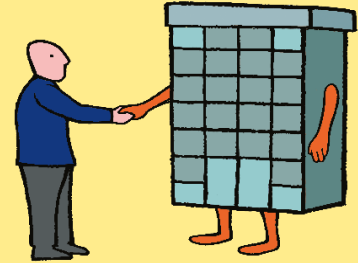


## UK INCOME FUND

### Investment Commentary

Q3 2024



## Market review

The “SmallCap Effect” showed signs of life in the third quarter of 2024. SmallCap outperformed its LargeCap peer by a healthy 3%. This marked a second consecutive quarter of outperformance. The last time this occurred was in 2021.

For those of us dedicated to Smaller Companies, it's been a challenging period. However, we see opportunity in this underappreciated sector— less attention heightens the chance of discovering a “hidden gem” and we are keenly searching for them, knowing they hold the potential to become tomorrow's LargeCaps.

The summer months were punctuated by periods of market volatility, particularly in August. This was the result of weaker than expected US economic data, an interest rate hike from the Bank of Japan; and seasonally low liquidity. Market jitters eased in September as the Federal Reserve finally reduced interest rates, while policy makers in Japan also sought to reassure investors. This activity helped propel the Value segment of the equity market, which outperformed Growth over the quarter.

## Portfolio

During the quarter, the NAV of the Sterling seed share class rose by 1.7%, an underperformance of 0.6% versus the benchmark index.

The strongest contribution during the quarter came from **Taylor Wimpey**, the housebuilder,

which rose as more positive macroeconomic data emerged. **Greggs**, the popular bakery chain, also delivered strong performance, driven by robust sales from store relocations, iced drink offerings and easing cost inflation. **Big Yellow**, a leading provider of self-storage facilities, rose following a robust trading statement and as it announced it has obtained planning permission for the development of its flagship site at Kensington Olympia.

The weakest contribution came from **4imprint**, the largest provider of promotional products in the US, which saw its stock decline (partly on profit taking) as new customer orders slowed amidst macro-economic uncertainty. **NCAB**, the full-service supplier of PCBs, underperformed after reducing Q3 earnings expectations on the back of continued weakness in European markets (particularly in Germany). **Kainos**, a digital transformation consulting company, guided to softer revenue due to project delays related to the UK election.

## Outlook

After a strong first half, the Fund experienced a softer Q3, bringing it broadly in line year-to-date. The softness in Q3 was primarily driven by concerns over macroeconomic weakness in industrials and IT, triggered by weak economic data in the US, with stocks such as 4imprint, DiscoverIE, XPP, Clarkson, NCAB, Kainos and Computacenter all seeing share price declines of over 10%. The strengthening GBP during the quarter also did not help our more global companies. Despite this, most trading updates have been solid and we are identifying compelling buying opportunities.

UK SmallCap valuations remain attractive, with the sector having outperformed over the past 12 months, suggesting that the worst may be behind us. The Shiller P/E ratio points to potentially strong returns for SmallCap over the next five years. Dividend announcements during Q3 exceeded expectations by 2% (excluding Games Workshop, who instead announced a dividend in early Q4) and we anticipate further growth of the Fund's distribution in 2025.

# Latest reports

- [Deep Dive #11: Project Net Zero Carbon 2023](#)
- [Deep Dive #10: The Built Environment](#)
- [PRI 2023 – Assessment Report](#)
- [Proxy Voting Summary 2023](#)

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