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AlphaPredictor® Insights

Investment Association Sector: UK Equity Income

Date: June 2026

Three Key Takeaways

1. Stock-selection skill is the primary differentiator between the representative top and bottom quartile funds *(see page 3)*

- The representative top quartile managers broadly exhibit **positive all-weather Alpha**, indicating consistent stock selection skill that contributes meaningfully to expected returns.
- The representative bottom quartile managers exhibit **negative all-weather Alpha**, meaning stock selection decisions detract from performance rather than support it.

2. Business cycle alignment and Alpha generating sector tilts differentiate the strong performers from those facing economic headwinds *(see page 7)*

- The top quartile funds tend to have **beneficial macro sensitivities for the current and upcoming business cycle environment**, generating positive Alpha contributions from navigating term spreads, short rates, and/or leading indicators.
- The bottom quartile funds **uniformly exhibit negative time-varying Alpha**, driven by unfavourable sensitivities—particularly to short rates and dividend yields—resulting in a persistent macro Alpha drag.

3. Beta factor exposures are more diversified in the top quartile *(see pages 5 and 6)*

- The top quartile funds benefit from **multiple Beta factor drivers**, including broad market, small cap and dividend factor exposures, which are expected to generate higher performance.
- The bottom quartile funds rely more on **market Beta alone**, with some actually have negative dividend factor tilts which is a bit of an anomaly for funds in the UK equity income peer group.

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Key Differences: Top versus Bottom Quartile Funds

Characteristic	Expected Top Quartile	Expected Bottom Quartile
All-weather Alpha (Stock-selection skill)	Mostly positive, contributing meaningfully to expected returns	Mostly negative, with poor stock selection detracting from performance
Time-varying Alpha (Macro alignment)	Positive with macro sensitivities aligned with the current economic environment	Consistently negative, driven by unfavourable sensitivities especially to short rates and dividend yields
Beta factor exposures	Diversified across market, small cap, and dividend factors	Dominated by market Beta with some negative dividend factor exposures

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AlphaPredictor® Insights

Our latest AlphaPredictor® insights

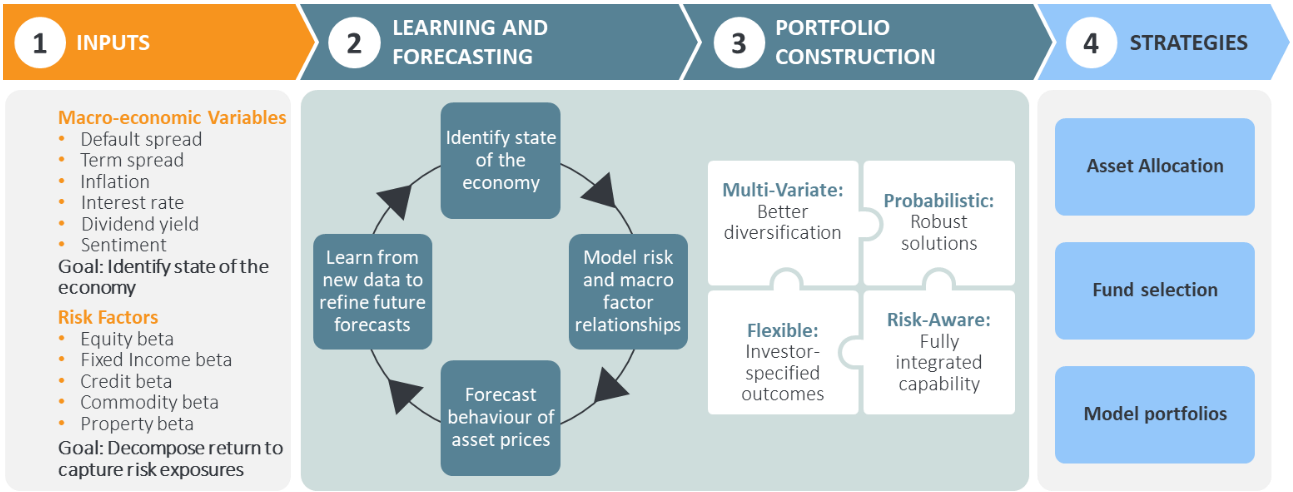
Investment Association Sector: UK Equity Income
Forecast horizon: 3-month ahead forward-looking view
Date: June 2026

How were these funds selected?

