Rights and Issues Investment Trust

Investment companies | Overview | 20 August 2024

Lights and tunnels

After a challenging year in 2023, the outlook for the Rights and Issues Investment Trust (RIII) appears much brighter now, as economic conditions improve, and the portfolio takes shape under the management of Jupiter's UK Small and Midcap investment team. This positivity is reflected in the recent performance of the trust, which is up 33% over the past 12 months thanks to strong growth across the portfolio, the expectation of falling interest rates, and refreshed optimism around the UK's political stability.

Against this backdrop, the retirement of co-manager Dan Nickols was announced. At the beginning of July, co-manager Matt Cable took on a lead manager role, supported by Tim Service (head of Jupiter's SMID team). The decision was made with continuity front and centre and reflects the more stable environment that the trust now finds itself in, having successfully navigated the challenges of the past few years. Reflecting the return to form, RIII investors should be increasingly optimistic about the trajectory of the fund going forward.

Concentrated exposure to UK small- and mid-caps

RIII's objective is to exceed the FTSE All Share total return over the long term, while managing risk. RIII invests in equities with an emphasis on small- and mid-cap companies. UK smaller companies include both listed securities and those admitted to trading on the Alternative Investment Market (AIM).

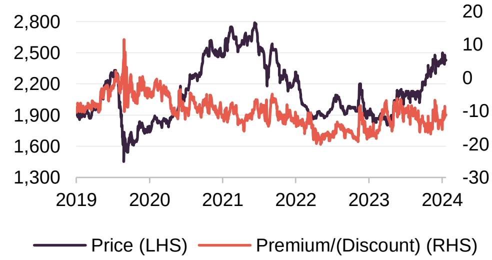
Year ended	Share price total return (%)	NAV total return (%)	MSCI UK total return (%)	Deutsche Numis Small Co. + AIM ex Inv Co. TR (%)
31/07/2020	(8.7)	(12.0)	(19.5)	(9.0)
31/07/2021	45.1	54.1	22.1	51.1
31/07/2022	(5.3)	(5.2)	12.0	(16.1)
31/07/2023	(15.9)	(9.9)	6.7	(4.6)
31/07/2024	33.7	26.1	13.5	11.1

Source: Morningstar, Marten & Co

Sector	UK smaller companies
Ticker	RIII LN
Base currency	GBP
Price	2,380.0p
NAV	2,735.5p
Premium/(discount)	(11.2%)
Yield	1.77%

Share price and premium/(discount)

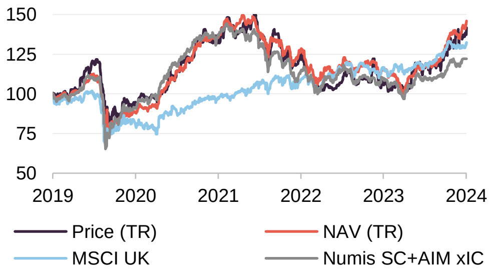
Time period 31/07/2020 to 20/08/2024



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/07/2020 to 31/07/2024



Source: Morningstar, Marten & Co

QuotedData
BY MARTEN & CO

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Domicile	United Kingdom
Inception date	31 July 1962
Jupiter appointment	3 October 2022
Manager	Matthew Cable
Market cap	126.48m
Shares outstanding (exc. treasury shares)	5,205132
Daily vol. (1-yr. avg.)	6,477.7 shares
Gearing	Nil

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Interim results and recent developments

RIII announced its interim results for the six-months ended 30 June 2024 on 6 August. The company delivered an impressive first half, with its NAV up 13.2% and total shareholder returns reaching 15.8%, outperforming the benchmark index which gained 7.4% on a total return basis. The company's discount narrowed to 8.2% at the end of the period, widening to 11.2% at the time of publishing.

The company delivered an impressive first half with its NAV up 13.2% and total shareholder returns reaching 15.8%

One of the major developments during the period was the retirement of Dan Nickols who stepped away from co-management of the trust in June 2024. The announcement marked the end of a successful tenure, where Dan and co-manager Matt Cable were able to refine the RIII portfolio while navigating an increasingly volatile economic backdrop.

