

Fund manager
Philip Webster



Manager Commentary

Equity markets had another very volatile month, with inflation and central bank policy dominating the headlines. While policy discussions remain very hawkish, many commentators now feel that we are nearing peak inflation, which could result in interest rate expectations being too high. While this would be a helpful catalyst, the probability of a UK recession has risen. The question we are now asking is just how severe and prolonged a downturn this will be and, therefore, how we best construct a portfolio to mitigate the worst of this correction.

While there are several issues to navigate, the recent unrest among workforces, who are demanding wage increases, will further worsen the recovery of the economy. This not only has an impact on costs for businesses, but these costs will also be passed onto the consumer in further price rises. The largest near-term risk for markets surrounds the supply of Russian gas to Europe. A closure or suspension of supply would have a huge ramification for the European economy. EU members have already met to put in place emergency plans to reduce demand, boost energy savings and scenarios for a complete halt. Any impact on Europe will be felt across the UK market and has framed a lot of the discussions we have had with management teams and the impact on their businesses. While the impact on the equity market is unknown, we have limited direct exposure to heavy industrials or energy intensive businesses. The impact on the Trust will be driven by second order effects of slower growth and a further squeeze on the consumer.

As I said last month, this is not a time to get caught up in the circle of negative news; companies are continuing to perform much better than the negative headlines suggest. Cairn Homes issued a record trading update this week, with forward sales of 1750 homes, which covers 2022 and a large portion of 2023. They are managing to capture good house price inflation which is mitigating rising build costs. They increased the interim dividend by 9% and will return a total of €115m, versus a market capitalisation of €736m. With rising volumes in 2023, they are also well placed to return around another €140m of cash next year. This is a very comfortable place to sit with high visibility, a very strong balance sheet, and still trading at book value. I also attended the Deutsche Boerse capital markets day, a more recent addition to the Trust. They benefit from rising volatility in markets and interest rates. They have seen power and gas trading surge and are the beneficiary of rising global interest rates in their Clearstream business. Growth for 2022 will be above 10% and they have a higher margin of safety, given that the initial targets were set prior to the emergence of these cyclical tailwinds.

I am encouraged by the value and yield on offer in the market in quality businesses. I will continue to opportunistically add to these businesses and continue to build up weights in companies that I feel will come out the other side of this stronger.

Key risks

Stock market movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. A fund investing in a specific country carries a greater risk than a fund diversified across a range of countries. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. If markets fall, gearing can magnify the negative impact on performance.

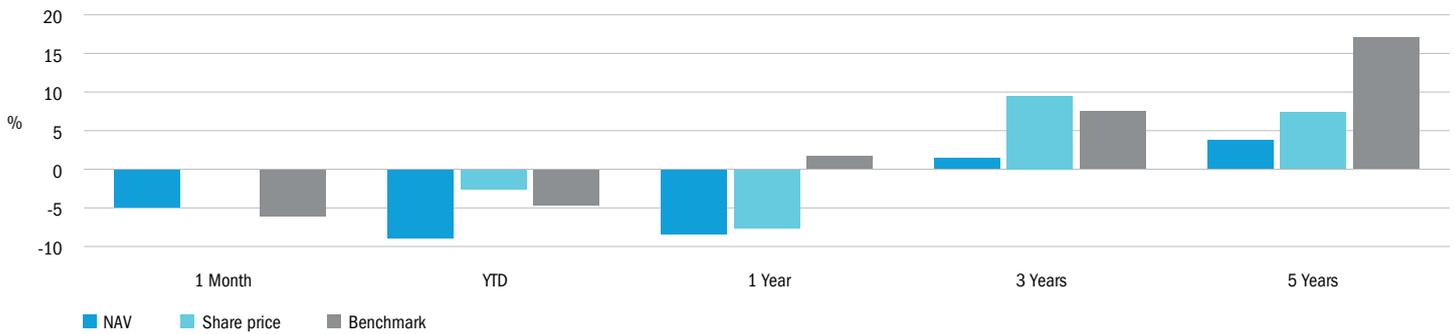
Key facts as at 30.06.22

Trust aims: To provide an attractive return to shareholders each year in the form of dividends and/or capital returns, together with prospects for capital growth. In pursuit of this objective, the Company invests predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

Benchmark:	FTSE All-Share Index (Pre 05/07/2018 FTSE All-Share Capped 5% Index)
Fund type:	Investment Trust
Launch date:	1 March 2007
Total assets:	£111.3 million
Share price:	86.50p
NAV:	89.58p
Discount/premium(-/+):	-3.44%
Dividend payment dates:	Feb, May, Aug, Nov
Net yield†:	6.30%
Net gearing*:	1.91%
Management fee rate**:	0.60%
Ongoing charges**:	0.98%
Year end:	31 March
Sector:	UK Equity Income
Currency:	Sterling
Website:	ctukhighincome.co.uk

**Ongoing charges calculated in accordance with AIC recommendations. Please refer to the latest annual report as to how the fee is structured.