The funds below were selected from the UK Equity Income peer group. Five funds were chosen to represent the top and bottom quartiles based on their 3-month expected return rankings, with a minimum fund size of at least £50 million and a historical ranking within one quartile of their forward-looking quartile ranking.

About the AlphaPredictor® Methodology

AlphaPredictor® is an advanced learning methodology collaboratively developed by leading academics and experienced practitioners. It forecasts investment asset behaviour across the business cycle and adapts rapidly to changing market conditions. In the case of actively managed funds, AlphaPredictor® can help identify the future "best" performers and avoid underperformers. The methodology is also used for asset allocation and portfolio construction to select the best combination of assets to hold at any point in the business cycle while diversifying against different economic outcomes.



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AlphaPredictor® expected return breakdown for each fund shown as monthly return contributions

Representative expected top quartile funds

Fund name	Expected return (%)	All-weather Alpha (%)	Time-varying Alpha (%)	Beta return (%)	Risk-free rate
BNY Mellon UK Income Fund	1.01%	0.07%	0.03%	0.60%	0.31%
J O Hambro UK Equity Income	1.07%	0.11%	-0.13%	0.77%	0.31%
Jupiter UK Income	0.97%	0.04%	0.02%	0.60%	0.31%
Man Income Fund	1.03%	0.00%	0.10%	0.61%	0.31%
TM Redwheel UK Equity Income Fund	1.24%	0.19%	0.01%	0.73%	0.31%
Peer Group Average	**0.85%**	**0.03%**	**-0.05%**	**0.56%**	**0.31%**

Expected return = Risk-free rate + All-weather Alpha contribution + Time-varying Alpha contribution + Beta contribution
Beta return contribution = Sum of the Beta factor exposures multiplied by the expected returns of each Beta factor
All-weather Alpha = Alpha component that is independent of business cycle changes and associated with security selection
Time-varying Alpha = Sum of the Alpha sensitivities to the macroeconomic variables multiplied by their (expected) changes

Comments

- All five top quartile funds show higher expected returns than the peer group average, but they achieve this through different combinations of stock selection skill, sector positioning, and market exposure.
- BNY Mellon and Jupiter have the same expected Beta return and small but positive all-weather Alphas, indicating some stock selection skill. Both funds show a small positive time-varying Alpha, indicating that their sector positioning is not a drag given current business cycle conditions.
- J O Hambro's expected return reflects solid all-weather Alpha and a strong expected Beta return contribution. Its negative time-varying Alpha indicates that current sector positioning is not aligned with the prevailing business cycle environment.
- Man's expected return is largely driven by Beta, consistent with a systematic approach that benefits when broad market conditions are constructive. The fund shows no security selection skills presently. Its positive time-varying Alpha indicates that sector tilts align with the business cycle backdrop.
- TM Redwheel's expected return is supported by strong all-weather Alpha, indicating effective stock selection skill. The fund's expected time-varying Alpha is near zero.

Representative expected bottom quartile funds

Fund name	Expected return (%)	All-weather Alpha (%)	Time-varying Alpha (%)	Beta return (%)	Risk-free rate
abrdn UK Income Equity	0.60%	-0.18%	-0.04%	0.51%	0.31%
CT UK Equity Alpha Income	0.72%	0.07%	-0.17%	0.51%	0.31%
HL Select UK Income Shares	0.49%	-0.09%	-0.18%	0.45%	0.31%
Liontrust Income Fund	0.61%	-0.05%	-0.11%	0.46%	0.31%
Santander Enhanced Income II	0.68%	-0.03%	-0.09%	0.49%	0.31%

Comments

- All five bottom quartile funds have expected returns below the peer group average, driven by weaker stock selection skill and sector positioning.
- Both abrdn and Liontrust show negative all-weather Alpha, indicating stock selection decisions have detracted from expected returns. Their negative time-varying Alpha suggests sector positioning is not aligned with current business cycle conditions, leaving Beta as the main contributor for both funds.
- CT's expected return benefits from a small positive all-weather Alpha, indicating stock selection skill. The fund's negative time-varying Alpha indicates unfavourable sector tilts in the current cycle.
- HL Select's expected return is reduced by its negative all-weather Alpha, signalling stock selection challenges. Its negative time-varying Alpha further indicates that sector positioning is not aligned with current and upcoming macroeconomic conditions.
- Santander's expected return is limited by both negative all-weather and time-varying skills.

