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# Royal London UK Mid Cap Growth Fund

## Quarterly Investment Report

## 31 December 2023

# Quarterly Report

## The fund as at 31 December 2023

The purpose of this report is to provide an update on the Royal London UK Mid Cap Growth Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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ROYAL LONDON
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# The fund

## Fund performance objective and benchmark

The fund's investment objective is to achieve capital growth over the medium term (3-5 years), by investing at least 80% in the shares of UK medium-sized companies listed on the London Stock Exchange. The fund's performance target is to outperform, after the deduction of charges, the FTSE 250 ex-IT (investment trust) Total Return GBP Index (the "Index") over rolling 5-year periods. For further information on the fund's index, please refer to the Prospectus.

Benchmark: FTSE 250 ex-IT (investment trust) Total Return GBP Index

## Fund value

| | Total £m |
|---|---|
| 31 December 2023 | 382.28 |

## Fund analytics

| | Fund |
|---|---|
| Fund launch date | 11 November 2009 |
| Base currency | GBP |
| Number of holdings | 49 |

# Performance and activity

## Performance

| | Fund (%) | Benchmark (%) | Relative (%) |
|---|---|---|---|
| Quarter | 10.18 | 9.28 | 0.90 |
| 1 Year | 7.84 | 10.03 | (2.19) |
| 3 Years (p.a.) | (0.57) | 2.03 | (2.60) |
| 5 Years (p.a.) | 4.75 | 4.92 | (0.17) |
| 10 Years (p.a.) | - | - | - |
| Since inception (p.a.) | 5.14 | 4.50 | 0.64 |

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on Royal London UK Mid-Cap Growth (Z Acc). Source: Royal London Asset Management; Net performance; Since inception date of the shareclass is 6 May 2014.

## Performance commentary

The fund had a good final quarter of 2023, outperforming the benchmark index (FTSE 250 ex-IT index). The relative outperformance was driven by stock selection, and M&A was also a feature of the quarter.

Ascential, Restaurant Group and GlobalData all performed well following M&A activity. Ascential announced the sale of both WGSN, its trend forecasting business, and Flywheel, its digital commerce business, for £1.2bn. Most of this will be returned to shareholders, and the remaining business will remain listed in the UK, operating their high quality Cannes Lions and Money 20/20 events. While the valuation achieved for WGSN was below the top end of expectations, the £1.2bn was nevertheless greater than the market capitalisation of the entire group before the deal. Restaurant Group was subject to a recommended all-cash takeover offer by private equity, at substantial premium. GlobalData announced that Inflexion (private equity) will acquire a 40% stake their Healthcare division, at a valuation of £1.1bn. Given that this division generates less than 40% of revenue, and the undisturbed market cap of the whole group was £1.4bn, it also illustrated the gap between public and private market valuations. GlobalData will be left with a significant net cash balance sheet to deploy for growth.

Holdings within the financials sector delivered strong returns, with Integrafin, Paragon and OneSavings Bank share prices all rising by over 30%. They all reported solid results, prompting modest earnings upgrades, but the substantial share price reactions demonstrated that the market had been braced for bad news in this sector. Integrafin continued to win more than its share of flows within the advised market, demonstrating the appeal of their Transact investment platform, but also improved margins through tight cost control. Both Paragon and OneSavings reported better than expected loan book growth – contrary to many headlines earlier this year proclaiming gloom and doom for buy to let landlords – while they incurred low levels of bad debt provisions and guided to limited cost inflation.

Rentokil was a detractor after reporting lower-than-expected growth in its North American pest control division. While disappointing, the division nevertheless delivered organic growth and management reiterated cost synergy guidance associated with the Terminix acquisition. Results outside of North America were in fact better than expected.

