



Trojan Income Fund

July 2023

taml.co.uk

Protect & Grow No.8

An improved backdrop for UK equities

In my recent meetings with investors, and even when talking to friends, it is clear that the current mood towards the UK is miserable. With high interest rates, stubborn inflation, declining house prices, and alarmist media headlines, it is no wonder that negative sentiment hangs over the UK equity market. In the year to date, there is also a sense of having missed out. The S&P 500 is up c.20% YTD versus a flattish UK market. The 'AI frenzy' has driven extraordinary gains in some of the USA's biggest companies; NVIDIA, up >200%, Microsoft, up c.50%, Alphabet, up c.40% and Meta up >160%. UK investors can be forgiven for feeling a little sorry for themselves.

This week has felt a little different. UK shares have rallied strongly on the back of a softer than expected inflation print – the first we have seen in this rate cycle. With sentiment so low and rate expectations already very high, it strikes me that further downside is limited and that the outlook for UK equities is attractive.

Firstly, valuations in the UK are incredibly depressed compared to other markets. This is reflected in Figure 1, where the overall PE ratio for the UK market, relative to the MSCI World is at a 20-year low. Such valuations are bound to attract buyers. Anecdotally, it is encouraging for me to see my global equity colleagues taking notice of UK valuations. Troy's Global Income strategy has a meaningful allocation to the UK market, whilst our Global Equity Fund colleagues have started two new holdings this year in world-class UK businesses trading at notable discounts to their US peers.

Secondly, if we are moving past the peak in inflation, it could mean that sterling's strong rally, from close to parity with the dollar in September last year, to a recent high of \$1.31, takes a pause for breath. This would be good for the many international earners in the UK market, including your Fund's largest holdings - Unilever, RELX and Diageo.

FIGURE 1: MSCI UK 12M FWD P/E RELATIVE TO MSCI WORLD (EX ENERGY & BANKS)



Source: Factset and Troy Asset Management Limited, 30 June 2023. All references to benchmarks are for comparative purposes only. P/E is price to earnings.

Finally, UK domestic stocks should benefit from moderating base rate expectations. Once peak rates have been priced in by the bond market, we can reasonably expect that investors will start to look through current earnings weakness from those companies focussed on the UK economy. The past few days have proved a case in point, benefiting the select domestically focused names in your portfolio. These include property-related stocks Howden Joinery and Big Yellow Group, consumer discretionary names Next and Domino's and the investment platforms St. James's Place, AJ Bell and IntegraFin.

Time will tell whether this week's positive inflation news is a one-off or the start of a welcome disinflationary trend. But we are feeling upbeat – past experience tells us that times of widespread pessimism and historically low UK valuations bode well for future returns.

I would like to end by wishing readers a wonderful Summer.

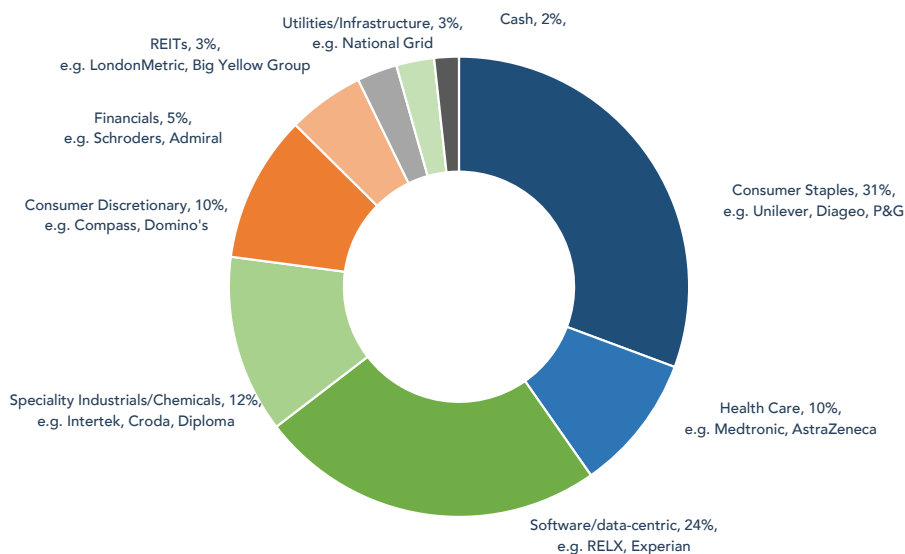
Blake Hutchins

July 2023



SECTOR BREAKDOWN

(custom definition by Troy)



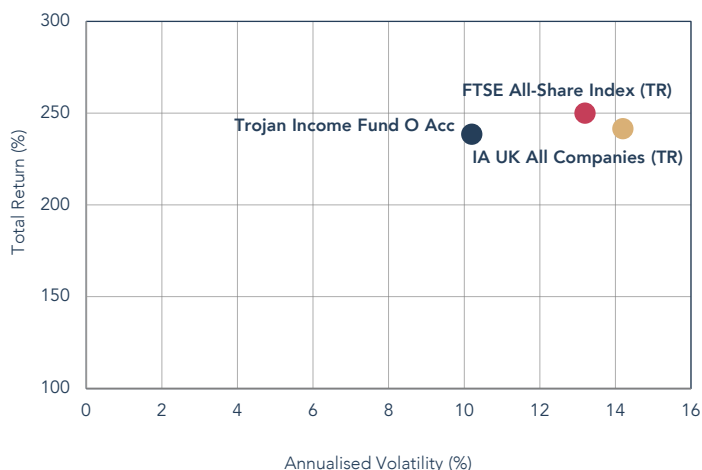
Source: Troy Asset Management Limited, 30 June 2023. Asset Allocation Subject to change.

TOP 10 HOLDINGS

Unilever	7.5%
RELX	7.4%
Diageo	6.7%
Reckitt Benckiser	6.6%
Compass Group	4.2%
Experian	3.4%
Bunzl	3.4%
GSK	3.4%
British American Tobacco	2.9%
Paychex	2.6%
<hr/>	
Top 10 holdings	48.7%
31 other holdings	49.6%
Cash & Equivalent	1.7%
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TOTAL	100.0%

Source: Factset.
Holdings subject to change.

RISK AND RETURN SINCE INCEPTION (30/09/2004)



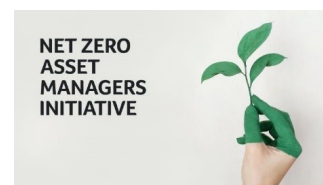
Past performance is not a guide to future performance.

Source: Lipper, 30 June 2023.

ESG

Troy achieved the following scores from the UN PRI (July 2020) in relation to Direct and Active Ownership of assets.

Score	Topic
A+	Listed Equity - Incorporation
A	Listed Equity - Active Ownership
A	Fixed Income - SAA (Sovereign, Supranational and Agency)



TROY UK EQUITY INCOME TEAM



Blake Hutchins



Hugo Ure



Fergus McCorkell



Aniruddha Kulkarni



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