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AlphaPredictor® Beta factor contributions to fund expected returns

Representative expected top quartile funds

Fund name	Total Beta return (%)	UK Equity Market Beta	Small Cap Premium	HML Dividend Premium
BNY Mellon UK Income Fund	0.60%	0.48%	0.02%	0.09%
J O Hambro UK Equity Income	0.77%	0.57%	0.05%	0.15%
Jupiter UK Income	0.60%	0.48%	0.03%	0.10%
Man Income Fund	0.61%	0.55%	0.04%	0.03%
TM Redwheel UK Equity Income Fund	0.73%	0.54%	0.03%	0.16%
Peer Group Average	**0.56%**	**0.47%**	**0.03%**	**0.05%**

Comments

- BNY Mellon and Jupiter have nearly identical Beta factor returns, with most of their expected return coming from broad UK equity market exposure. Both funds show small but positive contributions from the small cap and dividend factors, indicating a tilt toward companies that benefit from these exposures.
- J O Hambro's Beta return is the highest in the group followed by TM Redwheel. Both are supported by strong expected performance from UK Market Beta and positive dividend and small cap factor expected return contributions.
- Man's Beta return is driven primarily by broad market exposure, with a moderate contribution from the small cap factor. Its dividend factor contribution is positive but smaller than its peers.

Representative expected bottom quartile funds

Fund name	Total Beta return (%)	UK Equity Market Beta	Small Cap Premium	HML Dividend Premium
abrdn UK Income Equity	0.51%	0.48%	0.02%	0.00%
CT UK Equity Alpha Income	0.51%	0.48%	0.03%	0.00%
HL Select UK Income Shares	0.45%	0.43%	0.02%	0.00%
Liontrust Income Fund	0.46%	0.48%	0.02%	-0.03%
Santander Enhanced Income II	0.49%	0.46%	0.03%	0.00%

Comments

- All five expected bottom quartile funds have expected Beta returns below the peer group average. In contrast to the expected top quartile funds, the expected bottom quartile funds have zero to negative expected returns from the dividend factor despite being in the UK equity income category.
- abrdn, CT and HL Select all derive most of their Beta return from broad UK equity market exposure, with only small positive contributions from the small cap factor. None of the three funds have performance benefits from exposure to higher dividend paying stocks which is interesting.
- Liontrust's expected Beta return is supported by broad market exposure and a small positive small cap contribution. Its negative dividend factor performance detracts from its overall expected Beta return
- Santander's Beta return is driven mainly by broad market exposure, supported by a small positive contribution from the small cap factor.

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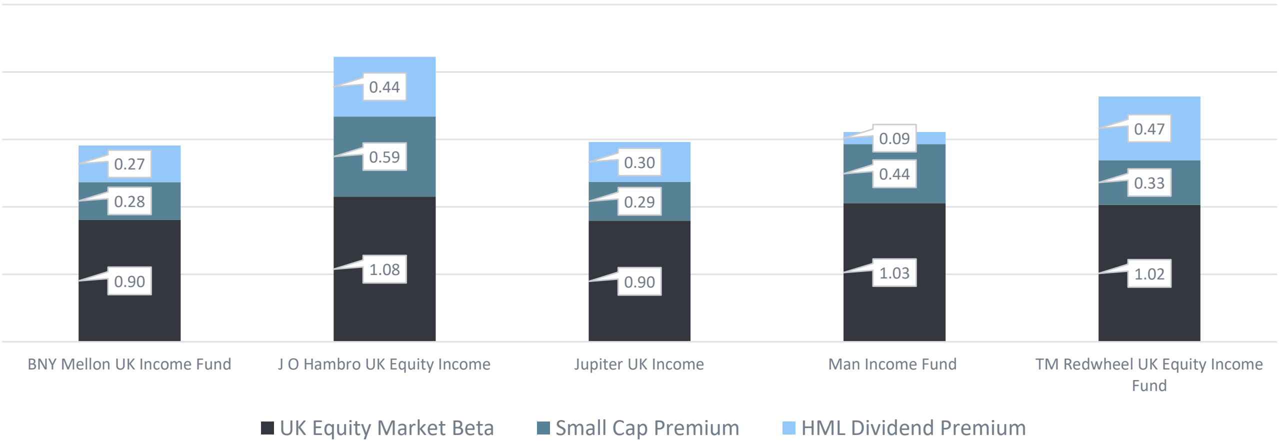
Fund Beta factor exposures

