

From The Magnificent Seven To A Fistful of Dollars (or Pounds)

UK Equities could be good
for your wealth



Julian Cane,
Director, Portfolio Manager
UK Equities



Investment risk

The value of your investment is dependent on the supply and demand for the shares of the Investment Trust rather than its underlying assets. The value of your investment will not be the same as the value of the Investment Trust's underlying assets.

Gearing is issued for investment purposes to obtain, increase or reduce exposure to an asset, index or investment. The use of gearing can enhance returns to investors in a rising market, but if the market falls the losses may be greater.

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Cash may be placed on deposit with approved counterparties, the return of which will be dependent upon their continued solvency.

Changes in rates of exchange may also reduce the value of your investment.

Certain investments may be difficult to sell or buy at a suitable time or at a reasonable price and may adversely affect the value of your investment.

Glossary

Buybacks - When companies pay shareholders to buy back their own shares, cancel them and, ultimately, reduce share capital

NAV - The net value of company's assets less its liabilities, divided by the number of shares

Dividend – A payment from a company to its shareholders, usually made in cash. Payments are generally made quarterly, bi-annually or annually

Capital return – profit generated by the move in the share price or net asset value, excluding dividends or income

Income return - the interest or dividends received

Total return – a performance measure combining income and capital returns

Yield – The amount of income earned on an investment, usually expressed as a percentage

Portfolio turnover - a measure of how quickly securities in a fund are either bought or sold by the Trust's managers

Inflationary pressure – impacts on the economy that leads to an increase of prices

Market cap - the total value of a company's shares

Benchmark - a standard or measure that can be used to analyse the risk and performance of the Trust

FTSE 100 – tracks the 100 largest public companies by market cap that trade on the London Stock Exchange

Index - typically measure the performance of a group of stocks, intended to replicate a certain area of the market

Biography



JULIAN CANE Portfolio Manager

Julian Cane is a Director and Fund Manager in the UK Equity team. He joined Columbia Threadneedle through the acquisition of BMO GAM (EMEA) in 2021, having previously been with BMO (and its predecessor companies) since 1993. He became the Fund Manager for CT UK Capital and Income Investment Trust in 1997, the role which he still fulfils today. Prior to joining the group, he worked for Mitsubishi Bank in Corporate Finance and Treasury. Julian has an MA degree in Economics from the University of Cambridge and passed the examinations of the Institute of Investment Management and Research before it merged with the CFA Society.

CT UK Capital and Income Investment Trust

Overview



- **Julian Cane** – Manager of CT UK Capital and Income Investment Trust since March 1997
- **Total return objective vs FTSE All-Share**
- The Trust is rated as an **AIC Dividend Hero** having consistently increased our dividend for more than **30 years in a row** *
- Pays dividends **quarterly**
- Investment Trust with a record of **keeping the share price trading close to the Net Asset Value**

* There is no guarantee that dividends will continue to increase.

Source: Image – Getty / Data: AIC April 2023.

Agenda

- Diversification matters
- Valuation matters
- UK equities appear abnormally good value

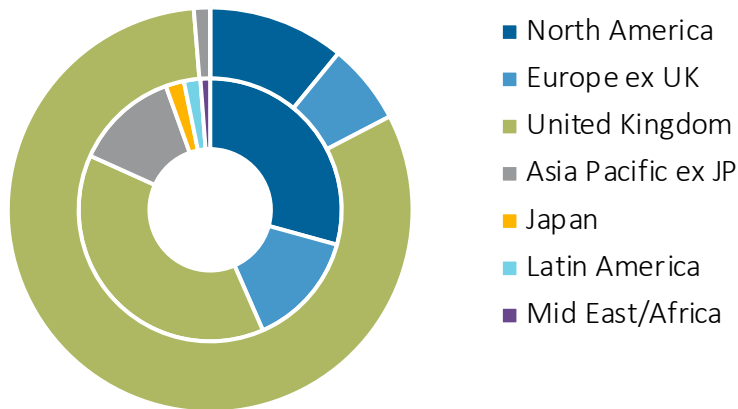
The Magnificent Seven

- The future is always uncertain, diversification matters and is prudent
- Stocks linked to similar themes often trade in a similar way
- This effect is worsened by trading baskets and ETFs
- M 7 market cap in excess of US\$13trn
- About 30% of S&P 500's market cap
- Multiples the size of the entire UK equity market

