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Royal London UK Mid Cap Growth Fund

Quarterly Investment Report

30 September 2024



Quarterly Report

The fund as at 30 September 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 September 2024	382.03

Fund analytics

	Fund
Fund launch date	1 June 2006
Base currency	GBP
Number of holdings	49

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	6.13	6.01	0.12
YTD	12.08	11.10	0.98
1 Year	23.49	21.41	2.08
3 Years (p.a.)	(1.28)	0.33	(1.62)
5 Years (p.a.)	3.29	3.80	(0.51)
10 Years (p.a.)	6.41	5.80	0.61
Since inception (p.a.)	5.92	5.23	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

UK equities rallied through the third quarter of 2024, with small and mid-cap stocks and more cyclical sectors leading the way. This followed sustained positive UK economic data, the removal of political uncertainty following the UK election, and the first rate cut by the Bank of England in over four years. The fund outperformed both the benchmark return and the broader IA UK All Companies peer group median.

Ascential, Coats, and WH Smith were amongst the strongest positive contributors. Ascential was subject to a recommended all cash offer from UK-listed peer Informa. The bid valued Ascential at over 15x forward looking EV/EBITDA, and was a 53% premium to the undisturbed share price. WH Smith's full year trading update revealed a strong performance in its UK Travel division and an improvement in like-for-like trends in its North American travel division. The company also announced it would be conducting a share buyback, in part funded from a cash refund from its defined benefit pension scheme which was bought-out several years ago. Coats delivered better than expected interim results, with accelerating earnings growth and margin expansion. The business also flagged the first signs of end of de-stocking within their footwear and apparel customers, which is particularly pleasing given this has been a significant headwind to revenues over the last couple of years.

Almost all the significant individual detractors to relative performance were companies within the benchmark that the fund did not hold. Typically, these were more cyclically exposed, such as Abrdn or Greggs, or were supported by M&A activity such as Playtech, the gambling technology business which agreed the sale of a subsidiary. The fund's position in Auction Technology Group ("ATG") was a reasonably large detractor, with the shares declining following the release of results from peers and industry data which showed sustained weakness in Industrial and Commercial auction sale prices. Since the period end however, ATG released a trading statement indicating that results would be broadly as expected, and the shares rallied strongly.

Performance and activity

Top 10 holdings

	Weighting (%)
Cranswick plc	3.62
Coats Group plc	3.42
Genuit Group PLC	3.21
IntegraFin Holdings PLC	3.01
JTC Plc	2.99
Rotork plc	2.96
Hill & Smith PLC	2.95
AJ Bell Plc	2.85
WH Smith PLC	2.65
Chemring Group PLC	2.54
Total	30.20

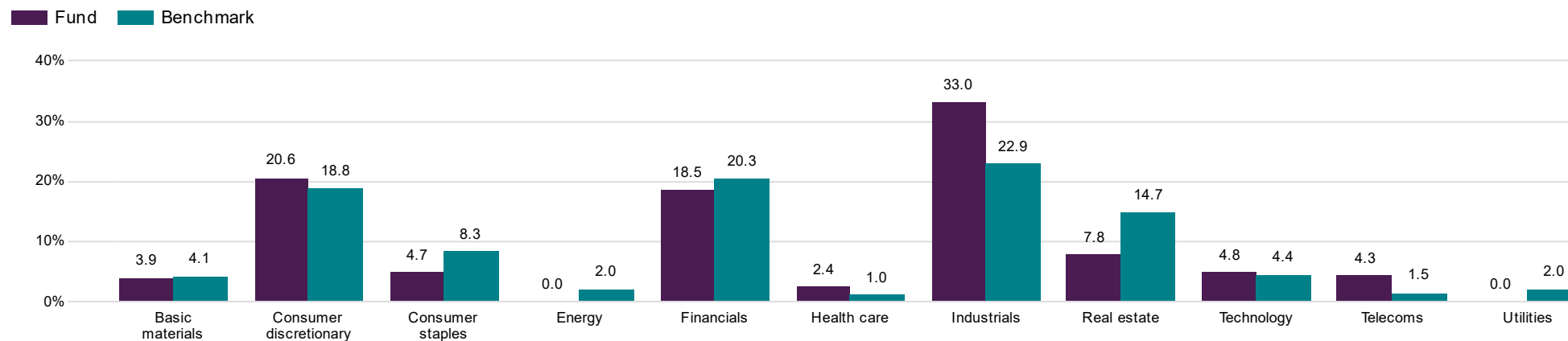
Fund activity

The fund sold out of its position in Spirent Communications, with the takeover offer by Keysight ongoing, and also disposed of Rentokil (a FTSE100 constituent) following private equity bid speculation. The proceeds were invested into a range of existing holdings, including Marshalls, Safestore and Shaftesbury Capital, as well as a new position in technology group Kainos.