The charts show the Beta factor exposures that help explain each fund's performance. They are expressed as Beta sensitivities rather than returns. A Beta of 1.0 indicates that the fund's performance tends to move in 1:1 tandem with the Beta factor. A negative Beta indicates that the fund's performance tends to move in the opposite direction of the Beta factor.

Representative expected top quartile funds Beta factor exposures

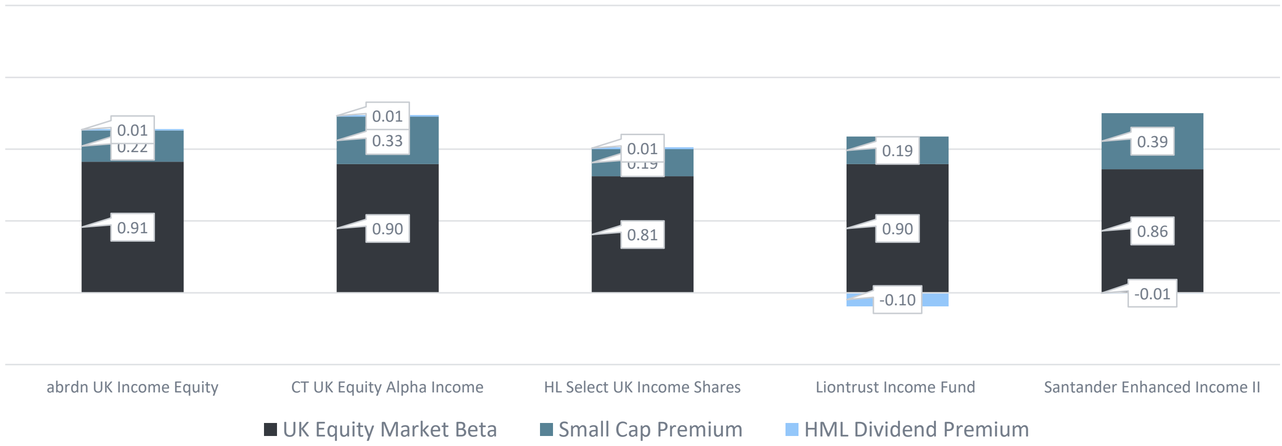


Comments

- All five funds exhibit positive exposure to the UK equity market, small cap, and the higher dividend paying stocks, but the magnitude of these exposures varies across managers.
- BNY Mellon and Jupiter share almost identical small cap and dividend factor exposures. Both funds also have less equity market Beta exposure than their peers.
- J O Hambro has the highest market Beta and small cap exposures and strong dividend factor tilt.
- Man has a sizeable tilt to small cap stocks. Its dividend factor exposure is the smallest of the group.
- TM Redwheel has a market-like equity Beta exposure with the largest tilt to higher dividend stocks among the UK equity income funds covered in this analysis.

