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James Smith: The UK Core strategy lagged a rising market over the quarter, so it may be somewhat surprising when I say: the reasons for this give me optimism about the portfolio's prospects.

Several of the main detractors from relative performance were large index constituents we don't own which posted strong returns – HSBC, Rolls Royce, British American Tobacco, BP.

We've analysed several of these companies in the recent past and do not believe they meet our expectations for future growth and return potential.

We have far more confidence in the holdings in the portfolio, and crucially we continue to find great growth opportunities in the UK.

Hikma Pharmaceuticals was one of the main detractors this quarter. It is a leader in branded and generic drugs, and injectables – painkillers, anaesthetics – which is a high-margin segment. The market seems overly focused on near-term cost pressures and competition in certain products. We see it investing in long-term growth, and have treated short-term weakness in its share price as an opportunity to add to the position.

It is this dislocation between market valuations and long-term growth expectations that fuels our optimism.

We added to several other holdings during the quarter where valuations have become attractive. Housebuilder Bellway, cement business Breedon, and catering supplier Bunzl have all seen weakness this year yet offer tremendous long-term value.

So where have we funded these additions from?

Well, first, we've trimmed some holdings that have performed well. Defence company Babcock, for example, has had a very strong run. We still believe it retains a strong competitive position with a range of growth drivers – not least the increased focus on defence spending but also its expertise in nuclear which is core to the government's plans for energy security. But we've reduced the position size to reflect the risk reward from here.

And second, the strategy received a significant boost this quarter from Just Group, the retirement income provider, which accepted a takeover bid. Canadian group Brookfield valued the company at a 70 per cent premium to its prevailing share price.

We see this as a strong justification of our belief in Just's prospects. And in time we expect the market will come to recognise that the current valuations of many companies in the portfolio simply do not reflect their earnings potential.

There were early signs in the quarter of this positive outlook being reflected in the performance of some other holdings.

Engineering group Renishaw posted strong returns for example. It is a world-leader in ultra-high precision measuring equipment, used for example in autos, aerospace and semi-conductor

industries. Many of its end markets have been weak for the past few years, but its investment in product innovation helps provide it resilience. And recent results were better than the market had feared, and we continue to believe Renishaw enjoys compelling structural growth drivers from the increasing adoption of automation.

Now, we do also acknowledge that we are trailing the index over 5 years.

The main damage was done when there was a marked change in sentiment in late 2021. Since then, as in the latest quarter, many of the large index constituents we don't own have performed well, while growth companies such as those in the portfolio were punished.

We believe events such as the takeover bid for Just Group are evidence that the elastic is starting to snap.

Looking forward, our faith in the prospects of the portfolio is underpinned by the long-term relationship between earnings growth and share prices. And here, the data gives us confidence, with companies in the portfolio forecast to grow faster than those in the index, which over time should be reflected in superior returns.

There are reasons to be optimistic when we consider the prospects for many of the world's best businesses which today offer tremendous value.

UK Core

Annual past performance to 30 September each year (%)

	2021	2022	2023	2024	2025
UK Core Composite (gross)	34.6	-33.8	25.0	29.0	10.2
UK Core Composite (net)	33.9	-34.1	24.3	28.4	9.7
FTSE All Share index*	33.4	-20.5	24.5	24.6	16.6

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
UK Core Composite (gross)	10.2	9.6	6.1
UK Core Composite (net)	9.7	9.1	5.6
FTSE All Share index*	16.6	13.9	6.9

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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