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Royal London UK Mid Cap Growth Fund

Quarterly Investment Report

30 June 2024



Quarterly Report

The fund as at 30 June 2024

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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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. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK All Companies sector is considered an appropriate benchmark for performance comparison.

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

Fund value

	Total £m
30 June 2024	383.56

Fund analytics

	Fund
Fund launch date	1 June 2006
Base currency	GBP
Number of holdings	50

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	4.90	2.85	2.04
YTD	5.61	4.80	0.80
1 Year	14.19	15.10	(0.91)
3 Years (p.a.)	(1.73)	(0.19)	(1.53)
5 Years (p.a.)	2.50	3.33	(0.83)
10 Years (p.a.)	5.81	4.97	0.84
Since inception (p.a.)	5.45	4.76	0.69

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 share class is 6 May 2014.

Performance commentary

The fund meaningfully outperformed both the benchmark index and the peer group median. UK equities rallied through the second quarter of 2024, spurred on by stronger economic data, falling inflation, and a flurry of takeover approaches for public companies. Mid cap companies underperformed their larger peers, in a generally 'risk-on' market which saw more cyclical companies and those with more financially geared balance sheets, outperform.

Investment platform providers AJ Bell and Integraftin (which operates the advisor platform Transact), and trust & fund services group JTC, were all significant positive contributors to performance. Both AJ Bell and Integraftin reported strong interim results, supported by improving asset flows onto savings platforms – both via financial advisors and directly from retail investors – as well as rising markets. Despite investing into improving their technology stack and expanding their customer services teams, both businesses demonstrated positive operating leverage as rising revenues outstripped cost investment. JTC announced that it had acquired FFP, a company specialising in professional services relating to restructurings, insolvencies and disputes to fund, trust and corporate clients. The acquisition was earnings and margin accretive and will enable JTC to establish a new vertical in Governance Services.

The largest detractors to relative performance were companies in the FTSE 250 index which the fund did not hold, that were subject to takeover approaches – namely Hargreaves Lansdown, Britvic, and International Distribution Services (formerly Royal Mail). Of the holdings within the fund, Auction Technology Group (ATG) declined as the company lowered guidance for organic growth for the full year. This was predominantly a reflection of softer demand on their Industrial & Commercial sites, as used equipment prices normalise post Covid; while disappointing this should prove temporary. Encouragingly, 'value added services' (namely their payment and shipping capabilities) continue to be well received by auctioneers.

Performance and activity

Top 10 holdings

	Weighting (%)
Cranswick plc	3.39
AJ Bell Plc	3.22
JTC Plc	3.20
IntegraFin Holdings PLC	3.15
Rotork plc	3.15
Hill & Smith PLC	3.10
Genuit Group PLC	3.02
Coats Group plc	2.84
Bodycote plc	2.82
Chemring Group PLC	2.70
Total	30.59

Fund activity

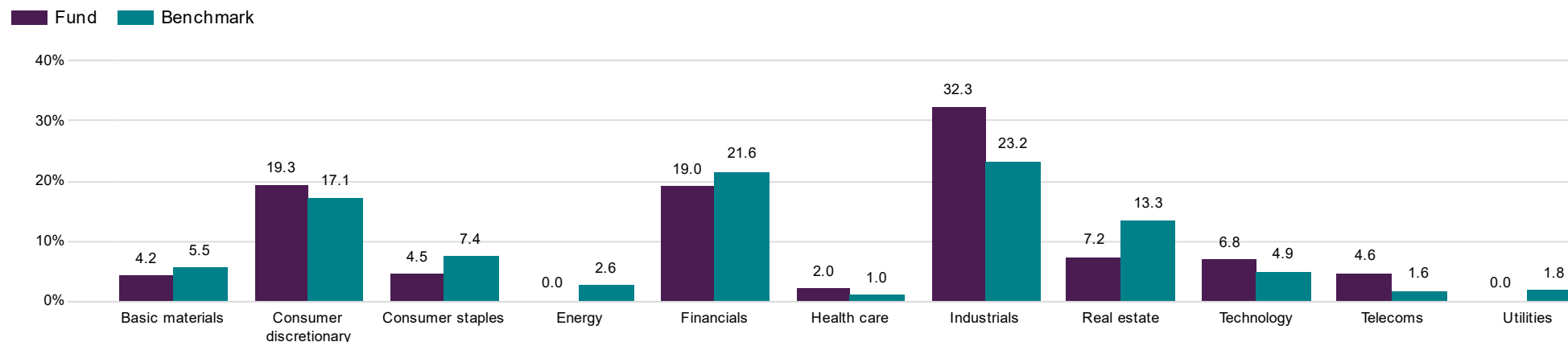
The fund initiated new positions in 4imprint, and Shaftesbury Capital. These were funded by reductions to existing holdings including Hilton Food Group, OneSavings Bank, and Spirent Communications (following the recommended all cash takeover offer by US peer Keysight).