Fund Beta factor exposures (continued)

Representative expected bottom quartile funds Beta factor exposures



Comment

- In contrast to the representative top quartile funds, the bottom quartile have low to negative dividend factor exposure
- The expected bottom quartile funds have below market level equity Betas and positive small cap tilts.
- Liontrust has a negative exposure to higher dividend stocks setting it apart from other UK equity income funds

Fund time-varying Alpha from navigating changes in the business cycle

The AlphaPredictor® methodology provides the unique ability to identify managers with skills which will perform well given different but plausible economic outcomes. Time-varying Alpha is manager skill associated with navigating changes in the business cycle and is often demonstrated by sector tilts or security selection within sectors. Macro Alpha sensitivities reflect the portion of a manager's skill which is correlated (positively or negatively) with important macroeconomic variables. By pairing macroeconomic variable changes with a fund's Macro Alpha sensitivities, you can gain insights about their Alpha generation in different environments. The table below shows the **macro Alpha return contributions** and **sensitivities** of each fund to changes in important macroeconomic variables. An arrow indicating the **trend in each macroeconomic variable** is also shown.

Understanding how a fund's Alpha might be impacted as the business cycle evolves can help a fund selector pick winners and avoid funds whose Alpha may deteriorate in specific environments. The AlphaPredictor® model is an advanced learning model and it will learn over time as relationships between Alpha and macroeconomic variables evolve.

Representative expected top quartile funds macro Alphas and macro sensitivities

Fund name	Time-varying Alpha (%)	Default Spread ↓ Δ 12MMA Alpha (%)	Default Spread ↓ Δ 12MMA Sensitivity	Term Spread ↓ Δ 12MMA Alpha (%)	Term Spread ↓ Δ 12MMA Sensitivity	Short Rate ↑ Δ 12MMA Alpha (%)	Short Rate ↑ Δ 12MMA Sensitivity	UK Inflation ↓ Δ 3MMA Alpha (%)	UK Inflation ↓ Δ 3MMA Sensitivity	Dividend Yield ↓ Δ 12MMA Alpha (%)	Dividend Yield ↓ Δ 12MMA Sensitivity	UK LEI ↓ 12-month percent chg. Alpha (%)	UK LEI ↓ 12-month percent chg. Sensitivity
BNY Mellon UK Income Fund	0.03%	0.0%	0.0	0.0%	0.8	0.1%	0.4	0.0%	0.2	-0.1%	0.5	0.0%	-0.1
J O Hambro UK Equity Income	-0.13%	-0.1%	0.5	0.0%	0.2	-0.1%	-0.2	0.0%	0.0	0.0%	-0.3	0.0%	-0.1
Jupiter UK Income	0.02%	-0.1%	0.4	0.0%	-0.3	0.0%	0.1	0.0%	0.0	0.0%	-0.4	0.0%	-0.1
Man Income Fund	0.10%	0.0%	0.3	0.0%	0.0	0.1%	0.3	0.0%	0.1	0.0%	-0.4	0.0%	-0.2
TM Redwheel UK Equity Income Fund	0.01%	-0.1%	0.9	0.0%	-0.2	-0.1%	-0.3	0.1%	-0.4	0.1%	-0.9	0.0%	-0.3
Peer Group Average	**-0.05%**	**-0.1%**	**0.4**	**0.0%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**-0.1**	**0.0%**	**0.0**

Comments

- The expected top quartile funds all positive time-varying Alpha associated with sector tilts positively aligned with the current and upcoming business cycle conditions except J O Hambro.
- Apart from BNY Mellon, the top quartile funds also have negative sensitivities to the dividend yield which has contributed positive Alpha as dividend yield has been declining (as stock prices have risen). The opposite is true for the bottom quartile funds.
- BNY Mellon and Jupiter have small but positive expected time-varying Alphas, supported by positive sensitivities to short-term interest rates which have been rising and negative sensitivities to the dividend yield which has been declining as stock prices have risen.
- JOHCM has a negative expected time-varying Alpha reflects negative contributions from default spreads, short rates, and dividend yields.
- Man Income has the largest expected time-varying Alpha in the group supported by positive sensitivities to short rates which has been rising.
- TM Redwheel's time-varying Alpha is close to zero, with positive Alpha contributions from navigating changes in inflation and dividend yield, offset by negative contributions from default spread and short-term interest rates.

