



Stocks in the Spotlight

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Niko de Walden – Fund Manager

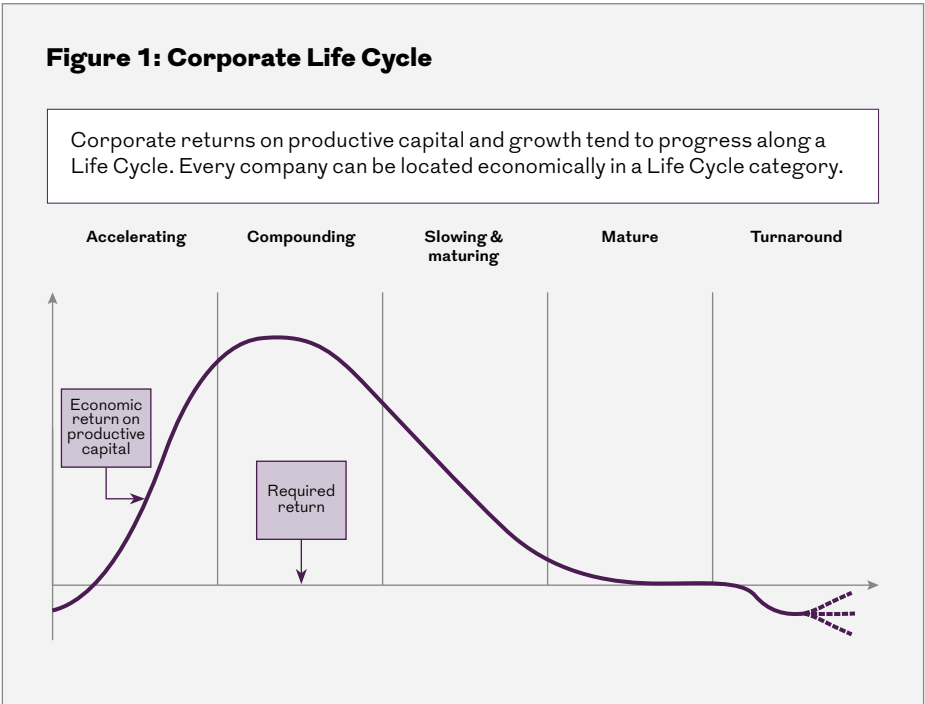
Word from the desk

Our Stocks in the Spotlight series brings our investment approach to life by providing details of specific portfolio holdings across different corporate Life Cycle stages, from growth-orientated Accelerators and Compounders to the value-biased Mature and Turnaround universe.

While wealth creation can occur across the entire Corporate Life Cycle, the drivers are very different depending on what stage of Life Cycle the company is in.

In this edition, we focus on three of our stock holdings – 3i group (Accelerator), Wolters Kluwer (Compounding) and Delta Air Lines (Turnaround).

Figure 1: Corporate Life Cycle



Source: Royal London Asset Management for illustrative purposes only. Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation.

3I GROUP (III LN)

Stock profile

MCAP (\$bn):	27.8bn
Headquarters	London, UK
Sector	Financials
Life Cycle Classification	Accelerator
Dividend Yield	2.6%

Company description

3i is an investment company, specialising in making private investments in mid-market companies in Europe and USA, using its own balance sheet rather than third-party funds. The portfolio today is dominated by Dutch based discount retailer, Action, which makes up over 70% of the NAV, with the remainder made up of stakes in a range of consumer, healthcare and business & technology services companies.

Life Cycle characteristics – Accelerator:

- Large addressable market
- Strong momentum
- Ability to reinvest back into the business

Investment thesis

The real interest comes from 3i’s largest investment, Action. Action is an Accelerating European multi-category discount retailer with an increasing moat in a market with a significant runway for growth. Action has proved itself across 10 countries currently and they have plans to enter an additional five in the near future. Action is adopting a ‘scale economies shared’ strategy to develop a competitive advantage relative to its peers: this entails using its scale economies to improve its value proposition as opposed to improving their profits in the short term. If executed effectively this can lead to a positive loop of growth for Action and improved value for its customers.

