

FUND COMMENTARY – Q2 2025

CT UK MID 250 FUND



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Summary

- UK mid-cap stocks rose over the second quarter (Q2) and outperformed the FTSE All-Share.
- Gross of fees, the fund outperformed its benchmark – the FTSE 250 ex-IT (ICB) index.¹
- Key contributors included Alphawave IP, FD Technologies and Jet2. On the other side, detractors included Auction Technology Group, Bridgepoint and the zero weight in Burberry.
- New positions included IG Group, Mitie and Paragon Banking.

Market Background

UK mid-cap equities rallied strongly in Q2 of 2025, outperforming their large-cap counterparts. The portfolio's benchmark, the FTSE 250 ex-IT (ICB) Index, returned 14.3% over the quarter, while the FTSE All-Share rose 4.4%. UK mid-caps outperformed as investors favoured domestically focused stocks amid concerns about global trade and as growth came back into favour following the rotation to value in Q1. The period started with a sharp sell-off in global equity markets following US President Trump's "Liberation Day" announcement of sweeping "reciprocal" tariffs, which were much larger than expected in size and scope and stoked fears of higher inflation and lower growth. This was particularly painful for small- and mid-caps, but the FTSE All-Share held up better than its US and European counterparts given its heavier exposure to defensive sectors.

Global markets soon rebounded as Trump called a 90-day pause on many of the highest tariffs. Hopes grew that the US could reach trade deals with key partners, with the UK becoming the first country to do so. The UK also signed deals with the EU and India in May, though these had little market impact. However, equities were boosted by optimism that the US and China would reach an agreement on trade.

Small- and mid-caps benefited from a rotation to growth over the quarter, with technology stocks recouping earlier losses, although the FTSE All-Share lagged the global rally on this basis. A stronger pound and lower oil prices also proved unhelpful given the market's sizeable exposure to "dollar earners" and energy stocks. Oil prices declined amid concerns over subdued demand and as the OPEC+ group announced plans to ramp up output. That said, prices spiked briefly in June following a brief spat between Iran and Israel, before later stabilising after the two countries agreed to a US-brokered ceasefire.

Q2 was also marked by concern over rising government debts and deficits in the developed world. Prime Minister Keir 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.

Meanwhile, economic data pointed to a slowdown in the UK after a strong start to 2025. Consumer price inflation remained above the Bank of England's (BoE's) 2% target, rising more than expected in April and May. The BoE reduced interest rates by 25 basis points (bps) in May and then held rates at its meeting in June, though

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.

three of the nine rate setters voted for a cut. This was a more dovish outcome than anticipated and stoked expectations of further easing.

Performance

Gross of fees, the fund comfortably outperformed its benchmark, the FTSE 250 ex-IT (ICB) index, over the quarter.¹

At the stock level, key contributors included Alphawave IP and FD Technologies, both of which were beneficiaries of US takeover interest during the period. Shares in Alphawave IP (also known as Alphawave Semi), which provides wired connectivity solutions for data centres and AI, initially rose after semiconductor giant Qualcomm expressed takeover interest in April. A deal to buy the firm for \$2.4 billion was confirmed in June, further boosting the shares. The acquisition price is nearly double what Alphawave's shares were trading at before the takeover discussions became public. Meanwhile, FD Technologies' stock soared following a bid from US private-equity firm TA Associates in May; the deal was approved at the end of June. The acquisition price is undoubtedly a good outcome for the fund, but, in our view, significantly undervalues the company.

Package holiday operator Jet2 was another key contributor. The shares rose after Jet2 announced a £250 million share buyback. The company boasts a strong balance sheet and has a dominant position in the European market, along with clear growth ambitions, including plans to open new bases and a significant order schedule from Airbus. Despite the outperformance, the stock is still trading at an attractive valuation.

On the other side, detractors included Auction Technology Group (ATG) and Bridgepoint.

ATG reported a rise in profits and revenues for Q1 of its financial year and reaffirmed its full-year guidance. However, investors were disappointed as the firm expressed concerns over near-term performance, citing macroeconomic uncertainty. Nevertheless, our investment thesis remains intact. ATG is a highly cash-generative company with a low-cost, low-capital-intensive business model. The firm is enjoying high margins and boasts a strong competitive advantage as the online auction market, in which ATG has a sizeable share, is significantly underpenetrated. ATG is continually investing in product development to drive growth, and the firm has recently expanded its range of value-added services while simultaneously reducing leverage. The company also has an excellent management team with a record of strong governance.

Shares in Bridgepoint fell in April on concerns that the uncertain global macroeconomic background could impact realisations in the private-equity sector. The sector was also pressured by a halt in flotations and M&A activity. However, the stock regained some of the lost ground over the rest of the period. In May, the company announced a £50 million share buyback programme to take advantage of market volatility. We recently engaged with Bridgepoint's management, who expressed confidence in their ability to navigate the current challenges. The company has had a track record of successfully exiting investments, even during periods of market weakness, due to its strong cash flows and focus on assets with highly visible revenues and margins. In addition, Bridgepoint stands to benefit from growing allocations to European mid-market private equity and from growth in energy investment in the US. We are also positive about the firm's joint venture with KKR. In our view, Bridgepoint is well positioned to undertake a successful deal in the real estate vertical.

The zero weight in Burberry was also unhelpful in a strong period for the stock. While Burberry reported lower full-year revenues and operating profits during the quarter, the shares outperformed on signs of progress in its "Burberry Forward" strategy reset, which management credited for improved performance in the second half of the firm's financial year. The company also highlighted cost reductions.

Activity

New positions included IG Group, Mitie and Paragon Banking.

IG Group is an online trading business that provides access to public markets. After a management change in 2024, the firm has renewed its focus on improving efficiency, business culture, customer numbers and margins. The new CEO has established a decentralised, rewards-based culture. There is more to do on culture shift, but it has accelerated enough to support growth. In addition, we feel that restructuring at the company should support customer growth. M&A will enable further diversification from the core derivatives market.

Support-services firm Mitie has achieved a turnaround in most business segments and completed its integration of Interserve, which has helped the company to refinance and improve its margins. We expect some short-term cost headwinds and continued weakness in the telecoms business over the next six months.

However, beyond that, the firm is displaying momentum in growing revenue, and projects work could further boost margins and growth. The business is highly cash generative.

We purchased Paragon Banking to increase our exposure to domestic names that should be relatively sheltered from tariffs. The firm is a specialist buy-to-let and commercial lender, differentiated from competitors by being very selective and choosing only professional owners. The commercial loan book focuses on specialist niches that do not have much competition. In addition, management has a multidecade track record of managing risk. Paragon's loans are funded primarily from retail deposits, and profitability should improve as the business has invested significant costs ahead of revenue.

Other new positions included Bellway and Morgan Sindall. Meanwhile, we added to our existing holdings in B&M, Savills, GlobalData, Mortgage Advice Bureau, 1Spatial and Oxford Biomedica.

We exited Alphawave at a significant profit due to the aforementioned takeover. We also closed our small position in Victoria as the flooring-products manufacturer faces a wall of upcoming debt maturities with no market recovery in sight and concerns over the US export market due to the tariff uncertainties. In addition, we sold out of WH Smith and trimmed the holdings in Elementis and Future to help fund the purchases above.

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- and mid-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.

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.

An investment style bias can impact a fund's performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A fund exhibits a growth style bias relative to its benchmark if the majority of the fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A fund's investment style may also change over time.

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.

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