

FUND COMMENTARY – JUNE 2025

CT UK GROWTH AND INCOME FUND



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Summary

- The FTSE All-Share returned 0.5% in June.
- Gross of fees, the fund outperformed the index.¹
- Key contributors included FirstGroup, Burberry and BT.
- Detractors included Pearson and GSK; the zero weight in Rolls-Royce also weighed on relative returns.
- We opened a position in Schrodgers.

Market Background

UK equities made further (albeit modest) gains in June, with the FTSE All-Share up by 0.5% for the month.

Early in the month, some better-than-expected US economic data, alongside optimism that Washington and Beijing could reach a trade deal, eased fears of a global recession. The FTSE 100 hit record highs in the second week of the month. However, equity markets thereafter wobbled as Israel and Iran traded fire. Oil prices surged sharply on fears that Iran could block the Strait of Hormuz. These moves were short lived: oil prices fell back, and risk assets recovered swiftly following US intervention via a long-range attack on Iran's nuclear capabilities and a subsequent ceasefire agreement between Iran and Israel.

Meanwhile, concerns about the UK's government debt lingered. Prime Minister Kier Starmer had to make concessions to Labour MPs who rebelled against planned cuts to disability support and benefits, halving the fiscal "headroom" available to Chancellor Rachel Reeves. Shortly thereafter, a spending review highlighted the limited fiscal resources available to boost growth in the near term. Indeed, recent economic data releases have indicated a slowdown after a strong start to 2025. For instance, GDP shrank more than expected month on month in April, the first month to include the effect of the government's tax increase on employers. Unemployment rose to a near-four-year high in the three months to April, while wage growth slowed more than anticipated over the same period. More positively, the flash estimate for the composite purchasing managers' index for June showed further improvement in private-sector activity.

Other data showed that annual consumer price inflation in May was higher than expected and above the Bank of England's (BoE) target. At its policy meeting the next day, the BoE left rates on hold as expected, though three of the nine-strong policymaking committee voted for a cut – a more dovish vote split than anticipated.

Within the FTSE All-Share, technology fared best, helped by an ongoing global rebound in the sector amid renewed AI optimism. Industrials and energy also outperformed, with the latter aided by the aforementioned rise in oil prices. On the other side, healthcare and consumer staples were weakest. Both sectors are dominated by companies with significant US exposure, so the pound's strength against the dollar proved a hindrance. Healthcare stocks also continued to be pressured by concerns over President Donald Trump's plans to lower the prices of prescription drugs in the US.

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.

Performance

Gross of fees, the fund returned 0.6%¹ in June and outperformed the FTSE All-Share.

At the stock level, key contributors included FirstGroup, Burberry and BT.

FirstGroup reported strong results for its fiscal 2025 and announced a new £50 million share buyback. The results included increases in revenue and earnings for both the bus and train businesses, along with a hike to the full-year dividend. FirstGroup's regional bus business is now making good progress on improving margins. The firm's rail division generates surplus cash, which provides the potential to enhance shareholder returns through a progressive dividend policy, buybacks and bolt-on M&A deals. FirstGroup also boasts the largest electric bus fleet in the UK, which continues to expand. We believe the shift to electric buses could bring about further cost reductions and present additional revenue opportunities for the firm. FirstGroup also has plans to branch into leisure transportation, notably through its contract to operate the London cable car.

Shares in Burberry rose on the back of broker optimism ahead of the firm's quarterly results in July. Signs of progress in its "Burberry Forward" strategy reset, which management recently credited for improved performance in the second half of its financial year, have been supportive. The company also highlighted cost reductions made so far, as well as plans to increase savings to £100 million a year by March 2027. 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.

BT was helped by news of a possible takeover bid for TalkTalk, although plans are reportedly only at an exploratory stage. In addition, BT's CEO, Allison Kirkby, discussed the possibility of using AI to increase planned job cuts during the month, along with the possibility of selling the Openreach business, which maintains network infrastructure. Broker positivity about the European telecoms sector was also supportive. BT's CEO has impressed since joining in February 2024, setting out a path to more than double free cash flow over the next five years and dispose of non-core assets.

