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James Smith: The UK equity market delivered a positive return last quarter, building on what was a very strong year for the index. For context, in 2025, the FTSE All Share returned approximately 24 per cent, making it one of the best performing equity markets globally.

The returns generated by the index were, however, delivered by a relatively small number of companies operating in a narrow range of sectors. For example, around two-thirds of the index returns were driven by just 10 stocks. These were primarily large, internationally exposed businesses operating in the banking, defence and pharmaceutical sectors.

It is this backdrop which explains why, while the stocks in the UK Core portfolio made good fundamental progress, and the UK Core Strategy was up around 15 per cent over the year, it underperformed the index. For me, the more pertinent question is: why might this matter going forwards?

With that strong index performance being concentrated among a small subset of companies, the headline returns disguise a stark polarisation in the UK equity market. As growth investors, we think this is presenting us with a really quite compelling opportunity. Let me expand on this.

When we look across the UK equity market, many what we believe to be low-quality businesses are now trading at the peak of their long-term valuation ranges, implying their medium and long-term prospects have dramatically improved. Having examined many of these, our view is that this is unlikely.

Conversely, there are now outstanding UK growth businesses with significant long-term earnings power and exceptional competitive advantages which are trading at or below market multiples. This does not happen very often. Importantly, we believe some of the very best among those are held in the UK equity strategies.

For example, looking at performance over the last quarter, the two main detractors of relative performance were the online car marketplace Autotrader, and the online property portal Rightmove. In both cases, these are fantastic British businesses with compelling long-term growth profiles.

However, their shares have recently been weighed down by negative narrative around artificial intelligence, which weighed on quite a number of capital-light, data-driven businesses last quarter.

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We recognise that AI is a momentous technological development which will have a profound impact on many industries, creating both risks and opportunities for individual businesses in ways that are quite hard to anticipate. However, the businesses we are talking about, AutoTrader and Rightmove, start from a position of great competitive strength, as reflected in their robust financial health, which enables them to invest through periods of change.

In Autotrader's case, the management team has made significant investments in data science capabilities over the last five years. It has already launched many AI-enabled products and has a robust pipeline of future innovations, which we are quite excited about.

As such, we are inclined to see the share price weakness as a potential opportunity, but nonetheless we will continue our dialogue with management to assess their ability to adapt.

On the positive side, Standard Chartered and Games Workshop both performed well following encouraging trading updates. With Games Workshop, its core miniature business is continuing to deliver growth, even against the strong comparison set last year.

Stepping back, we try not to get too caught up in short-term trading momentum. Instead, our focus is on what we think will drive long-term value creation for our clients.

With Games Workshop, this includes conversations with management around its ability to develop its staff, expand globally and protect its IP. We continue to believe that Games Workshop's best days are ahead of it, and there remains substantial opportunity to grow the hobby around the world.

Periods like the one that we have just gone through really do not come around very often.

Strong index-level returns disguise a stark polarisation in UK equity markets, and this has created a fantastic opportunity for us as long-term growth investors.

As we look forward, the UK core strategy continues to exhibit above-average growth and quality characteristics with compelling starting valuations. Historically, this combination has provided a strong backdrop for long-term value creation.

It is for these reasons why we believe the strategy is well positioned as market conditions continue to become more supportive.

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UK Core

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
UK Core Composite (gross)	15.1	-23.9	15.1	8.0	22.9
UK Core Composite (net)	14.5	-24.2	14.5	7.4	22.3
FTSE All Share index*	17.2	-10.9	14.4	7.5	33.2

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
UK Core Composite (gross)	22.9	6.0	6.2
UK Core Composite (net)	22.3	5.5	5.6
FTSE All Share index*	33.2	11.3	7.4

Source: Revolution, FTSE. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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