long-term averages and global peers. Increasing inflows combined with falling interest rates amid a gently slowing UK economy with improving corporate profits should provide a strong backdrop for what is still a very unloved asset class. We have positioned the fund to perform in a sustained market recovery. There is a quality, cyclical growth bias to the fund driven by valuations, good capital discipline and a sustainable competitive advantage.

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 fund holds assets which could prove difficult to sell. The fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

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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