Fund performance as at 30.06.22



Cumulative performance as at 30.06.22 (%)

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-4.90	-8.87	-8.31	1.40	3.71
Share price	0.00	-2.49	-7.54	9.43	7.30
Benchmark	-5.98	-4.57	1.64	7.41	16.96

Discrete annual performance as at 30.06.22 (%)

	2022/21	2021/20	2020/19	2019/18	2018/17
NAV	-8.31	22.89	-10.01	-2.21	4.59
Share price	-7.54	28.38	-7.81	-4.24	2.39
Benchmark	1.64	21.45	-12.99	0.58	8.27

Past performance is not a guide to future performance. Source: Lipper and Columbia Threadneedle Investments. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling. The discrete performance table refers to 12 month periods, ending at the date shown.

Trust codes

Stock exchange code		Sedol
CT UK High Income	CHI	B1N4G29
CT UK High Income B	CHIB	B1N4H59
CT UK High Income Units	CHIU	B1N4H93

Top 10 holdings (%)

	Portfolio Weight	Benchmark Weight	Difference	Sector
British American Tobacco	8.63	3.51	5.12	Consumer Staples
GSK	7.04	3.88	3.16	Health Care
Compass Group	6.40	1.32	5.08	Consumer Discretionary
Beazley	5.44	0.13	5.31	Financials
Rio Tinto	4.91	2.35	2.56	Basic Materials
Brewin Dolphin	4.79	0.07	4.72	Financials
Relx	4.23	1.82	2.41	Consumer Discretionary
Cie Financiere Richemont	3.90	0.00	3.90	Consumer Discretionary
Cairn Homes	3.73	0.00	3.73	Consumer Discretionary
Close Brothers Group	3.34	0.07	3.27	Financials

All figures are subject to rounding. Not all holdings are in the FTSE All-Share Index.

Capital repayments pence per share (paid)/(declared)							
	2016	2017	2018	2019	2020	2021	2022
February	1.14	1.17	1.21	1.25	1.29	1.29	1.32
May	1.18	1.21	1.25	1.29	1.34	1.43	1.55
August	1.17	1.21	1.25	1.29	1.29	1.29	1.32
November	1.17	1.21	1.25	1.29	1.29	1.29	
Total	4.66	4.80	4.96	5.12	5.21	5.30	4.19

All figures are subject to rounding.

Glossary	
Bid price	Investment trust shares are sold via the stock exchange at the bid price. This price is determined by supply and demand.
Dividend	Income paid to shareholders by the company they invest in.
Net asset value	A key measure of the value of a company or trust – the total value of assets less liabilities, divided by the number of shares.

Total summary	% assets
FTSE 100	43.93
FTSE 250	28.20
Overseas	13.02
Non-Index	7.24
Cash	4.96
AIM	2.65

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All data as at 30.06.2022 unless otherwise stated.

All information is sourced from Columbia Threadneedle Investments, unless otherwise stated. All percentages are based on gross assets, unless stated otherwise. †In the absence of unforeseen circumstances, the Company currently intends that the aggregate distribution for the financial year to 31 March 2023 will be at least 5.45 pence per share. The yield is therefore calculated using a rate of 5.45 pence per share and the closing share price as at the end of the relevant month.

*Net gearing is total assets less cash and cash equivalents divided by shareholders' funds and expressed as a percentage. Net cash is net exposure to cash and cash equivalents expressed as a percentage of shareholders funds after any offset against gearing. **Ongoing charges as at 31 March 2022 and management fee with effect from 1 April 2022. (as it changed at that point). Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations. The share price may either be below (at a discount) or above (at a premium) the NAV. Discounts and premiums vary continuously.

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CT UK High Income Trust PLC B is an investment trust and its Ordinary Shares are traded on the main market of the London Stock Exchange.

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