Kainos is a market leading provider of digital transformation services to the UK public sector, and well as being a key implementation partner in the UK, Europe and the US to global software giant Workday. In addition, the business develops and sells their own software products globally, which run on the Workday ecosystem. The business has an excellent reputation as demonstrated by its strong customer retention, and recently announced it has entered into an agreement with Workday, whereby Workday will introduce customers to and co-sell Kainos' software products. This is a transformational deal which will significantly increase the scalability of Kainos' software revenues. Whilst the company has flagged weakness in its digital transformation end markets, we believe this is short term in nature and the recent pull back in the shares provide an attractive entry point for the fund to start a position.

Fund breakdown

Sector weights



Market commentary

Market Review

UK equities rallied through the third quarter of 2024, spurred on by the Bank of England's interest rate cut, a steady stream of positive UK economic data and slowing inflation. As was the case during the second quarter of 2024, small and mid-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.

While we are not focused on analysing or predicting macroeconomics, rather we aim to build a diversified portfolio of companies which can perform through various economic scenarios, it is worthwhile taking a moment to reflect on the Bank of England's decision to cut interest rates. UK unemployment is low, core inflation has stabilised, consumer confidence has been improving, and household, corporate and bank balance sheets remain robust. The Office for National Statistics announced that the UK delivered a second quarter of real GDP growth in Q2. This all underlines our view that the central bank is cutting rates from a position of relative strength, and the UK economy appears relatively well set for steady growth compared to many developed market peers.

Keir Starmer was announced as the Prime Minister of the UK following a comprehensive Labour victory in the general election. This was a widely anticipated result, and as such there was limited reaction from the equity market. Unfortunately, the new government did not get off to a great start, undermining the stability which businesses and investors were looking to them for, by setting a late first budget and sending mixed messages about their intentions. Nevertheless, the political landscape in the UK and its relationships with key trading partners are clearer than has been the case for several years; stability should be highly supportive for corporate hiring and investment if the government choose to make a merit of it.

The M&A spree continued to be a feature of small- and mid-cap markets, with 11 further bids of meaningful size in the quarter, taking the year-to-date total to 40. Notable new takeover approaches included Rightmove, Ascential (held in the Mid Cap fund), Eckoh (held in the Smaller Companies fund), and Learning Technologies Group.

Outlook

Economic data in the UK was generally positive during the period, suggesting a steady recovery in activity following the shallow technical recession in 2023, although, there were a few concerning indicators in the US and the euro zone. Softer than expected US consumer spending,

and higher unemployment data, caused a brief global equity market sell-off in August, albeit more positive data has since been released.

It has become clear that industrial and life sciences destocking still has some way to go in North America and Europe, as companies continue to reduce excess inventories – blue chip names which have commented publicly include Abbot Labs, Siemens and ABB. Civil aerospace companies have come under pressure as both Boeing and Airbus cutting production forecasts, while automotive manufacturers have generally been struggling with lower consumer demand.

Germany, the industrial heartland of the euro zone, is in difficulties for various reasons including soft demand from key trading partner China. The extent of the challenge facing China's economy, still struggling to accelerate following the impact of Covid, was made clear by the scale of stimulus measures announced by the central bank in September.

Many of these issues could well turn out to be transitory or backward looking. Certainly, the destocking cycle appears to be the last vestiges of Covid-related impact on supply chains. Softer US consumer demand is likely the result of a two-year cycle of interest rate hikes, just as central bankers start easing. However, it certainly makes the wider outlook more challenging. In this context, the relative stability and economic strength of the UK does appear increasingly attractive. This is one reason we have been increasing our allocation to high quality, well capitalised, UK domestic focused companies such as Norcross, Restore, Marshalls and Youngs.

As we have written before, we continue to believe UK small- and mid-cap equities offer good value in absolute terms, relative to history and relative to international equity indices. Our portfolio companies have well capitalised balance sheets which could be deployed on acquisitions or organic investment to accelerate profits. Through the quarter another slew of small- and mid-cap companies announced share buybacks, reflecting their balance sheet strength as well as their view of equity market valuations.

Given the often-conflicting macroeconomic data of the moment, we feel justified in our consistent approach of trying to filter out the noise and focus 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

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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 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 September 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	6.29	11.67	24.26	(2.01)	21.27	(0.67)	3.93
Fund (net)	6.13	11.32	23.49	(3.81)	17.58	(1.28)	3.29

Year on year performance (%)

	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020
Fund (gross)	24.26	12.80	(30.08)	35.81	(8.88)
Fund (net)	23.49	12.10	(30.51)	34.98	(9.44)

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 September 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.