With Matt now assuming the lead manager role, the transition is about as seamless as one could possibly hope. Investors should be comfortable that it remains business as usual.

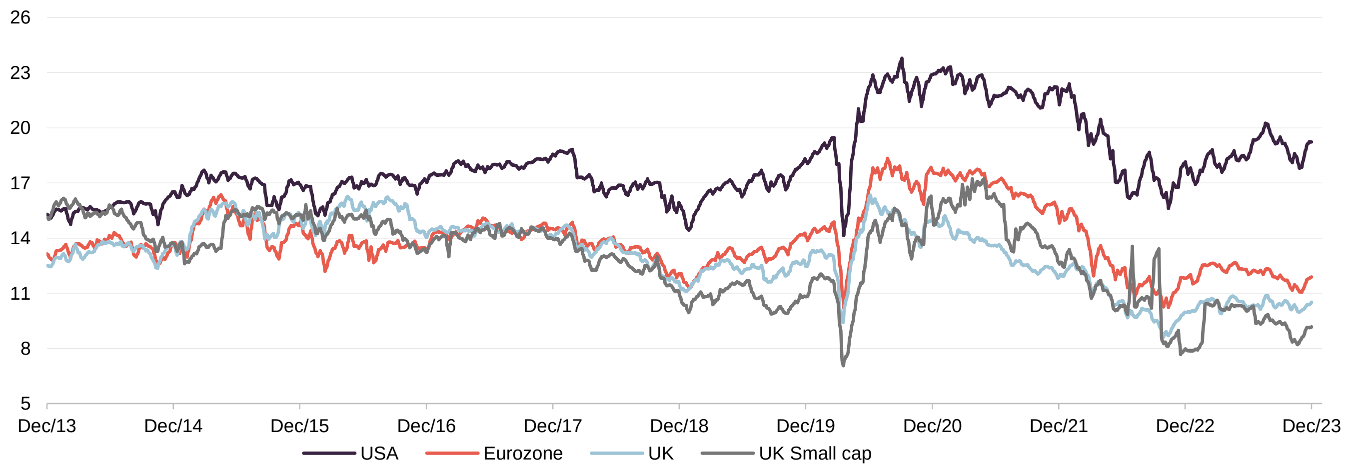
Dan's departure came during a period of strong performance and portfolio stability. This follows a period of heightened turnover as the Jupiter Asset Management team, which took over the trust in October 2022, adjusted the RIII fund to better reflect its own investment views and improve the resilience of the portfolio.

Matt notes that, thanks to the work done over the last 18-24 months, the portfolio is now in good shape, and he is optimistic about what is to come for RIII and the opportunity that exists across the UK small and mid-cap sector (SMID).

Market backdrop

The last couple of years have been a challenge, not only for RIII but the entire UK market, particularly in contrast to the US which has continued down a seemingly endless path of multiple expansion – albeit largely concentrated in a few names – while maintaining a persistent level of optimism which has evaded many of its global peers.

Figure 1: World markets: 12m forward PE ratios



Source: RIII

In part, this dominance reflects the ongoing strength of the world's largest economy – which has delivered growth rates well above many of its global peers – and a quality premium afforded by its deep capital markets and global tech monopolies.

However, as Figure 1 highlights, the rally has continued to drive up valuation multiples in the US significantly above long-term averages. This is especially notable when you consider that around 2015, the US traded roughly in line with its peers in the UK and Eurozone.

As the chart above shows, this divergence has been even more drastic for small caps, which – given their sensitivity to rising interest rates and economic growth – are perceived to have been heavily impacted by the ongoing economic volatility. Whilst a degree of repricing was to be expected, this has now gone well past the fundamental realties, with valuations now at historical extremes on both a relative and absolute basis for the UK small-cap sector.

Overseas and private equity buyers have been taking advantage of these cheap valuations and there has been an uplift in M&A within the UK, some of which has benefited RIII.

Turning of the tide.