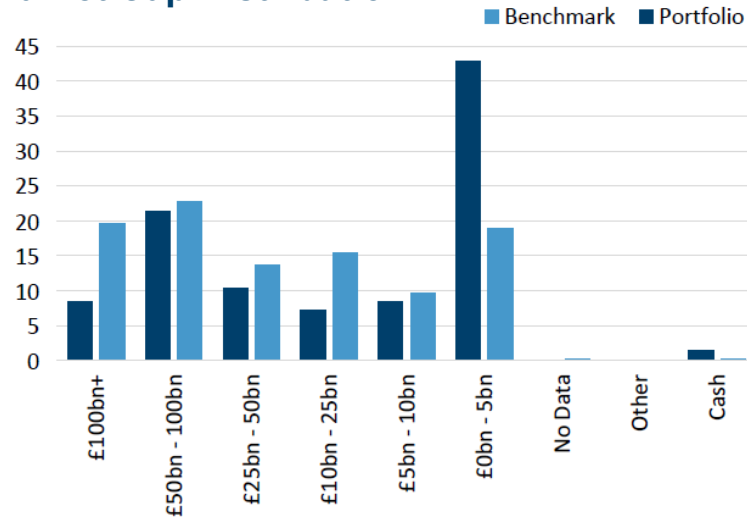
Portfolio composition - CT UK Capital and Income

Portfolio Direct vs Revenue Exposure

Outside: Direct Inside: Revenue



Market Cap Distribution



- Most of the stocks in the portfolio are listed in the UK
- But the portfolio is very different to the UK economy
- Different too to the Index by size, sector allocation

Past performance does not predict future returns.

Source: Columbia Threadneedle Investments, as at 31 December 2023. For illustrative purposes only. The index is not for sale.

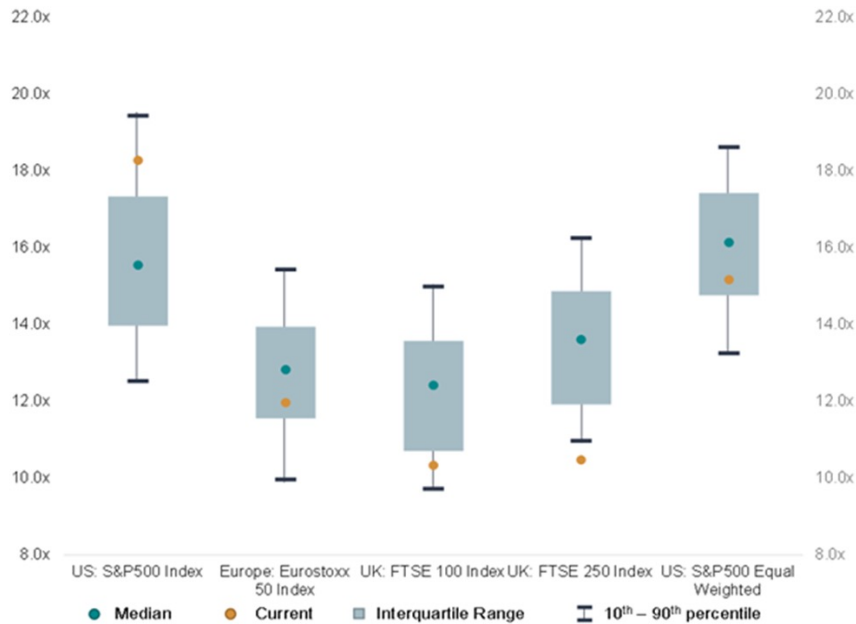
Valuations matter

- In theory, a higher starting valuation will generate a lower return
- In practice, higher starting valuations are more likely to lead to lower returns
- Perhaps less true for individual companies than for whole markets
- Long-term data for the US and UK is clear

