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VT Castlebay UK Equity Fund Manager Review – November 2025

This document provides a comprehensive review of the VT Castlebay UK Equity Fund, drawing on investor reports, fact sheets, and presentations to give a complete assessment of the fund's strategy, philosophy, performance, and positioning within a diversified portfolio.

Strategy Overview

The VT Castlebay UK Equity Fund was launched on 25 January 2015 and is managed by Castlebay Investment Partners LLP, an independent investment boutique founded in 2013 by David Ridland and David MacNeil. The fund aims to preserve capital and deliver returns in excess of inflation (CPI + 4% p.a. on a rolling three-year basis) through long-term investment in high-quality UK-listed companies.

The investment philosophy centres on the belief that "security through compounding" of knowledge, returns, and trust, underpins long-term wealth creation. Castlebay invests in companies capable of generating high returns on capital and strong free cash flows, requiring little leverage to sustain growth.

The fund is classified in the IA UK All Companies sector, with an OCF of 0.60% (C share class) and a fund size of £145m (Aug 2025).

Team

David Ridland (CIO & Fund Manager) has managed the strategy since inception. His investment career began in 1997 at Ignis AM, followed by Barclays, where he managed institutional and charity portfolios.

David MacNeil co-founded Castlebay and oversees investor relationships, compliance, and business operations.

The investment committee includes Michael Crawford (Chawton Global Investors) and Junik Rakipi, who manage the Chawton Global Equity Strategy and act as locums for each other, providing additional perspective and resilience.

The Advisory Panel strengthens governance and macro insight, comprising industry veterans such as Richard Burns and Mick Brewis (both former Baillie Gifford partners) and Russell Crichton (ex-CEO of Speirs & Jeffrey).

All partners are personally invested in the fund, ensuring alignment with investors.

Investment Philosophy & Process

Castlebay's approach can be summarised as **"Quality → Value → Patience"**:

Step 1: Quality Universe

Only companies passing a seven-factor quantitative screen (ROE ≥ 20%, high cash conversion, low leverage, stable returns, low capital intensity) enter the Quality Universe.

Qualitative filters then assess moats, management quality, and business durability.

The average company age is 79 years, with an average market cap of £35bn.

Step 2: Valuation Discipline

Implied Return	=	Dividend Yield	+	EPS/CF Growth	+	Rerating to 'Mean Valuation'
16.5%	=	3.5%	+	10%	+	3%

Valuation is assessed through:

- Reverse Discounted Cash Flow (RDCF) modelling, seeking an expected 12% total return (3.5% yield + 10% EPS growth + re-rating potential).
- Free Cash Flow Yield and Price/Earnings vs long-term averages, to identify “margins of safety” and avoid “margins of peril”.

Step 3: Portfolio Construction

UK Companies				
Admiral Group	Domino's Pizza Group	Relx	Fevertree Drinks	Moneysupermarket.com
Avon Rubber	Dunelm Group	Unilever	Games Workshop	RS Group
Bioventix	Imperial Brands	Victrex	Greggs	Sage Group
BAT	IHG		Halma	Softcat
Burberry Group	Intertek Group	AJ Bell	Howden Joinery Group	Spectris
Compass Group	LSEG	Auto Trader Group	IMI	Spirax-Sarco Engineering
Craneware	Next	Bunzl	IntegraFin	AIM: James Halstead
Croda International	Pagegroup	Experian	Judges Scientific	
Diageo	Reckitt Benckiser	FDM	Kainos Group	

International Companies				
Accenture	Novo Nordisk	Costco Wholesale	IDEXX	Mettler-Toledo
AutoZone	Amadeus IT	Factset Research	Illumina	Microsoft
Colgate Palmolive	Brown Forman	Fastenal	Inditex	Pepsico
Edwards LifeSciences	Coloplast	Geberit	Kone OYJ	Rollins
Estee Lauder	Cosmos Pharm.	Hermès	Mastercard	VISA

- 25–30 holdings, conviction-based.
- Initial weighting c. 2%; max 5% at inception, up to 7% for exceptional performers.
- Turnover extremely low (≈ 10% p.a. since launch; 4% in 2024).
- Liquidity closely monitored; 79% of the portfolio could be sold within five days.

Step 4: Sell Discipline

Holdings are sold or trimmed if:

- Quality deteriorates or management credibility is compromised.
- Valuation becomes stretched.
- A superior opportunity arises.

Portfolio Overview

As of August 2025, the fund held 29 companies across the UK and select overseas markets (82% UK, 10% US, 4% Europe).

The portfolio exhibits a high Active Share (77%), reflecting its benchmark-agnostic nature.