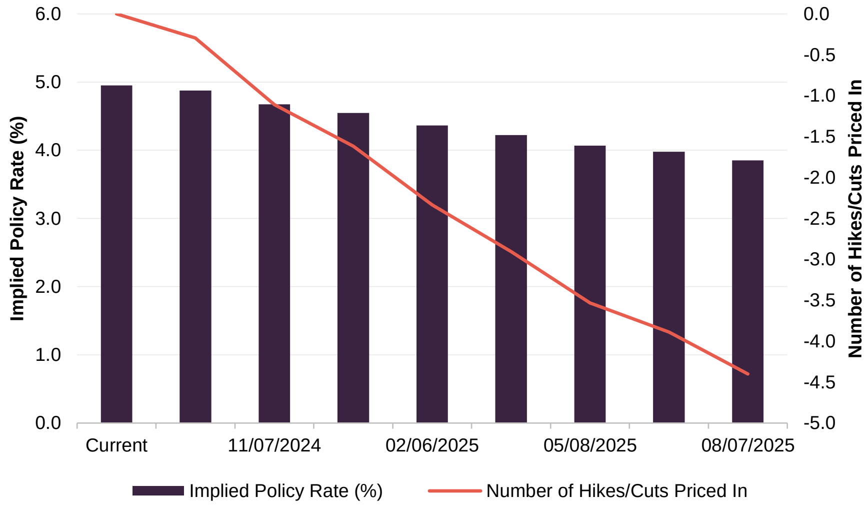
Expectations for GDP have more than doubled since the beginning of the year

The reality is that valuation remains just one part of the equation, and as the UK has stumbled from one crisis to another in recent times, investors have seen little reason to commit capital to the country, especially given more attractive opportunities elsewhere. These issues have existed for well over a decade, with the economy struggling to fully recover from the 2007-09 financial crisis, made worse by the impact of Brexit (which has cost the UK's economy around £140bn according to one estimate) and topped off by the disastrous mini-budget in 2022.

Promisingly, in recent months, we have appeared to reach somewhat of an inflection point in sentiment. It remains early days; however, expectations for GDP have more than doubled since the beginning of the year, lifting the economy that had been flirting with recession, while strong wage growth, low unemployment, and falling inflation set the stage for further gains. The recent election, which handed a landslide to the new Labour government, has also added a sense of optimism that has long been absent. Its strong majority stands in contrast to the political landscape across Europe and the US, setting the foundations for a more stable policy backdrop. This is expected to help drive capital back to the UK, as might a new, more open, relationship with the EU.

A shift in interest rate expectations provides another catalyst. With inflation falling back to target, the Bank of England has now begun to ease monetary policy and, as Figure 4 shows, we are now expecting around five cuts over the next 12 months in the UK, forecasting an implied rate around 3.6% down from a peak of 5.2%. The first rate cut was announced on 1 August, with the Monetary Policy Committee voting to cut the Bank's key rate by a quarter of a percentage point to 5%.

Figure 2: UK implied overnight rate & number of cuts



Source: Bloomberg

The small-cap sector is highly sensitive to interest rates due to its exposure to short-term, floating rate debt, and traditionally performs well during periods of economic recovery such as the UK is currently experiencing.

> We are now expecting around five cuts over the next 12 months in the UK, forecasting an implied rate around 3.6% down from a peak of 5.2%.

Against such a backdrop, it comes as no surprise that the market has rebounded, with RIII's benchmark index up 19% over the past 12 months. This headline performance only tells part of the story, however. As we discuss in the portfolio section, there remains significant variation across the sector with many companies still struggling to adjust to structurally higher interest rates and a shift away from the pure growth mindset that has predominated over the last decade. Alternatively, those companies who have been able to maintain stable balance sheets and can generate operating leverage through more resilient business models stand to benefit handsomely from the improving conditions. These dispersions across the small-cap sector greatly favour active managers such as RIII who are able to capitalise on the dislocations the recent market volatility has created. This is reflected in RIII's recent performance with shares well ahead of the index, up 33% over the past year.

Given the extent of the pressure exerted on the sector over the last couple of years, it is possible, too, that these gains are just the tip of the iceberg. Historically, markets are mean reverting, and as we have discussed above, we had reached a point where small-cap valuations in the UK touched the depths of those reached during the global financial crisis and COVID-19 pandemic. As noted, valuations are just one part of the story. However, over the long term, these have proven to be the best predictor of investor returns over time, and when considered alongside an improving economic backdrop, falling interest rates, and a high-conviction, active approach to investment, there are plenty of reasons to be optimistic about the outlook for RIII's investment universe.