The value opportunity in UK Equities

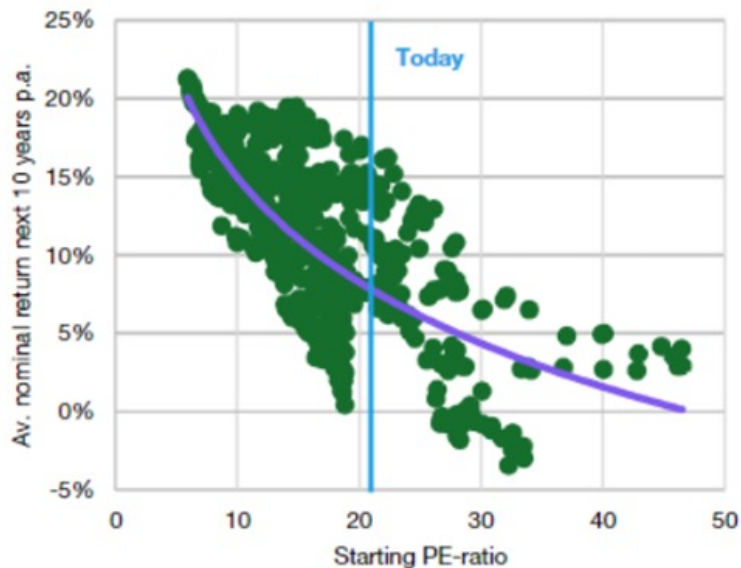


UK Equities appear cheap relative to their own history and relative to the rest of the world



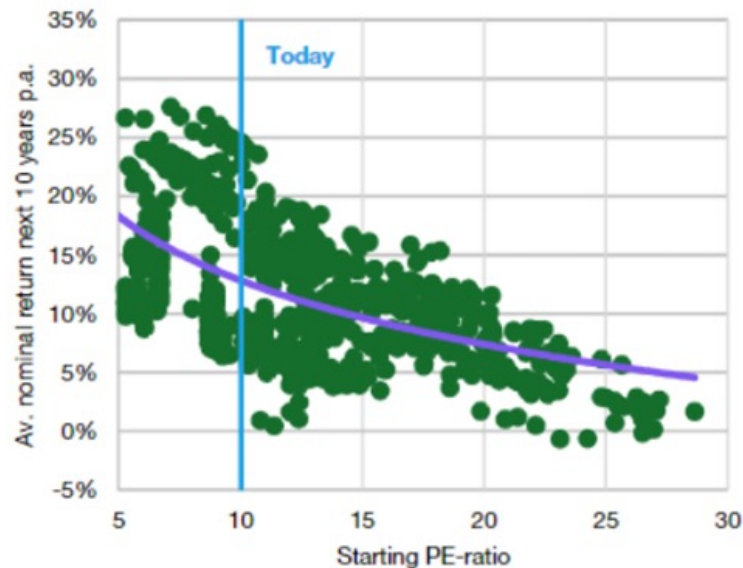
Valuations matter

Figure 76: US starting valuations and future returns



Source: Liberum, Bloomberg, R. Shiller website

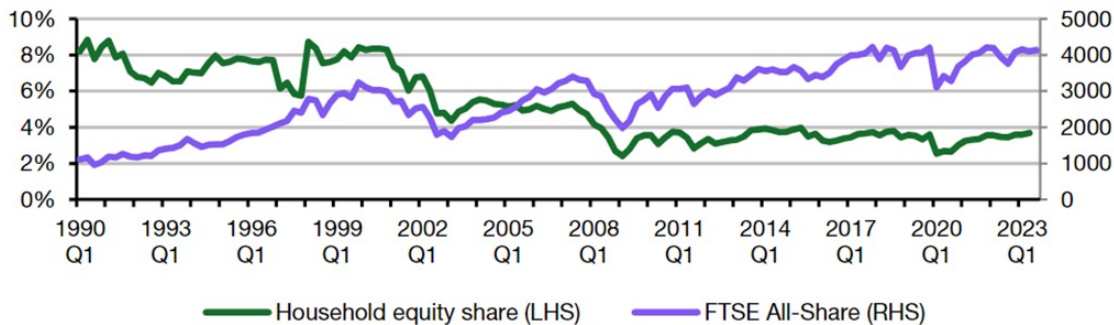
Figure 77: UK starting valuations and future returns