Top 10 Holdings (Aug 2025):

Company	Sector	Weight
Admiral Group	Non-life Insurance	6.4%
Avon Technologies	Aerospace & Defence	6.0%
Burberry Group	Luxury Goods	5.2%
InterContinental Hotels	Travel & Leisure	5.2%
Intertek Group	Commercial Services	4.9%
Unilever	Personal Goods	4.6%
Diageo	Beverages	4.5%
British American Tobacco	Tobacco	4.1%
Novo Nordisk	Pharma & Biotech	4.0%
Reckitt Benckiser	Household Goods	4.0%

Recent Activity (2025):

- **Added:** Greggs, AJ Bell, London Stock Exchange Group, Novo Nordisk, Domino's Pizza.
- **Reduced/Exited:** Next, Relx, AutoZone (fully sold).

Quality Characteristics (Q2 2025):

Key Metrics	Castlebay UK Equity Fund	Market
Return on Equity	39%	11%
Operating Profit Margin	20%	14%
Net Debt to Equity	57%	80%
Cash conversion (CFFO/OP)	97%	97%
Free Cash Flow Yield	4.3%	4.2%

Data as at 30 JUL25 Source: Refinitiv

Performance

Since launch (Jan 2015 – Aug 2025), the fund has returned +96.2%, versus +77.3% for the IA UK All Companies sector and +110.3% for its inflation-plus benchmark (CPI + 4%).

Year	Fund	CPI + 4%	IA UK All Companies
2025 (YTD)	+2.4%	+4.9%	+9.8%
2024	+6.7%	+5.9%	+7.8%
2023	+4.8%	+8.1%	+7.5%
2022	−6.8%	+14.9%	−8.5%
2021	+13.3%	+9.6%	+17.2%
2020	+2.4%	+4.7%	−6.3%
2019	+23.5%	+5.4%	+21.8%

Performance has lagged the benchmark since 2021 as banks, miners, oil, and defence sectors, excluded by Castlebay, have dominated the UK market. Nevertheless, the fund has demonstrated strong downside protection, notably in 2020, when it fell 20% versus the market's 28% decline.

The implied forward return (based on RDCF assumptions) exceeds 16–17%, the highest since inception, supported by attractive valuations and earnings compounding (10% p.a. EPS growth since 2020).

Macro Environment & Themes

Recent investor communications highlight:

- **Financial Repression Risk:** Rising UK government debt (>100% of GDP) could favour equities with pricing power and strong cash generation.
- **Low-Quality Rally:** Banks and cyclicals' recent outperformance reflect temporary tailwinds, not sustainable economics.
- **UK Market Valuation Gap:** The UK market trades at three standard deviations below its long-term valuation versus global equities — a rare and compelling opportunity for quality investors.
- **Switching Costs (Helmer's "Seven Powers"):** Many portfolio companies (e.g., RELX, Intertek, Croda, AJ Bell) exhibit structural moats that enhance durability through customer lock-in, intellectual property, and network effects.

Strengths

- Distinct, disciplined philosophy with a decade-long track record.
- Concentrated, high-conviction portfolio of proven quality companies.
- Exceptionally low turnover and patient, valuation-led investment culture.
- Strong alignment — partners are co-invested.
- Transparency: Quarterly investor letters, full disclosure of holdings, and plain-English communication.
- Proven capital preservation in downturns.

Risks

- **Style headwinds:** Extended underperformance during "value" or cyclical rallies.
- **Concentration:** 25–30 holdings increase single-stock exposure.
- **Sector exclusions:** No exposure to banks, oil, or miners means potential benchmark deviation.
- **Succession planning:** While in progress, key-person dependency remains a moderate operational risk.
- **Currency exposure:** No formal hedging policy, though most holdings are UK-listed multinationals.

Role in a Diversified Portfolio

The fund offers core UK equity exposure with a quality-biased, benchmark-unconstrained tilt. It is particularly suited for:

- Long-term investors seeking inflation-plus returns.
- Balanced portfolios seeking stability through low turnover and downside resilience.
- Blending with more cyclical, small-cap, or value-oriented strategies to enhance diversification.

Its disciplined exclusion of low-return sectors complements global and income strategies, providing a steady compounding engine within multi-asset portfolios.

Summary

The VT Castlebay UK Equity Fund stands out as a thoughtfully constructed, long-term quality-value strategy grounded in intellectual discipline and transparency. Despite recent relative underperformance due to market style rotation, the fund's underlying businesses continue to generate superior returns on equity, robust cash flows, and sustainable dividends.

With an implied return of 16%, premium quality metrics, and a highly engaged management team, the fund remains an attractive proposition for investors seeking long-term real capital growth with downside resilience.

Disclaimer

Past performance is not a reliable guide to future results. The value of investments can fall as well as rise, and investors may not get back the amount originally invested.

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Review Completed: October 2025