3i group News and Outlook

The company’s latest set of results came in strong with the Action outperforming retail peers globally.

According to the company:

- Net sales of portfolio up 31% PY.
- The portfolio generated an 11% gross investment return for the six months to September 2023.
- Stake in Action increases to 54.8%.
- Action is on track to open 303 new stores by the end of the full financial year.

WOLTERS KLUWER (WKL NL)

Stock profile

MCAP (\$bn):	34.8bn
Headquarters	Netherlands
Sector	Information Technology
Life Cycle Classification	Compounding
Dividend Yield	1.5%

Company description

Wolters Kluwer is a global information services company that specialises in areas such as tax, healthcare, legal, finance and compliance. The business generates revenue through the sale of information services, software solutions, and expert content to professionals and organisations across various industries.

Life Cycle Characteristics – Compounder

- Large addressable market
- Strong momentum
- Ability to reinvest back into the business

Investment thesis

When analysing a company in the Compounding phase of the Corporate Life Cycle, we focus on a company’s ability to re-invest at similar rates of return above their cost of capital. Wolters Kluwer has demonstrated an undeniable ability to do this, and we believe they are well placed to continue as their software offering begins to implement AI toolsets. The competitive advantage of Wolters Kluwer stems from the specialised nature of its product offering, it is difficult to replicate, and this has helped build a moat centered on high switch costs for customers.

Wolters Kluwer News and Outlook

In the company’s nine-month trading update:

- Total revenues were up 2% overall, partly impacted by a weaker US dollar.
- Adjusted free cash flow down 13% yoy in constant currencies.
- Share buyback for 2023 on track to reach €1bn by year end.
- Management gave strong guidance for Q4 2023 but more importantly for us, we observe that Wolters Kluwer is tracking well against our thesis milestones and we believe their ability to compound remains strong.

DELTA AIR LINES (DAL US)

Stock profile

MCAP (\$bn):	27.2bn
Headquarters	Georgia, US
Sector	Industrials
Life Cycle Classification	Turnaround
Dividend Yield	0.9%

Company description

Delta Air Lines, established in 1924, is a major American airline and one of the world’s largest and most trusted carriers. While US-based, Delta’s combined network encompasses a broad alliance partner network, serving over 130 countries and over 800 destinations around the world. Delta generates the majority of its revenue from passenger transportation (>90%) with the residual generated from fuel and component/maintenance operations.

Life Cycle characteristics – Turnaround

- Increase returns
- Shrink weak assets
- Strong balance sheet

Investment thesis

The airline industry has historically been a tricky place for investors as its capital intensive and cyclical nature has led to poor returns. However, our thesis is based on the premise that Delta are pursuing an appropriate strategy for a business in the Turnaround segment of the Life Cycle at a time when industry dynamics have potentially swung in Delta's favour. The business is focused on improving returns and strengthening the balance sheet through debt reduction whilst the industry is supply constrained through a lack of available planes and pilots. The combination of these two factors lend well to a business trying to turn around its operations.

Delta Air Lines News and Outlook

Delta is a relatively new position for the portfolio which was initiated following an extremely weak period for the share price. The business announced Q3 results in October, and these were broadly in line with our expectations.

Results showed:

- Operating revenue of \$14.5bn, 13% improvement YOY alongside a 1.9% improvement to operating margin.
- Capital spending is in line with the \$5.5bn target for 2023, \$5bn for 2024.
- Debt reduced by \$724m in Q3.

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Royal London Asset Management

80 Fenchurch Street,
London, EC3M 4BY

For advisers and wealth managers

bdsupport@rlam.co.uk
020 3272 5950

For institutional client queries

institutional@rlam.co.uk
020 7506 6500

www.rlam.com

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