Source: Liberum, Bloomberg, Bank of England

Domestic Involvement in UK Equities

UK households halved their UK equity allocation this century

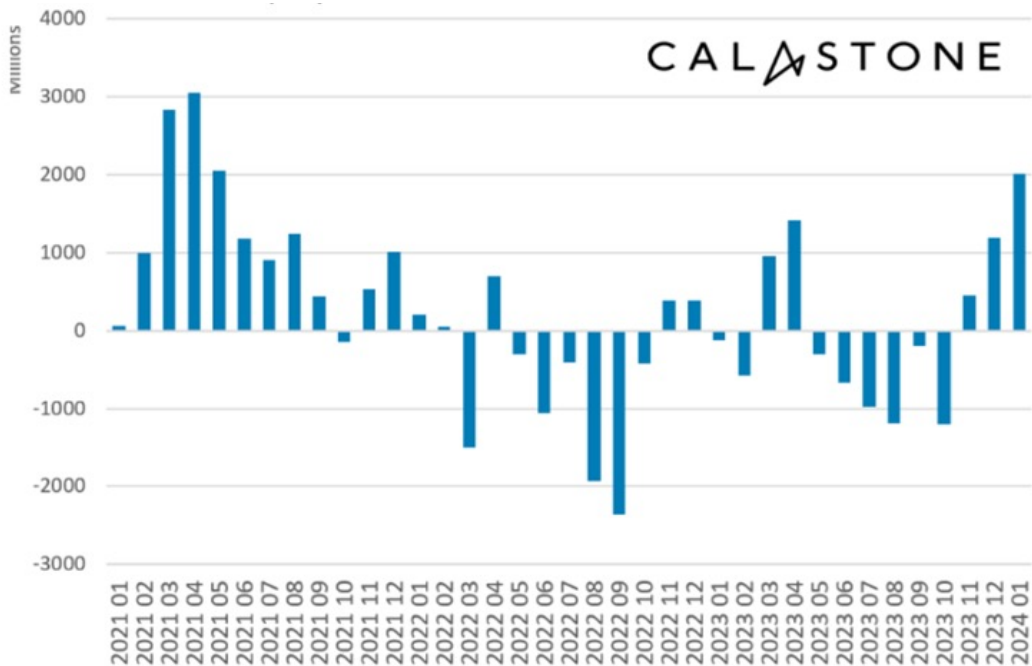


Source: Liberum, ONS, Bloomberg

- Domestic interest in the UK stock market has fallen
- Government and regulators recognize this is a problem
- Reforms and incentives are possible