Asset allocation

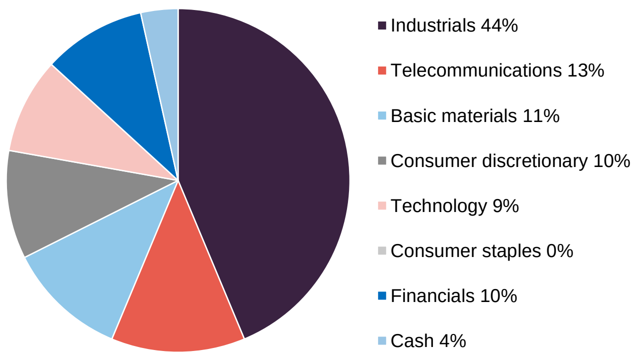
As noted, over the past two years, Dan and Matt have been steadily fine-tuning the RIII portfolio to improve its resilience and better reflect their views and the structural changes that we have seen across the economy. Whilst it remains a targeted, high-conviction portfolio, they reduced its concentration and exited some of its more illiquid holdings. An effort has also been made to increase the sectoral diversification, reducing the traditional exposure to industrials and engineering while adding positions in technology and financial services.

As of 30 June 2024, the top 10 holdings now account for 62% of the trust, compared to 76% at the beginning of 2023

The process has been a delicate balancing act, set against recent volatility and the need to deliver appropriate value when realising some of the fund's legacy holdings. However, over the last few months, new lead manager Matt Cable has said that he is now happy with its structure and increasingly positive about the opportunity which lies ahead. As a result, he expects the cadence of change to be much slower going forward, with the portfolio now well positioned to deliver on its targeted, long-term objective.

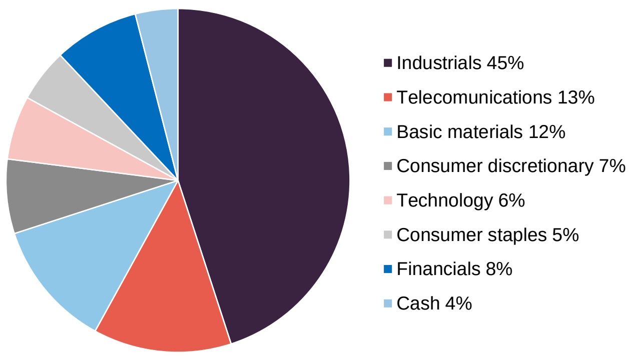
As of 30 June 2024, the top 10 holdings now account for 62% of the trust, compared to 76% at the beginning of 2023, with positions across 22 different companies, plus a 3.5% allocation to cash.

Figure 3: RIII sector allocation at 30 June 2024



Source: Jupiter Asset Management

Figure 4: RIII sector allocation at 31 October 2023



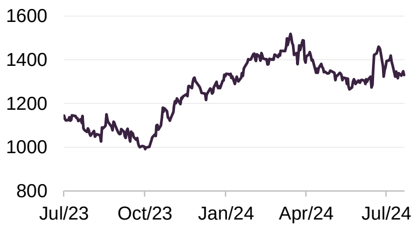
Source: Jupiter Asset Management

Portfolio changes

Since our most recent note, the manager has disposed of one legacy asset: agricultural supplies and engineering business Carr's Group. This was sold on the basis of potential structural changes in demand from changing rainfall patterns in the US, which the manager felt had not been adequately discounted in its valuation. The company also added two new positions in the form of integrated airline and tour operator Jet2, and identity verification and fraud prevention business GB Group.

Jet2

Figure 5: Jet2



Source: Bloomberg

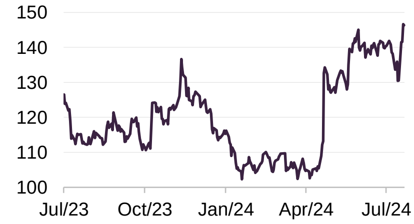
Jet2 is a staple holding across the Jupiter desk, with the UK's third-largest airline continuing to deliver market share gains and strong fundamental execution. The company offers a relatively unique play on the structural growth opportunities that exist in the travel and leisure market. Whilst still a cyclical and at times volatile industry, it remains one that is exhibiting strong growth with plenty of room for future expansion as passenger numbers climb back above pre-pandemic levels. Despite this recovery, share prices across the sector are still well below recent peaks. Jet2 currently trades on a PE of just 7x, despite delivering earnings and revenue growth of 24% and 37% respectively, against already strong comps, in its recently reported annual results.