Representative expected bottom quartile funds macro Alpha funds macro sensitivities

Fund name	Time-varying Alpha (%)	Default Spread ↓ Δ 12MMA Alpha (%)	Default Spread ↓ Δ 12MMA Sensitivity	Term Spread ↓ Δ 12MMA Alpha (%)	Term Spread ↓ Δ 12MMA Sensitivity	Short Rate ↑ Δ 12MMA Alpha (%)	Short Rate ↑ Δ 12MMA Sensitivity	UK Inflation ↓ Δ 3MMA Alpha (%)	UK Inflation ↓ Δ 3MMA Sensitivity	Dividend Yield ↓ Δ 12MMA Alpha (%)	Dividend Yield ↓ Δ 12MMA Sensitivity	UK LEI ↓ 12-month percent chg. Alpha (%)	UK LEI ↓ 12-month percent chg. Sensitivity
abrdn UK Income Equity	-0.04%	0.0%	-0.1	0.0%	-0.8	-0.1%	-0.2	0.0%	0.0	0.0%	0.1	0.0%	0.0
CT UK Equity Alpha Income	-0.17%	-0.1%	0.8	0.0%	0.7	0.0%	-0.1	0.0%	0.0	0.0%	0.1	0.0%	0.1
HL Select UK Income Shares	-0.18%	-0.1%	0.7	0.0%	0.5	-0.1%	-0.2	0.0%	-0.2	0.0%	0.3	0.0%	0.2
Liontrust Income Fund	-0.11%	-0.1%	0.4	0.0%	-1.7	-0.1%	-0.4	0.0%	-0.1	0.0%	-0.3	0.0%	0.0
Santander Enhanced Income II	-0.09%	-0.1%	0.7	0.0%	0.8	0.0%	-0.1	0.1%	-0.3	0.0%	0.2	0.0%	0.1

Comments

- The bottom quartile funds exhibit negative time-varying Alpha, driven by macro sensitivities that are either unfavourable or too small to offset negative contributions. The group has positive sensitivities to default spread, dividend yield, and the UK LEI (which are falling) and negative sensitivities to short rates (which is rising) and inflation (which is declining).
- abrdn and Liontrust both show negative time-varying Alpha, driven by unfavourable sensitivities to default spreads and short rates. Their other macro sensitivities are small providing no offsetting effects
- CT and HL Select have the weakest time-varying Alpha in the group, with negative contributions from default spreads and short-term interest rates.
- Santander's time-varying Alpha reflects negative contributions from default spread, short rates, dividend yield, and the UK leading economic indicator. The fund has the largest negative sensitivity to UK inflation and will benefit as inflation declines.

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GLOSSARY

Beta risk factors

- Market Beta – MSCI UK Index
- Small Cap Premium – MSCI UK Small Cap Index returns minus MSCI UK Large Cap Index returns
- HML Dividend Premium – FTSE 350 High Dividend Index returns minus the MSCI FTSE 350 Low Dividend returns

Alpha

- All-weather Alpha –Fund manager security selection skill which is independent from the business cycle
- Time-varying Alpha – Fund manager skill from dynamically timing industries and sectors over the business cycle. Macroeconomic state variables such as the default spread, term spread, short interest rate, dividend yield, inflation, and economic sentiment can be used to identify funds likely to generate superior performance.

Macroeconomic state variables

- Default spread – The difference between the yield on global investment grade corporate bonds and global treasury bonds. It is a measure of credit risk and stresses in the financial system. It is counter-cyclical tending to widen in recessions and shrink in expansions.
- Term spread – The difference between global long and short-term government bond yields. Academic research has found it to be a predictor of economic growth as well as turning points in the economy.
- Short rate – The yield on short-term global government bonds. Short term interest rates are linked to monetary policy. Falling short term interest rates have been associated with rising stock and bond markets in subsequent periods. Higher short rates may signal reduced capital investment by firms as well as lower consumption in the economy.
- Dividend yield – The dividend yield on a broad index of UK equities. A measure of relative equity valuations. It is counter-cyclical tending to widen in recessions and shrink in expansions
- Inflation – UK CPI harmonized with the EU which tracks prices across a wide range of common items including food, energy, housing, and transport.
- OECD Leading Economic Indicator – A composite indicator for UK economic growth

