New Capital Dynamic UK Equity Fund

Quarterly Commentary | As of 31 March 2026

Market overview

Markets began the year on a positive note in January, with the MSCI All Country World Index rising 2.9% in US dollar terms, driven by a nearly 9% gain in emerging markets. US small caps outperformed, and value stocks continued their recovery versus growth stocks. Commodity prices saw unusual volatility, with gold, silver, and copper reaching new all-time highs and oil rebounding due to geopolitical tensions, including US military action in Venezuela, conflict with Europe over Greenland, and threats of intervention in Iran. Concerns about the Federal Reserve's independence, heightened by a criminal investigation into Chairman Powell, pushed government bond yields higher, though the nomination of Kevin Warsh as Powell's successor helped ease fears and led to a correction in commodity prices. Despite a partial recovery, the US dollar remained down 1.5% in trade-weighted terms since the start of the year. Stock markets were buoyed by a solid global economic cycle and expectations of Fed rate cuts, with corporate profits revised upward and projected to grow by double digits for a second consecutive year, though elevated valuations warrant caution.

In February, global equity markets continued to rise, with the MSCI World All Countries Index up 1.3%, bringing year-to-date gains to 4.3%. Gains were driven by markets outside the US, as the S&P 500 fell 0.8% and lagged other developed and emerging markets, which were up more than 14%. Value, small, and mid-cap stocks outperformed growth and large caps, particularly as tech companies weighed on performance. Safe assets rallied alongside equities, with falling government bond yields, rising gold prices, and a stronger Swiss franc, reflecting heightened risk of US and Israeli military action against Iran and concerns about credit quality. The US earnings season remained robust, but the announcement of over $600bn in artificial intelligence (AI)-related investment by US hyperscalers raised questions about future profits. The US Supreme Court's ruling against Trump's tariffs under the International Emergency Economic Powers Act led to a decrease in effective US tariff rates, supporting the global business cycle.

March saw a sharp reversal, with the MSCI All Countries World Index falling 7.1%, erasing earlier gains and leaving first quarter performance at -3.1%. Bonds also declined as yields rose on fears of renewed inflation and more restrictive central bank policies. The shift in sentiment was triggered by the US and Israel's war against Iran, resulting in the closure of the Strait of Hormuz and threatening global supply chains, especially for energy, agri-food, steel, and semiconductors. The US, less dependent on these supplies, saw its equities and bonds outperform and the dollar strengthen, while non-US markets and currencies suffered. Notably, gold prices fell despite expectations of safe haven demand, as investors and central banks sought liquidity to address emergencies. Nevertheless, medium- to long-term fundamentals for gold remain supportive of a gradual price increase.

Fund performance and positioning

The Fund was able to outperform the benchmark over the course of the first quarter, staying ahead of the risk-on market rally through to late February, before providing relative downside protection through the Iran conflict-led market drawdown in March. Over the quarter, c.70% of our outperformance was driven by stock selection, with the remainder from sector allocation decisions.

The year began on a strong footing for the Fund with cyclical value stocks surging ahead through January on supportive corporate earnings, as markets took geopolitical headlines in their stride – our decision to increase our cyclical exposure (particularly our new additions in copper and gold in Q4 last year) proved supportive, while we also had some positive stock specific news from our mid-cap healthcare holding Genus which saw shares jump +22% over the month. These trends continued through February, with our mining and cyclical industrial names driving strong outperformance through to the market peak at the end of the month. March brought an immediate reversal in market fortunes as the Iran conflict began, but the Fund was able to provide downside protection through to quarter end. We trimmed some of our gains made in Materials and redeployed the capital to Energy given our view on the structural shift to earnings this conflict could create for both sectors, while positive news from our mid-cap holding IG Group in Financials and the avoidance of several profit warnings in the sector also helped relative returns.

Over the quarter our largest positive contributions came from our underweight and stock selection in Staples, as well as our

stock selection in Financials. Our positioning in Healthcare and stock selection in IT proved to be the largest negative contributors from a sector perspective.

Stocks that made the largest positive contribution to performance during the quarter included Endeavour Mining, which rose 19% as gold prices surged above $5,000 for a period due to geopolitical tensions, de-dollarisation, and a shift by investors into real assets following artificial intelligence (AI)-driven market disruption in February. Although there was some pullback in March as real yields and oil prices increased with the outbreak of conflict in Iran, gold still ended the quarter up 7% year-to-date. Endeavour Mining also reported a strong 10% free cash flow beat at earnings and plans to update the market on its Assafou mine opportunity in the coming month.

