

RGI UK Opportunities Fund

Multi-cap Alpha

Quarterly report to 31 December 2025

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Portfolio Manager Summary

- Equity markets continued to move higher during the quarter.
- In Q4 2025, RGI UK Opportunities rose +6.4%¹ (B share class, net of fees) vs MSCI UK IMI +6.6%.
- Strong stock selection from large positions such as UK banks and Norcros.
- Uncertainty remains but we are optimistic that the global economy will prove resilient

Market Backdrop

The final quarter began with another government shutdown in the US. Financial markets have become increasingly impervious to the psychodrama that passes for policymaking in the US. Investors cynically, and accurately, assumed that the deadlock would be broken in time for lawmakers to head home for Christmas. With 900k Federal employees furloughed, several key economic releases were either not compiled or deemed unreliable, complicating the job of the Federal Reserve. Both the October jobs report and the consumer price inflation (CPI) data were not collected leaving uncertainty to the trajectory of the US economy. Despite the 'data fog', the Federal Reserve cut rates in both October and December to take its target rate to 3.5-3.75% at year-end. The December 'dot-plot', which summarises the economic expectations of each board member, implies only one more cut in 2026. There was, however, considerable dispersion in the views of members with several projecting no cuts and some advocating for two or more. Market implied pricing suggests two further cuts in 2026. The prospect of an acceleration in the global economy, alongside falling inflation and further reductions in interest rates, led to a rally in risk assets.

As was the case in the US, politics in the UK again managed to disappoint. After what felt like a lifetime of teasers, leaks, and scandals, Rachel Reeves, the UK Chancellor, finally delivered her budget. About 6 budgets worth of tax rises, tax cuts, policy initiatives, and regulatory changes were crammed into a 3-month window of pre-budget kite-flying. For weeks, the government laid the groundwork for an increase in income taxes, making a complete U-turn on a key manifesto pledge. This was well-received by markets. UK 10-year gilt yields reduced from circa 4.7% at the start of October to circa 4.38% a month later. The abrupt U-turn on the U-turn (an O-turn?) sent yields back higher. None of this was a recipe for stability and trading statements from several companies exposed to the domestic economy suggested that consumer demand had weakened in response to the uncertainty.

Better than expected OBR forecasts have allowed the government to kick the fiscal can down the road. But it does feel like an opportunity lost. There was the potential to engage the electorate in a discussion around the longer-term wisdom, or lack thereof, of allocating capital away from more productive segments of the economy to the less productive ones, as well as the broader issue of fiscal sustainability. While an increase in the headline rate income tax may have proven unpopular in the short-term, it would have at least demonstrated that the government is prepared to make those sorts of choices and confront its own backbenchers.

¹ Fund: Midday to midday pricing. Benchmark: close-of-business to close-of-business pricing.

The threat of fiscal dominance and its impact on inflation remains the biggest risk to the stock market cycle. The US continues to run an unprecedented budget deficit for this stage of the economic cycle. For the time being, however, bond markets appear to have given the US administration the benefit of the doubt. Unfortunately, not all economies are lucky enough to have the benefit of being the world's reserve currency.

The market saw nascent signs of a broadening out in the fourth quarter. Despite the politics, housebuilders in both the UK and US outperformed in anticipation of lower interest rates. Industrial cyclicals showed some signs of life and metals performed strongly. Commodities more broadly remained under pressure with oil falling due to the prospect of increased supply. Banks continued their outperformance while insurance plateaued as investors fretted about a decline in pricing. Indeed, January renewals have been softer than anticipated. With a positive impulse from fiscal policy, tentative signs of an acceleration in business investment, and lower interest rates we expect the global economy to accelerate in 2026. Such an environment should be beneficial to active funds.

Performance Review

The fund performed well over the quarter returning 6.4%² (B share class, net of fees) versus the index that delivered 6.6%. Financials were a significant contributor and recovery stocks had a better quarter.