Equity Investors may be returning

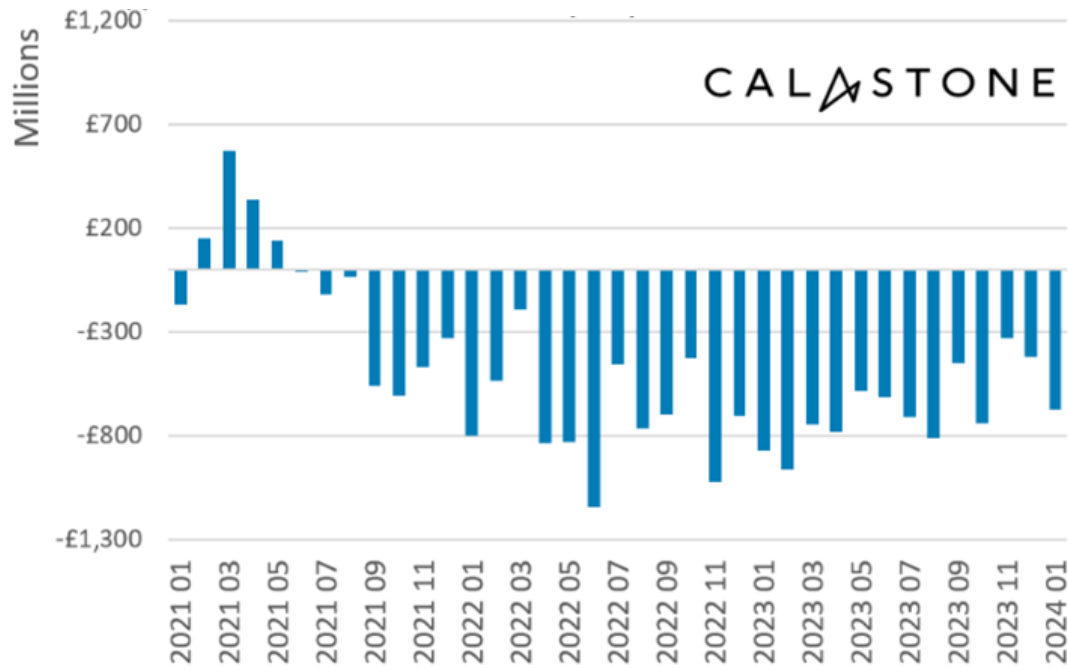
Net Flows – Equity Funds



Source: As at 31 December 2023

But Not Yet into UK Equities

Net Flows – UK-focused equity funds



Source: As at 31 December 2023

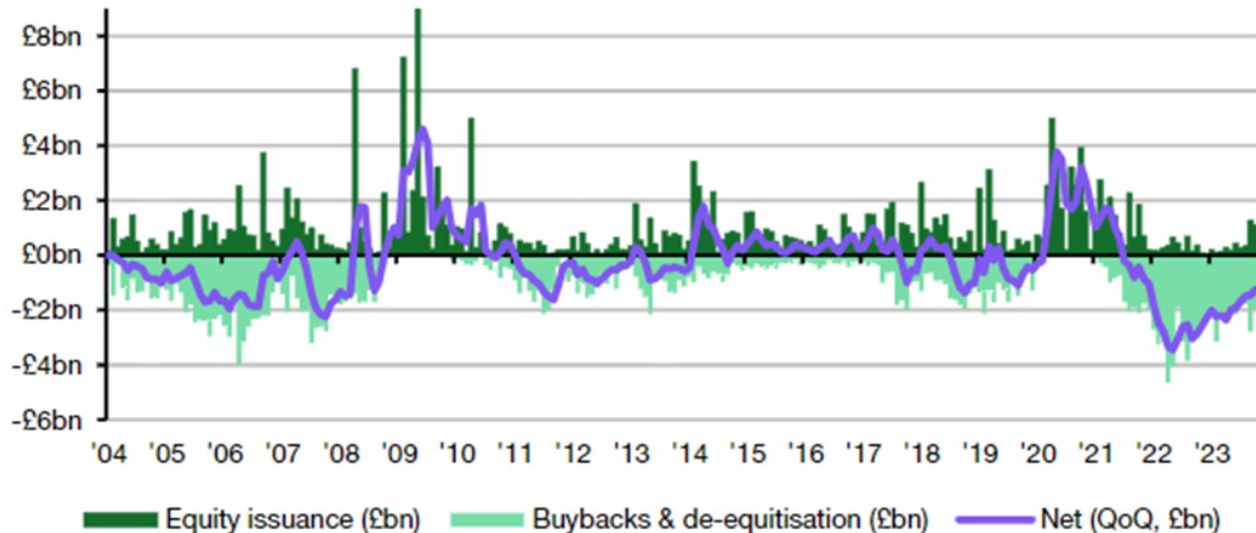
If Equity Investors won't buy...

Figure 5: Buybacks have become one of the most reliable drivers of performance: Outperformance of top 20% of stocks by buyback yield vs market

	FTSE 350	FTSE Small Cap	Stoxx Europe
Since 2001	3.2%	5.3%	3.8%
Last 20Y	3.2%	6.1%	2.8%
Last 10Y	2.3%	5.7%	2.2%
Last 3Y	3.9%	6.2%	4.1%

