

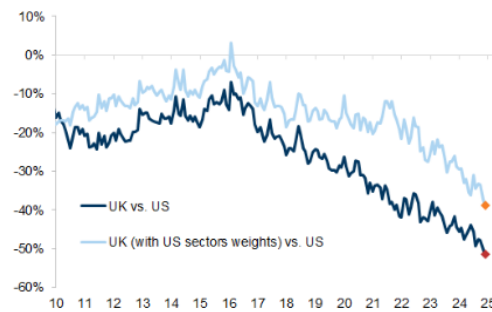
The unique UK value opportunity

GS in December 2024: “UK equity markets trade at a 50% discount to the US and a 40% discount on a sector-adjusted basis.

Even compared to Japan, UK has roughly twice the ROE of Japan but a similar Price-to-Book value”¹

Exhibit 1: The UK trades at an extreme discount to the US

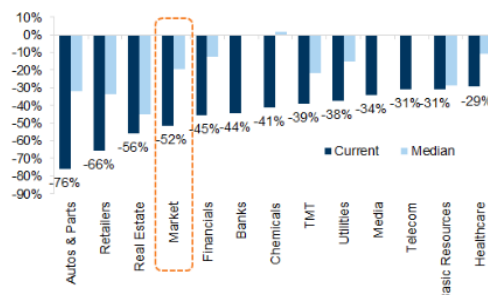
UK relative to US 12m forward P/E



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 2: Every sector in the UK is on a discount, almost all in double-digits

MSCI UK vs. US 12m forward P/E discount and Median P/E discount, last 20 years



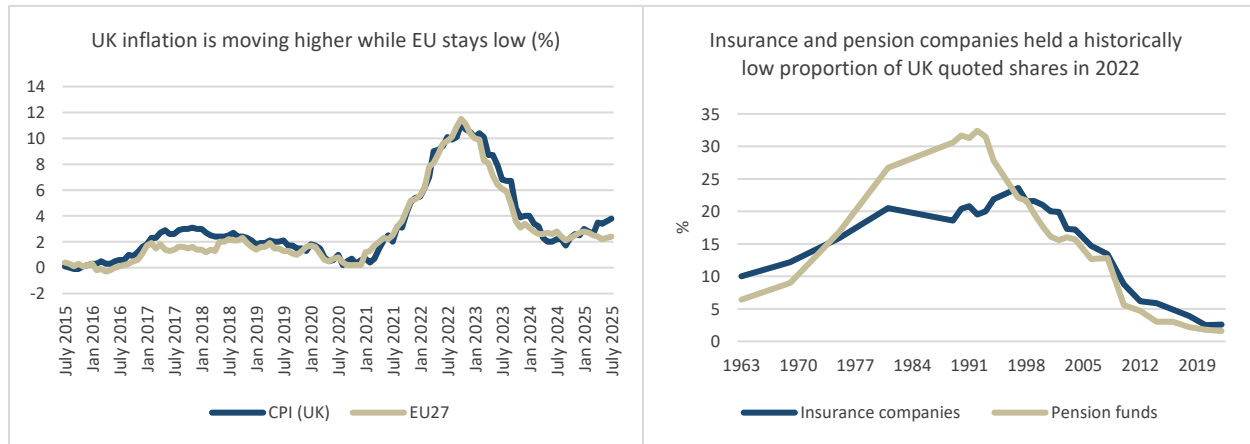
Source: Datastream, Goldman Sachs Global Investment Research

Why the UK trades at such deep valuations

25% of UK government debt is inflation linked². Mortgages are generally 2yr or 5yr fixed rate length³

In FY 2022-23, 63% of interest expense was due to index-linked government debt⁴

→ If inflation moves down, we believe the UK could “boom”



Equity portion of UK pension and insurance funds declined from 45.7% in 1997 to just 4.2% in 2022⁵

UK government is seeking to close this gap by encouraging its £2trn pension funds to invest more into UK equities⁶

What's ahead

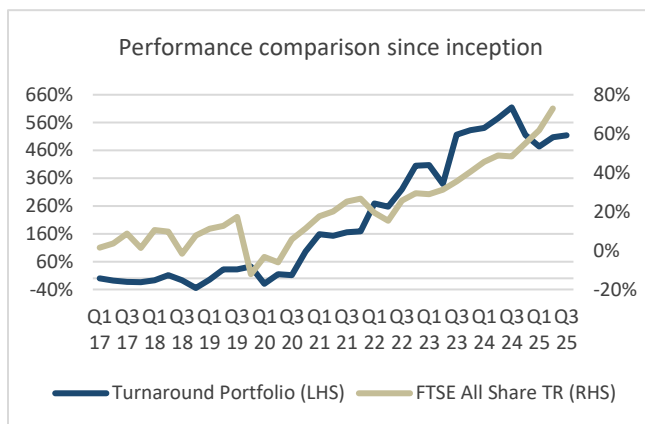
20% of FTSE 100 revenue and 45% of FTSE 250 revenue is from the UK⁷

→ Currently allocate to UK equities with non-UK exposure, but we believe 2026 could shift focus in favour of domestic UK

AozoraStep is launching its UK equity turnaround and special situations investment strategy to investors, which focuses on deep-value opportunities in a concentrated portfolio where external factors lead to a turnaround in valuations in 6 months

"Love the business we invest in, but don't fall in love with the business"

Period	Turnaround Portfolio	FTSE All Share TR
CAGR	23.1%	6.5%
2017-9M 25 Return	515%	73%



David Herrmann, Portfolio Manager



Isabel Kelly, Advisor

**Vittoria & Partners, Investment Manager**

The Rt Hon Shailesh Vara, Advisor



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Sources

¹ <https://www.gspublishing.com/content/research/en/reports/2024/12/13/bcb99822-b919-47e7-99d3-755181123bc2.html>

² <https://www.dmo.gov.uk/data/pdfdatareport?reportCode=D1A>

³ <https://www.fca.org.uk/publication/research/switching-in-the-mortgage-market-update-august-2022.pdf>

⁴ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2023>,
<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/july2025>

Inflation chart: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2025>

Insurance and pension chart:

<https://www.ons.gov.uk/economy/investmentpensionsandtrusts/bulletins/ownershipofukquotedshares/2022#insurance-and-pensions>

⁵ <https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy>

⁶ <https://www.gov.uk/government/publications/pensions-investment-review-final-report/pensions-investment-review-final-report>

⁷ <https://www.ajbell.co.uk/news/why-ftse-100-beating-ftse-250-so-far-year-and-over-past-five-years>

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