

UK Core Q2 investment update

July 2025

Investment manager Iain McCombie gives an update on the International Growth Strategy for Q2 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Iain McCombie: Hello. I'm Iain McCombie, the manager of the UK Core strategy.

The second quarter of 2025 started with a bang as 'Liberation Day' arrived and President Trump announced 'reciprocal' tariffs to be imposed on each of America's trading partners. Tariff levels were far higher than expected and the threat of a trade war ensued as China retaliated. Equity markets fell heavily, tellingly it seems, so did bond markets.

Significant uncertainty remains but the US administration rowed back from the most extreme of its measures. A UK-US trade agreement was the first to be announced. The devil may be in the detail which will follow but for the meantime, this seemed to restore some calm to markets.

The UK economy, meanwhile, is stuck between a rock and a hard place. Chancellor Rachel Reeves faces a challenge to balance the books in the face of anaemic growth and further tax rises may be necessary. Due to stickier inflation the Bank of England will likely struggle to cut interest rates aggressively to stimulate growth.

Despite all this, the UK stock market ended the quarter higher than it started. Your portfolio outperformed as many holdings bounced back strongly.

For the second quarter in a row Babcock was the top positive contributor to returns. Our original investment thesis was centred on the turnaround story of this international defence company. We've been impressed with the progress that has made, while recent rhetoric around increases in defence spending has given a further lift to the company's fortunes. It announced strong results in June with upgraded medium-term guidance.

Elsewhere, somewhat cyclical businesses such as wealth manager St James's Place and Howden Joinery enjoyed the positive momentum. Shaftesbury Capital also enjoyed a good quarter. It owns a unique and highly attractive portfolio of retail, restaurants, office and residential properties in the West End of London. The business recently agreed to sell 25 per cent of its Covent Garden estate at the stated net asset value. This validates the valuation of the business and highlighted the cheapness of the shares which traded at over a 30 per cent discount to the asset value.

Multinational distributor Bunzl was the largest detractor to returns in the quarter. The company released a surprise profit warning in April, driven by problems in one of its US businesses. We subsequently met with the CEO and came away reassured that, while this has been a self-inflicted issue, management have been quick to identify and address the challenges and expect it to be resolved.

We purchased two new holdings during the quarter. 4imprint is an example of where we took advantage of short-term weakness in the share price to take a starter position. It distributes promotional products – think, branded merchandise the likes of Baillie Gifford might hand you at an event. Its sales are primarily in the US.

Concerns about an economic slowdown in the US and uncertainty over the impact of tariffs, given it buys mostly from China, have weighed recently. However, 4imprint has consistently outgrown the market. It has an experienced management team that has used previous periods of disruption such as Covid to strengthen its market positions against its smaller competitors.

Digital greetings cards and gift retailer Moonpig was the other new purchase. Again, there are concerns about the economic outlook given its sensitivity to discretionary consumer spending, but Moonpig has proved to have a resilient core market with a large and loyal customer base. The online market for greetings cards is expected to grow and it enjoys a dominant position with around 70 per cent market share in the UK. We think this gives it scope to leverage this scale, particularly with clever use of the significant data it collects.

Looking ahead, we place little faith in our ability to predict the direction of markets over the short term. But what I can say with a high degree of confidence is that your portfolio contains businesses which we believe will grow in the next five to ten years. And that growth will not depend on changes in economic data readings from quarter to quarter, or the whims of a mercurial US president.

We continue to resolutely focus on the things that will matter, such as the strength of business models and the ability of management teams to execute strategy.

UK Core

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
UK Core Composite (gross)	39.8	-24.4	15.4	8.9	21.4
UK Core Composite (net)	39.1	-24.8	14.8	8.4	20.8
FTSE All Share index*	35.8	-10.6	12.9	12.3	20.5

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
UK Core Composite (gross)	21.4	10.0	4.7
UK Core Composite (net)	20.8	9.5	4.2
FTSE All Share index	20.5	13.2	5.3

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.

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