The UK Equity Market is Shrinking

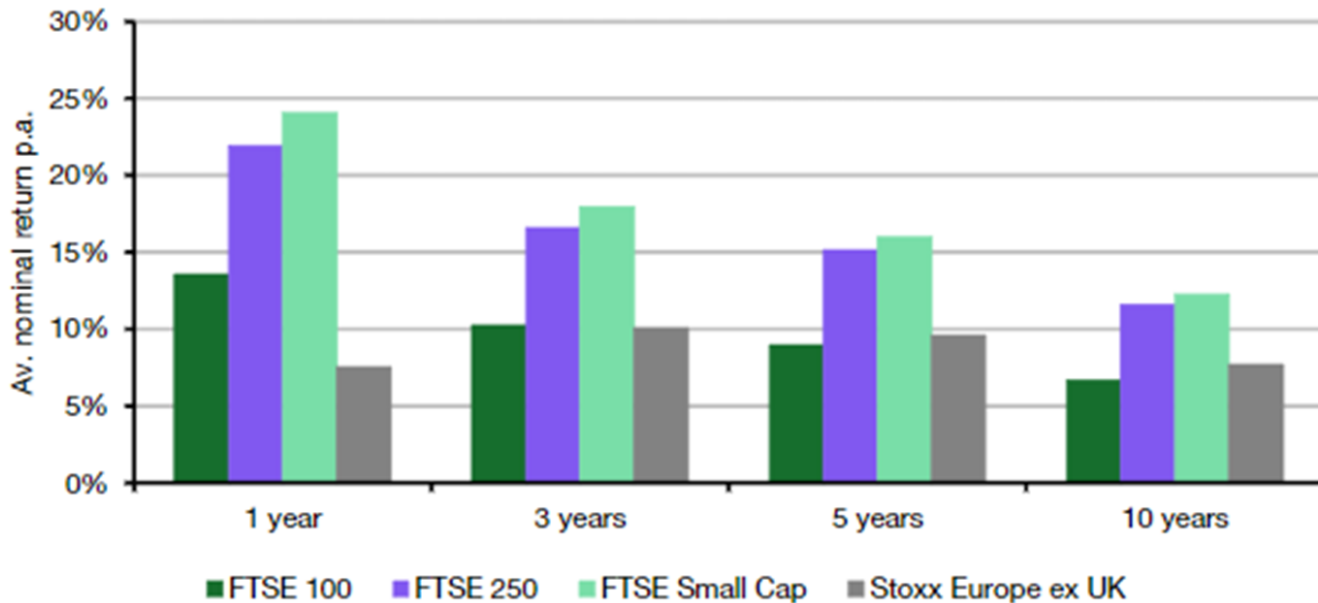
Net listed equitisation (£bn)



Source: Liberum, Bloomberg, Bank of England. The dataset contains PNFCs - Private Non-Financial Corporates - though these are publicly listed firms only (BoE's only source is the LSE)

‘In the short run, the market is a voting machine, but in the long run, it is weighing machine’ – Benjamin Graham

Current valuations have historically been followed by very high returns, particularly for small- and mid-cap stocks





Of The Magnificent Seven, only three survived the first film

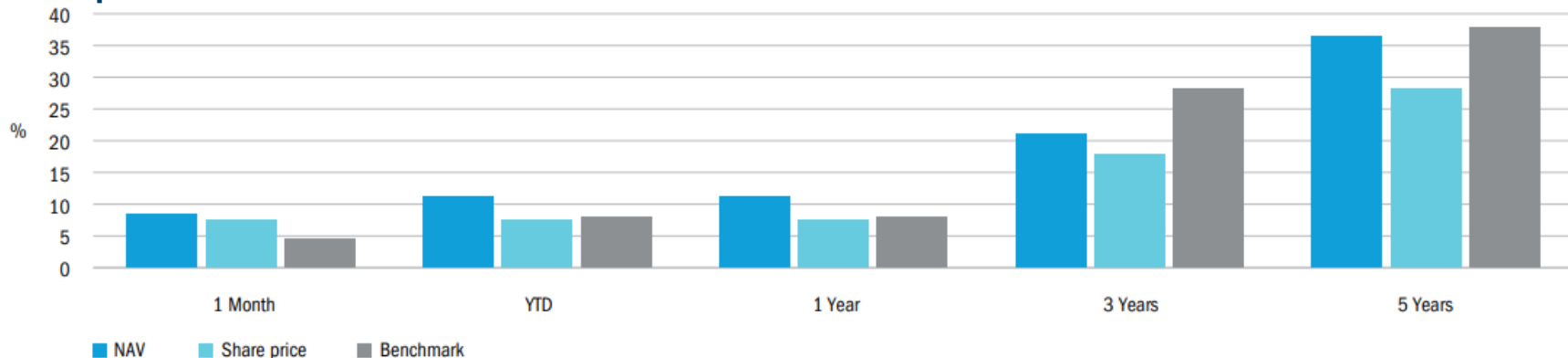
The Man with No Name went on to make A Few Dollars More