On the other side, detractors included Pearson and GSK.

Shares in educational publisher Pearson fell after sector peer IDP Education issued guidance that suggested operating earnings could almost halve year on year in its fiscal 2025, with changes to visa rules in several countries hitting demand for English language-learning services. Nevertheless, our investment thesis remains intact. Pearson plans to use AI to create improved, more personalised learning experiences for its customers. While Pearson has had to deal with a painful print-to-digital transition within its US higher education textbook division, management has introduced a digital learning platform called Pearson+, which is aimed at winning back the secondary market for US courseware. The company is also expanding its presence in workforce skills and English-language learning. Core competitive advantages include the firm's strong intellectual property and brand name, as well as potential network effects and switching costs via Pearson's subscription model.

GSK underperformed, alongside sector peers, amid renewed pressure from President Trump's aforementioned plans to lower the prices of prescription drugs in the US. However, the pharmaceutical company also reported regulatory progress for expanding the application for the Arexvy vaccine to adults aged 18 to 49 who are at increased risk of respiratory syncytial virus disease in the European Union and Japan. GSK is a leading producer of vaccines and speciality medicines, with a strong international presence and an extensive network of vaccine-manufacturing sites. We favour the firm for its superior dividend yield, high free-cashflow levels and robust growth prospects. Since the demerger of Haleon, its consumer healthcare business, in 2022, GSK has reduced its debt levels and developed its extensive vaccine and medicine pipeline.

The lack of exposure to Rolls-Royce was also unhelpful for relative returns. The shares were boosted by expectations of higher demand for the firm's aerospace and defence products as NATO members committed to increase military spending. Additionally, the UK government announced in June that Rolls-Royce will be part of a consortium to manufacture small modular nuclear reactors.

Activity

We opened a position in global asset manager Schroders. The company is a high-quality franchise trading at an attractive valuation. Despite near-term challenges due to market uncertainty, we feel the business has potential to grow earnings once the wider environment stabilises, driven at first by cost reductions and thereafter by a more balanced combination of revenue growth and margin improvement. We also feel there is room for upside from a re-rating of the stock versus its peers as well as for its peer group as a whole.

In addition, we continued to build our position in Bellway, which was a new holding in the fund in May. Bellway is 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.

We also added to our holdings in Imperial Brands and Segro.

While we are mindful of increased political focus on curbing cigarette sales as a potential headwind for Imperial Brands, we feel that the resulting impact on annual profits is likely to be very small. In addition, the stock is attractively valued and boasts a high dividend yield. The firm has also made good progress implementing its five-year strategy to transform the business following changes to the management team over the past few years.

Real-estate investment trust Segro is the UK's leading landlord of industrial warehouses. The company has long traded at a premium to its net asset value (NAV) due to the structural growth in urban logistics, which has led to a 68% increase in earnings per share since 2011. However, the shares are now trading at an unusual discount to NAV as the earlier rise in interest rates pressured asset values in the sector. Supply-and-demand dynamics remain favourable for the urban logistics space, and recent updates from peers have all shown asset values stabilising or improving. Segro's balance sheet is strong. In our view, the business is well positioned for steady earnings growth thanks to the diversity of its clients and the improved quality of leasing agreements.

We sold out of Direct Line ahead of its takeover by Aviva and used the proceeds to fund the purchases above.

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, 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, the UK still boasts a relatively stable government. We also expect interest-rate cuts to continue, with the BoE having more room to ease than the Federal Reserve. Along with still-intact Covid-era "piggy banks", rising house prices and the potential to draw on home equity, this should encourage consumers to spend rather than save. The key ingredients are therefore present for a UK consumer boom, especially if confidence rises.

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 fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying 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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