# Performance and activity

## Top 10 holdings

| | Weighting (%) |
|---|---|
| Hill & Smith PLC | 3.20 |
| Cranswick plc | 3.05 |
| Rotork plc | 3.05 |
| Ascential Plc | 2.88 |
| Genuit Group PLC | 2.85 |
| Spectris plc | 2.81 |
| Coats Group plc | 2.81 |
| Grainger plc | 2.77 |
| Telecom Plus PLC | 2.74 |
| JTC Plc | 2.73 |
| **Total** | **28.89** |

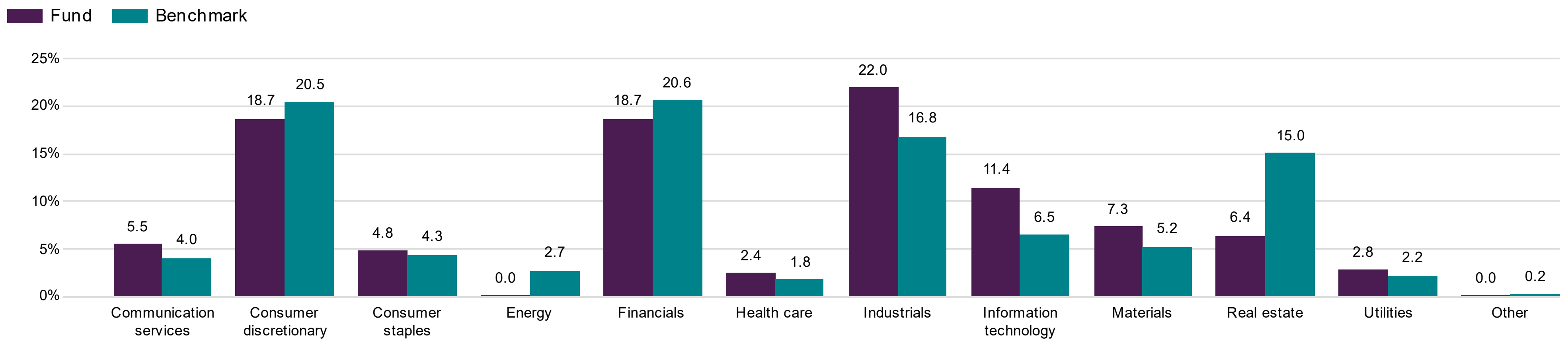
## Fund activity

The fund initiated a new position in Trainline, the online ticket retailer in the UK and Europe. Trainline's slick technology platform has made it a market leader, with high consumer brand awareness and the business has a track record of product innovation. Their platform is extremely scalable, resulting in high profit margins and cash conversion, while their end market continues to grow as UK and European travelers increasingly purchase tickets online rather than at stations. Despite making significant operational progress in the last three years, we believe that the share price values the company at a significant discount to historical valuation multiples, while the business remains capable of growing earnings at mid-teens percentage rates over the medium term.

Restaurant Group was sold following the recommended cash offer by Apollo PE, and the holding in Liontrust was also sold as the company became off-benchmark following the quarterly index re- balancing. These sale proceeds were used to fund Trainline and additions to a number of existing holdings including Inchcape, Genus, ITV, WHSmith and Genuit.

# Fund breakdown

## Sector weights



# Market commentary

## Market overview

While financial markets began the quarter in volatile fashion following the tragic events in the Middle East, the release of benign inflation data in October across the UK, eurozone and the US sparked a sharp rally in risk assets through to the year end. Bond markets quickly reversed much of their 2023 decline, as economic data during November and December also pointed to receding inflationary pressures. Two-year Gilt yields fell to 4% at the end of December from almost 5% at the start of October, and investors now expect central bank rate cuts as early as March.

UK small and mid-cap equities rallied in response, with the FTSE 250 ex IT and FTSE Smaller Companies ex IT indices posting returns of 9.3% and 6.5% respectively. The rally was led by pro-cyclical sectors such as consumer discretionary and industrials, as well as interest rate sensitive sectors such as real estate. healthcare, consumer staples, and energy sectors underperformed.

Merger and acquisition activity continued at pace, bringing the total number of approaches for UK listed companies to 60 by the year end. In addition to the portfolio holdings mentioned earlier (Restaurant Group, and GlobalData), there were bids for Ten Entertainment, Kin + Carta and Smart Metering Systems (by private equity), and Hotel Chocolat, ScS and City Pub Group (by industry). In all cases these deals were struck at meaningful premiums to their undisturbed share prices, highlighting the value on offer in the UK equity market.