Appendix

CT UK Capital and Income Investment Trust Plc

Fund performance as at 29 December 2023



Discrete annual performance as at 29 December 2023

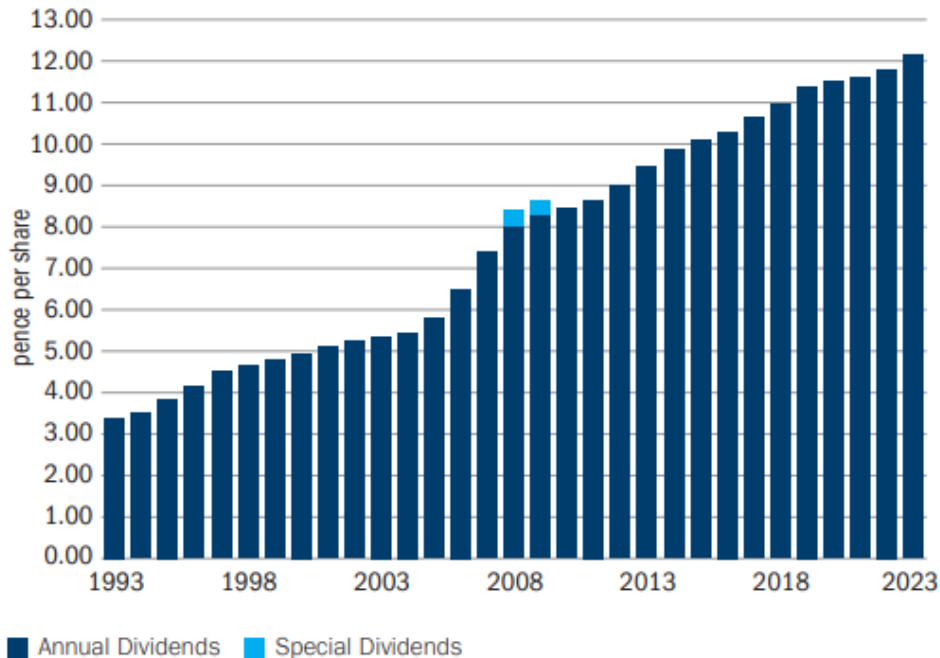
	2023/22	2022/21	2021/20	2020/19	2019/18
NAV	11.22	-9.42	20.03	-11.88	28.02
Share price	7.54	-8.72	20.04	-14.23	26.71
Benchmark	7.92	0.34	18.32	-9.82	19.17

Past performance is not a guide to future performance.

Source: Thomson Reuters Eikon, Lipper and Columbia Threadneedle Investments. Basis: Percentage growth, total return, bid to price with net income reinvested in sterling. The discrete performance table refers to 12 months periods, ending at the date shown. Benchmark: FTSE All-Share Index. Launch date: 1992. Performance data is net of all operating costs. Costs may increase or decrease as a result of currency and exchange rate fluctuations.

Thirty Years of Dividend Growth

Dividend Progression since launce in September 1992



- Initial dividend in 1993 was 3.4 pence per share
- Dividend per share for 2023 was 12.15 pence
- Dividend growth of 257.4%
- Compares to CPI over 30 years of 103.7%