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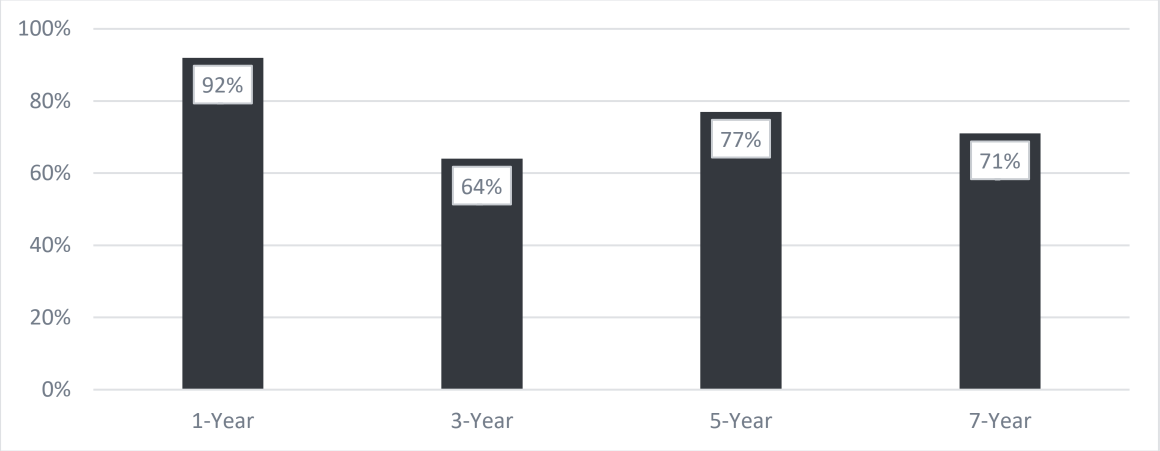
Quantifying the Predictive power of the AlphaPredictor® forward-looking rankings for the UK Equity Income peer group

We calculated the performance of the top quartile predicted 3-month ahead funds versus the bottom quartile predicted funds over the last seven years ending December 2025 and then looked at the consistency of the outperformance of the top versus bottom quartile funds ranked by 3-month expected returns. The chart below shows the frequency of outperformance over 3-, 12-, 36-, 60- and 84-month periods.

Percentage of times that the top quartile predicted funds outperformed bottom quartile predicted funds



How to use the AlphaPredictor® Insights report

The report highlights five funds from the top and bottom quartile of expected Alpha funds over the coming 3-months for a specific peer group. It breaks down the key drivers of each fund's performance due to important risk factor exposures including Market Beta, Small Cap Premium, HML Dividend Premium, and Alpha. An important differentiator of AlphaPredictor® is its ability to breakdown each fund's Alpha generating capabilities into all-weather (idiosyncratic) skills associated with security selection and time-varying skills associated with navigating changes in the business cycle and often exhibited through sector tilts. Time-varying skills are correlated with important macroeconomic variables and understanding which stage of the business cycle we are in and how skilful a manager is given current or future economic conditions can provide key insights into understanding how a manager and fund are likely to perform.

The AlphaPredictor® Insights report provides advisers with a view about which funds are likely to perform well or poorly in the current environment. If advisers already recommend or use these funds, it can help explain how the fund selection truly adds value to the end investors. Otherwise, advisers can consider whether they want to switch funds – especially since different fund manager skills may work better given the changes in business cycle or specific economic conditions.

Subscription services

Advisers can also subscribe to the AlphaPredictor® as a service and get more:

- Detailed report on the Alpha and Beta contributions to expected performance of specific fund(s), including how changes in macroeconomic variables will affect them. This can be a health check on current funds in the clients' portfolios or to find new funds.
- Cost effective tools that help advisers and wealth managers to build fund buy-list objectively, together with other fund research tools if needed.

For more sophisticated wealth managers and advisers, we can provide regular AlphaPredictor® dataset for their quantitative analysts and fund research team.

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