Corporate earnings updates were generally less bad than expected through the quarter; while there were some notable profit warnings amid FTSE100 companies in October, in hindsight these appear to have been a case of getting bad news out early. By and large, the main results season in November was a story of operational resilience in a tricky environment and in many instances share prices rallied significantly on 'in-line' statements, indicating that investors had been expecting worse. Typically, this was due to effective cost control (higher margins) rather than due to improving sales, in part showing how many management teams have really got to grips with cost inflation. However, a number of early cycle industrial businesses did report sequentially improving order patterns in the months running up to December. These suggested that the significant inventory de-stocking cycle by industrial companies may be coming to an end, which would bode well for improving demand in the coming year.

## Outlook

For the time being it appears that central banks may have completed their fight against inflation without plunging western economies into recession; the so called 'soft landing' outcome appears to be an increasingly likely conclusion to this rate rise cycle. While there are likely to be signs of stress in developed economies in the first half of 2024 as the lagged impact of higher borrowing costs continues to constrain demand, corporate balance sheets remain healthy – as do those in the banking sector – and we'd expect investors to look through a tough first half to improving demand in the later stages of the year.

As illustrated by the stream of takeover approaches, we believe that small and mid-cap equities continue to offer good value relative to history, relative to international equity indices and relatively to other asset classes. Most of our portfolio companies have net cash balance sheets which could be deployed on acquisitions or organic investment to enhance earnings growth. We would expect this to be more of a feature in a stable economic and political environment. 2023 saw significant numbers of UK companies delivering enhanced shareholder returns by using their cash to buy back their own equity and accrete their earnings per share growth. In the event that management teams don't deploy capital on growth opportunities, we'd expect this to continue given the attractive valuations (equity earnings yields) on offer.

Despite the market's obsession with forecasting short-term macroeconomic data over the recent past, our focus has always been on investing over the long term. We continue to seek out companies with the key fundamental SIMBA attributes (Scaleability, Innovation, strong Management teams, Barriers to entry and unique Assets) that will allow them to take market share and prosper throughout economic cycles. We continue to believe that it is these fundamental attributes that drive stock prices over the long term and we remain excited by the opportunities currently on offer for UK mid and small cap company investors.

# Further Information

## Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London voting and engagement

TCFD climate report

## Find out more

Royal London Asset Management's Outlook 2024 document and podcasts are both available on our website. In this year's Outlook document, our fund managers assess the challenges and opportunities in their respective asset classes for 2024. With an environment of falling inflation and modest recession, the benefits or risk for equities or credit is not so clear cut and knowing your companies is key. We analyse the areas of concern and potential growth within this environment.

In our Outlook 2024 podcast, Piers Hillier, CIO, looks ahead to 2024 and discusses the issues he believes will be prominent over the next 12 months, and where the key investment risks and opportunities may lie.

Articles, videos and webinars explaining our investment thinking can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# Disclaimers

## Important information

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The Fund is a sub-fund of Royal London Equity Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000807.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

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# Risks and Warnings

**Investment Risk**

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

**EPM Techniques**

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

**Liquidity Risk**

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

**Counterparty Risk**

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

# Performance to 31 December 2023

## Cumulative (%)

| | 3 Month | 6 Month | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|
| **Fund (gross)** | 10.36 | 8.47 | 8.51 | 0.14 | 30.03 |
| **Fund (net)** | 10.18 | 8.13 | 7.84 | (1.70) | 26.11 |

## Annualised (%)

| | 3 Years (p.a.) | 5 Years (p.a.) |
|---|---|---|
| **Fund (gross)** | 0.05 | 5.39 |
| **Fund (net)** | (0.57) | 4.75 |

## Year on year performance (%)

| | 31/12/2022 - 31/12/2023 | 31/12/2021 - 31/12/2022 | 31/12/2020 - 31/12/2021 | 31/12/2019 - 31/12/2020 | 31/12/2018 - 31/12/2019 |
|---|---|---|---|---|---|
| **Fund (gross)** | 8.51 | (22.10) | 18.48 | (3.59) | 34.67 |
| **Fund (net)** | 7.84 | (22.58) | 17.75 | (4.18) | 33.88 |

**Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.**

Source: RLAM as at 31 December 2023. All figures are mid-price to mid-price in GBP for the Royal London UK Mid-Cap Growth (Z Acc).

# Glossary

### Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

### Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

### Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

### Sector weights

Breakdown of holdings by FTSE ICB (Industry Classification Benchmark) sector relative to the benchmark index.

### Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.