At a stock level, Standard Chartered (+27%) was the strongest contributor to performance³. The company delivered an excellent set of third quarter figures that enabled them to lift 2025 guidance for both top-line growth and Return on Tangible Equity. Wealth solutions (+27% YoY) and Global Banking (+23% YoY) were the standout performers but the group overall is delivering good revenue growth and controlling costs. We think these trends will continue to into 2026 and deliver further upside to the group's return targets. NatWest (+25%) also produced an excellent set of Q3 results. In contrast to Standard Chartered, the beat relative to market expectations was driven by net interest income. The group continues to benefit from the roll-forward of the structural hedge as well as stronger than expected lending volumes. Lloyds (+17%) benefitted from similar trends. Despite their strong performance, we don't believe the rating of UK domestic banks fully captures the combination of structural hedge support, capital returns, and potential for further efficiency gains. Norcros (+28%) gained as the group's purchase of Scandinavian competitor, Fibo, was passed by the Competition and Markets Authority (CMA). Interim results were robust despite a subdued housing market and there is the potential for FY results to surprise to the upside. The combination of strategic and operating momentum is only now beginning to be captured in the valuation. Glencore rallied as metals prices, especially copper, moved higher.

Marks & Spencer (-10%) was the largest detractor from performance as investors were spooked by the management's comments that the clothing business was still seeing some residual impact from this year's cyber-attack. We struggle to rationalise this 'glass half-empty' mentality when set

² Fund: Midday to midday pricing. Benchmark: close-of-business to close-of-business pricing.

³ Source for return figures: Bloomberg. As of 31 December 2025.

against the very clear signs of operational momentum in the business. We used the weakness to add to the position, and it remains one of our highest-conviction domestic cyclicals. Flutter (-16%) falls as investors fretted over the impact of prediction markets on its US business. In the short-term the uncertainty is likely to continue to weigh on the shares and we reduced the position. However, over the longer term we are sceptical that prediction markets will significantly disrupt Flutter's scale advantages. The small position in Evoke (-57%) fell as the ideologically driven UK government raised taxes again on the UK gaming sector.

Fund Activity

- New positions were taken in GB Group and Shawbrook.
- The holdings in Glencore and M&S were increased.
- The holding in Babcock was exited.
- The holdings in Flutter and IMI were reduced.

Fund Positioning and Market Outlook

At the risk of repeating ourselves the fund remains positioned for a broadening out in economic activity and the associated acceleration in corporate profitability. Despite the positive performance of equities so far this year, the market has remained very narrow. Economically sensitive sectors have generally struggled. The prospect for an industrial recovery continues to be pushed to the right and has weighed on stocks exposed to industrial production. Similarly, after a promising start to the year the UK housing market has slowed. We retain a significant overweight in both areas.

Looking ahead some of the imbalances in the global economy should reduce. In the UK, corporate and household balance sheets remain healthy, and they will benefit from those rate cuts coming through over the next year. Economic growth, while nothing to get particularly excited about, is still forecast by the IMF to be higher than that seen in the Eurozone during 2026. While inflation has been elevated in the UK during 2025, this largely reflects the previous year's policy errors, and we see no reason why it should prove structural. If, and we concede it's a big 'if', the government can stop shooting itself in the foot, a period of relative political and economic stability should help restore investor confidence. In that environment, we'd expect the valuation gap between the domestically focused FTSE 250 and FTSE 100 to narrow.

In the US the divergence between the economic conditions of the 'haves' and the 'have-nots' – or the 'K-shaped' economy as economists have christened it – should narrow as the lagged impact of lower monetary policy takes effect. Indeed, with mid-term elections this year President Trump is heavily incentivised to improve the outlook for lower-income consumers. Fiscal stimulus in Germany should begin to be apparent in the economic data and Japan's new PM looks set to further increase government spending.

Over the longer term the fiscal position for most of the developed remains problematic. However, as many macro hedge funds will attest there is no magic level of debt that is the fulcrum where fiscal ill-discipline tips into something more problematic. Indeed, the lessons from Japan over the last thirty years is that is status quo can be sustained for a prolonged period.

Overall, we are optimistic that the global economy can accelerate over the next 12 months and with valuations outside of the US reasonable provide another year of attractive returns for investors.

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IMPORTANT INFORMATION

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