4imprint markets, designs and sells a wide range of promotional products for businesses, with items ranging from personalised pens to embroidered apparel. They are the market leader in a highly fragmented market, but nevertheless hold a relatively low market share. This provides them with a significant opportunity to grow through leveraging their substantial marketing scale, increased brand awareness, broad product portfolio, and excellent customer service. Organic revenue growth and margins are impressive, and the capital light model allows them to generate extremely strong returns on capital despite expanding. The current management team have been in place for over a decade and have a strong track record.

Shaftesbury Capital is a real estate company comprised of a unique portfolio in London's West End. The Real Estate Investment Trust (REIT) was formed following the merger of Shaftesbury and Capital & Counties in 2023, and management expect to deliver significant cost synergies as they realise benefits from the merger. Their portfolio benefits from already high occupancy rates and this, combined with an ongoing recovery in central London tourist numbers post Covid, should support compound growth in rental income. Despite the unique asset status of the portfolio and long-term valuation underpin that this provides, the shares are trading at a significant discount to asset value.

Fund breakdown

Sector weights



Market commentary

Market review

UK equities rallied through the second quarter of 2024, spurred on by encouraging economic data as UK GDP growth sequentially improved even as the rate of inflation slowed. Small cap companies outperformed their larger peers amid a flurry of takeover approaches, in a 'risk-on' market which saw more cyclical companies and those with more financially geared balance sheets, outperform. The FTSE All Share returned 4.5% while the FTSE 250 ex IT and the FTSE Smaller Companies ex IT returned 2.9% and 9.2% respectively.

Politics dominated the headlines through May and June, with elections called in both the UK and France. Within the UK, financial markets had been anticipating a change of administration for some time and an election is arguably a clearing event, removing the overhang of political uncertainty. In the UK, both major parties pledged fiscal stability as part of their campaigns, and the lack of significant moves amongst equity sectors or in bond markets through the campaign was telling.

The M&A spree continued with 21 takeover approaches (with a deal value >£100m) for UK public companies in the quarter, including Hargreaves Lansdown, Darktrace, Tyman, John Wood Group, Britvic, and Keywords Studios. In 2024 so far, 9% (by value) of the FTSE250, and 6% (by value) of the FTSE AIM All Share has announced a takeover approach. The fund's holding in Alpha FMC was subject to initial approaches from multiple private equity buyers, with Bridgepoint making an all-cash offer at a 51% premium to the undisturbed share price.

The rate of inflation fell throughout the quarter, with UK CPI hitting the Bank of England's target of 2% in June. This put UK inflation lower than that of the US and eurozone and paves the way for cuts to the Bank of England's interest rates after the summer.

Equity outflows have taken a substantial toll on the UK stock market over the last five years, and somewhat unbelievably investors continued to withdraw their money through the second quarter despite the attractive valuations, an improving economic backdrop and sustained bid approaches by private equity who evidently see the attractions of these companies. An estimated £4.7bn was withdrawn from UK equity funds in the period (DB Numis research). It will be interesting to see whether the new government implements any of the Mansion House reforms proposed last year, aimed at improving the UK capital markets.

Outlook

Forward looking economic data remains positive, with UK PMI surveys pointing to improving demand through the rest of the year. While there remain pockets of inflation – most notably in wages following the almost 10% increase in the National Living Wage in April – the headwinds to profit margins which have been facing companies over the last two years (inventory destocking, energy prices and raw material or component shortages) have generally faded. We think that corporates should find it much simpler to manage their cost bases through the coming year, while higher corporation tax rates in the UK have now annualised and interest rates are expected to fall. In aggregate, this should enable a return to more predictable profit growth for companies, subject to an ongoing recovery in corporate and consumer confidence. Political stability – assuming no shocks in the first budget of an incoming government – should additionally provide corporates with the confidence to invest into hiring or expanding capacity. We continue to expect an improving economic backdrop through 2024 and into 2025.

We consider that small and mid-cap equities offer good value in absolute terms, relative to history and relative to international equity indices. Our portfolio companies remain well capitalised, and many have net cash balance sheets which could be deployed on acquisitions or organic investment to enhance earnings growth. The number of small and mid-cap companies announcing share buybacks, reflecting their balance sheet strength as well as their view of equity market valuations, continues to increase.

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 earnings and thus stock prices over the long term and we remain excited by the opportunities currently on offer for UK small and medium company investors.

Further Information

Please click on the links below for further information:



Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts 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

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in July 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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 risk

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.

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 30 June 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	5.06	5.93	14.90	(3.32)	16.69	(1.12)	3.13
Fund (net)	4.90	5.61	14.19	(5.09)	13.14	(1.73)	2.50

Year on year performance (%)

	30/06/2023 - 30/06/2024	30/06/2022 - 30/06/2023	30/06/2021 - 30/06/2022	30/06/2020 - 30/06/2021	30/06/2019 - 30/06/2020
Fund (gross)	14.90	3.94	(19.05)	31.68	(8.35)
Fund (net)	14.19	3.30	(19.55)	30.87	(8.91)

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 30 June 2024. 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.