BAE Systems gained 28%, with defence companies outperforming, especially during the market sell-off in March, as rising conflict and rearmament themes, along with optimism about the US defence budget, supported earnings outlooks. BAE also posted strong full-year results, with free cash flow well ahead of consensus (up 54%), driven by significant customer advances and robust operational cash conversion.

Rio Tinto advanced 19%, as copper and other industrial metals benefited from supply shortages, disruptions, and increased demand for real asset companies. The company delivered solid full-year results with continued dividend support, though the main news was the third round of failed merger talks with Glencore, which ended without an agreement and cannot be revived for six months under UK takeover rules.

On the other hand, Barclays fell 17% as bank shares broadly declined amid heightened risks to economic growth from the conflict in Iran and increased concerns about stagflationary forces. Sentiment was further weighed down by discussions about potential risks from private credit. Despite the challenging environment, Barclays presented an upbeat 2026-28 strategy overview, prompting several brokers to upgrade their forward earnings estimates.

Softcat declined 14%, with shares selling off sharply due to ongoing artificial intelligence (AI)-led developments that heightened concerns about disruption in the software sector; the position was exited during the quarter. Persimmon dropped 21%, having started the year strongly on the global cyclical recovery narrative before falling sharply in March as global growth estimates were revised lower, the market priced in fewer rate cuts (and even hikes at times), and the anticipated UK housing market recovery was delayed.

In January we added Keller Group plc, a global leader in ground engineering that has benefitted from structural tailwinds from infrastructure investment, energy transition, and the increasing technical complexity of construction projects, including data centres. At the same time we exited positions in Softcat and Autotrader to reduce overall portfolio exposure to companies that are facing multiple compression risk from evolving AI developments. For Softcat we have concerns around both licence volume disruption from AI developments as well as further pressure from Microsoft on reduced enterprise incentives for resellers, while we also have some concerns that recent talk from management about the potential for merger and aquisitions to enter the US market would mark a significant departure from the company's roots and historical operating model. For Autotrader we note weaker recent pricing trends, the threat from Amazon Auto likely launching in the UK later this year, and the potential for larger capex commitments to protect the business from the threat of AI all likely to raise the risk of lower growth and returns in the medium term.

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	New Capital Dynamic UK Equity Fund	MSCI United Kingdom All Cap Index	Difference
1 Month	-6.61%	-6.63%	+0.02%
3 Months	+3.08%	+2.76%	+0.32%
6 Months	+8.54%	+9.43%	-0.89%
YTD	+3.08%	+2.76%	+0.32%
1 Year	+19.59%	+21.74%	-2.15%
3 Years	+36.21%	+45.92%	-9.71%
5 Years	+65.41%	+70.90%	-5.49%
Since Inception Annualised	+7.33%	+7.84%	-0.51%
Since Inception (03/11/2016)	+94.45%	+103.36%	-8.91%

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Outlook

As we had expected, the UK continued to deliver strong relative performance in Q1 2026, with the MSCI UK All Cap rising +2.8% against the MSCI ACWI which fell -1.2% in GBP. The UK market's defensive characteristics and significant exposure to energy and commodities have proved particularly valuable as geopolitical tensions have escalated, and we continue to see a compelling case for UK equities. The current environment of heightened geopolitical risk, rising energy prices and inflationary pressures, increased equity market volatility, and uncertainty around the global growth outlook, are all factors that favour the defensive/inflation hedge/lower world beta characteristics of the UK equity market, and we would expect UK equities to continue to outperform should these themes persist.

The escalation of the Iran conflict has introduced significant uncertainty into the global macro outlook, with crude oil above $100 and stagflation concerns re-emerging. In this environment, the UK market's composition, with its large weighting to energy, commodities and defensive income-generative sectors, should position it well relative to more growth-oriented markets. While consensus expectations for Bank of England rate cuts have been pushed back on rising inflation concerns, the UK's internationally diversified earnings base remains a strategic advantage. With a large proportion of revenues generated overseas, UK equities continue to offer exposure to global growth themes while retaining defensive balance-sheet characteristics and attractive dividend support.

In our view UK equity valuations remain exceptionally attractive, with the MSCI UK trading on a forward P/E of just 13x - one of the cheapest markets globally. The UK market continues to trade at a deep discount to global peers and to its own history, even on a sector-neutral basis, providing a strong margin of safety and a favourable risk-reward profile. Flows into UK equities have improved meaningfully, with Q1 recording the best start to a year for inflows in a decade, driven by foreign investors recognising the relative value and defensive qualities of the UK market. We believe this trend has further to run given current valuation levels and the increasingly uncertain global environment, and we remain positioned for continued strong UK performance.

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agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;
and agree to notify us in writing within 5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.

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