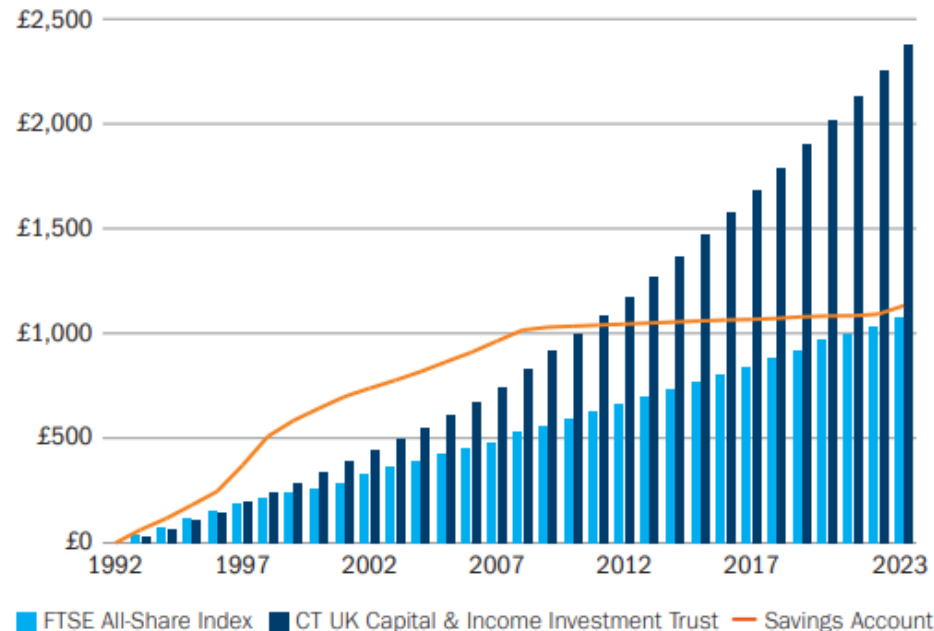
Past performance does not predict future returns.

Source: Columbia Threadneedle Investments as at 31 December 2023

There is no guarantee that dividends will continue to increase.

Cumulative Income over Thirty Years

Cumulative income received by Shareholders from a £1,000 investment at launch in September 1992



Past performance does not predict future returns.

Source: Columbia Threadneedle Investments as at 31 December 2023.

- Initial investment in CTUK has yielded £2,376 in gross income (assuming dividends not reinvested)
- Compares to £1,076 paid out on FTSE All-Share Index, and
- £1,132 earned from a savings account paying the Bank of England base rate

CT UK Capital and Income Investment Trust

What do investors get?



Well-diversified
portfolio

c. 50 stocks

Focus on
individual
companies

Quality,
Management
& Valuation

Distinguishes
between
**value &
low priced**

Exposure
away from
traditional
HY* / mega
cap

Low
turnover

Low
costs
($<0.6\%$ of average
net assets)

Modest
leverage

- Net assets £329m
- Well-established Discount Control Mechanism

Source: Columbia Threadneedle Investments. As at 31.12.23.

* HY = High Yield

Disclosure

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English language copies of the key information document (KID) can be obtained from Columbia Threadneedle Investments, Cannon Place, 78 Cannon Street

London EC4N 6AG, telephone: Client Services on 0044 (0)20 7011 4444, email: sales.support@columbiathreadneedle.com or electronically at www.columbiathreadneedle.com. Please read before taking any investment decision.

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Portfolio composition – stock and sector

	Portfolio Weight	Benchmark Weight	Difference
OSB Group	5.95	0.08	5.88
Vistry Group	4.83	0.14	4.70
Intermediate Capital Group	4.88	0.20	4.68
Burford Capital	4.03	--	4.03
Legal & General Group	3.86	0.64	3.22
Reckitt	--	1.68	-1.68
London Stock Exchange Group	--	1.81	-1.81
Glencore	--	2.51	-2.51
Shell	3.11	7.34	-4.23
HSBC Holdings	--	5.35	-5.35

	Portfolio Weight	Benchmark Weight	Difference
Investment Banking and Brokerage Services	12.30	2.85	9.45
Construction and Materials	5.52	0.42	5.10
Finance and Credit Services	5.95	1.99	3.96
Real Estate Investment Trusts	6.01	2.30	3.71
Life Insurance	6.06	2.44	3.62
Travel and Leisure	--	3.27	-3.27
Personal Care, Drug and Grocery Stores	3.68	7.46	-3.78
Closed End Investments	1.33	6.32	-4.99
Oil, Gas and Coal	5.24	11.00	-5.76
Banks	1.03	9.21	-8.18

- Major differences to the Index at stock and sector level
- No reason to hold stocks just because of Index weighting

Past performance does not predict future returns.

Source: Columbia Threadneedle Investments as at 31 December 2023. For illustrative purposes only. The index is not for sale.

UK Equities – risk considerations



Source: Image – Adobe Stock

We think of risk in multiple ways:

- Relative to our benchmark
- Considering volatility
- Shareholders mostly interested in absolute risk

A Fistful of Dollars (or Pounds)

Probability of positive return

