h2Radnor View

Persistent outflows mask positive UK fund performance in 2024

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It's no secret that UK equities have been experiencing persistent outflows for the past 2-3 years. At h2Radnor, we track monthly fund flows for actively managed funds focused on UK equities and the story has remained bleak, with only very minor inflows in some investment themes in 2024.

Hoping to counter the news flows with some positivity, we took an alternative perspective and asked, "Had investors not pulled money from UK funds in 2024 – would they be better off?". In other words, has the actual fund performance been better than the underlying fund flows into these funds?

Studying the trends of the underlying portfolio value and share unit prices, we found three key trends:

1) Share unit prices of each investment 'theme' increased in value, with UK-focused growth funds appreciating at a median of +12.7%.

2) Despite share unit prices being driven by share prices of underlying portfolio holdings, average portfolio values across investment themes still tended to decrease overall (with the exception of UK Index funds), as negative fund flows continue to dominate.

3) Much of the decrease in portfolio value is derived from funds selling positions rather than poor share price performance of underlying companies.

The short answer to our question is yes, even under the pressure of redemptions, UK fund managers have still managed to preserve (and in many cases, appreciate) their investors' capital.

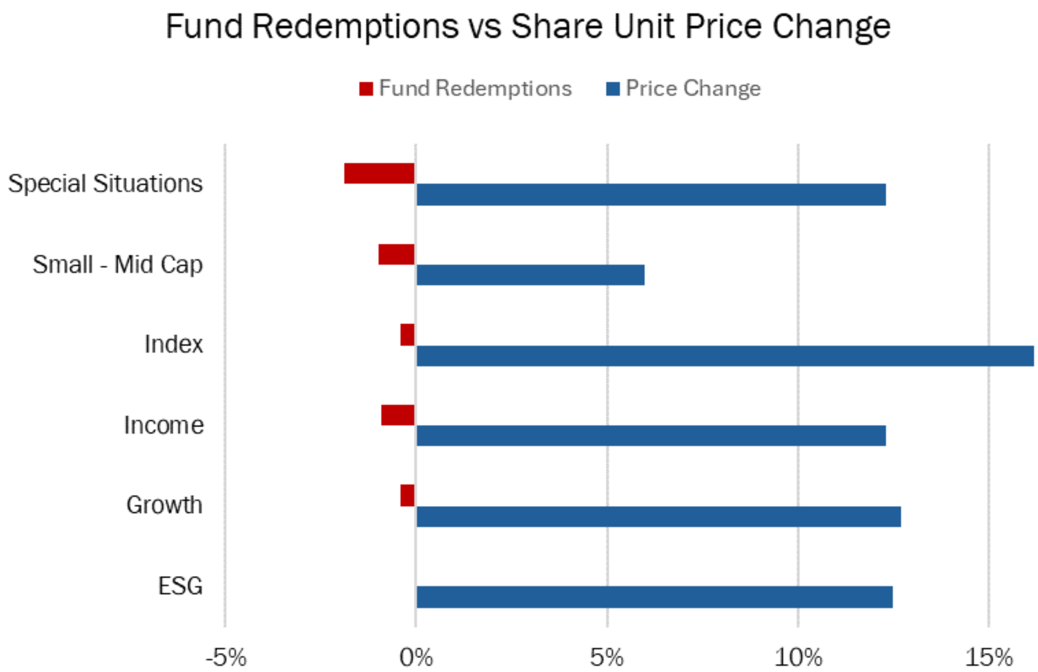

Chart 1: Fund redemptions and median price change of accumulation share units from 1st Jan 2024 - 31st Jan 2025

Several elements are at play here: share unit price, the underlying portfolio value (AUM) and the underlying share price performance of companies within the portfolio. Share unit price closely tracks the fluctuations in the portfolio value, which in turn is inflows/outflows of funds and the market value of its holdings.

Studying the portfolio value data more closely, we found that the general decrease in portfolio value was mainly due to funds selling down positions rather than poor underlying share price performance. This occurred across all investment themes we studied, but the most drastic examples sat in income and ESG funds, where some funds reduced their holding by >50% across their **entire** portfolio in a single month. This type of sell-down can only be due to redemptions rather than poor underlying performance.

Much has been written on the deep value UK equities have to offer, citing a rare, unprecedented opportunity for investors to pick up quality companies at all time low P/E. But many articles fail to cite a 'catalyst' to encourage investors to look at the UK. Being cheap is not enough, especially when the S&P 500 delivered a record 24.79% uplift in 2024. However, spurred by the political action across the pond and Europe, the *catalyst* for UK equities to 'turn' seems to have arrived. Although we are early in the year, UK indices have fared well since Trump's arrival and are projected to outperform both American and European indices amidst the trade war.

	Total Annualised Return (2024)	*Vs. US election*	*Vs. US Inauguration*
FTSE 100	+9.57%	+9.64%	+8.38%
FTSE 250	+8.07%	-0.77%	-0.73%
FTSE All Share	+9.38%	+8.31%	+7.03%
FTSE AIM	-2.22%	-4.14%	-3.01%
S&P 500	+24.79%	+1.62%	-1.36%

Even with a slight question mark over the pace and timing BOE rate cuts, the MPC have still signalled dovishness for 2025.

This, coupled with global political stability and fundamentally good underlying UK company performance, has finally given UK equities the spotlight, and investors worldwide are already starting to notice.

As advisors to both private and listed companies, we pride ourselves on having a finger on the pulse for our wide network of investors. For our publicly listed clients in particular, our analytical approach to identifying the most relevant actively managed funds is integral to our advisory and investor engagement work. Knowing which fund managers have capital to deploy, can ensure management time is well-spent and roadshow meetings are more productive.

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