The company continues to benefit from vertical integration across its airline and tour operator, driving up profitability while also improving user experiences, which have contributed to market share gains, particularly in comparison to some of its much-maligned competitors. These are expected to continue thanks to the added popularity of its tour arm, which is now the largest in the UK. Management noted that its confidence in this growth is reflected in the group exercising its remaining Airbus order purchase rights. It now has a delivery stream of 146 aircraft delivering through to 2035. Notably, this provides another area of advantage for the company over its competitors given the supply imbalances create by the issues with Boeing, which could provide a further opportunity for market share gains.

Jet2 also provides RIII with further exposure to growing UK consumer strength which is an area of the market the manager believes is still underappreciated. A share price total return of 27% over the past year reflects this positive momentum. The timing of RIII's investment appears attractive both on a short-term valuation basis and in terms of improving structural opportunities.

GB Group

Figure 6: GB Group



Source: Bloomberg

The addition of GB Group, a software technology company which specialises in fraud prevention, came about following the takeover bids of two of RIII's existing technology companies, Spirent Communications and Gresham Technologies. Seeking to maintain exposure to the sector, Matt and the team identified GB Group as an exciting prospect which they believe holds significant upside at current prices. The company provides onboarding and monitoring technology to a list of clients, which include blue chips such as Nike and HSBC, controlling a market leading position in a relatively-niche but increasingly crucial sector of the market.

Matt notes several themes underpinning the investment decision, including enduring trends for digitalisation, increasing regulation, and the need to optimise customer experiences. Generative AI adds another layer of complexity which the company appears to be well positioned to leverage, due to a decade of AI and machine learning development experience across its systems. This is particularly notable given the ability for bad actors to use this technology to commit more complex fraud, driving the use case for its technology and further enhancing its competitive moat, given the enhanced complexity.

Despite this increasingly attractive opportunity set, GB Group has struggled to fully capitalise on its market positioning in recent years due to several factors, including cost management and M&A issues. Its shares were also bid up during the postpandemic ‘internet economy’ rally and then de-rated to now sit well below recent highs, presenting RIII with an attractive entry point. Positively, we appear to be past the worst of these issues, thanks to significant improvements to operational efficiency under new chief executive Dev Dhiman. These have already delivered around £10m of annualised cost savings that have flown through to the company’s bottom line with earnings growth in the mid-teens expected over the next two years, supporting a valuation which remains well below peer group averages.

As of yet, GB Group is yet to fully deliver on its considerable potential, and there remains plenty of work to be done to consolidate its market position and boost growth and profitability. However, this creates a scenario where there exists significant upside at current prices, should the company live up to its potential.

Top 10 holdings

Figure 7: 10 largest holdings at 30 June 2024

Holding	Industry	Percentage of NAV 30/06/2024 (%)	Percentage of NAV 31/12/2023 (%)	Change (%)
Renold	Industrials	8.2	7.4	0.8
VP	Industrials	7.7	11.3	(3.6)
Hill and Smith	Industrials	7.4	7.6	(0.2)
Gamma Communications	Communication services	6.5	5.5	1.0
Colefax Group	Consumer cyclical	6.4	5.6	0.8
Macfarlane Group	Consumer cyclical	6.0	10.4	(4.4)
Telecom Plus	Communication services	5.9	5.6	0.3
Alpha Group International	Financials	5.4	4.4	1.0
Oxford Instruments	Industrials	4.3	1.0	3.3
Osb Group	Financials	4.3	4.9	(0.6)
Total		62.1	63.7	

Source: Jupiter Asset Management

Since our most recent note, there have been two new additions to the top 10, with Oxford Instruments and OSB Group moving up in place of Treatt and Carr’s Group. Treatt shares have fallen by 14% over the course of the year and it now sits just outside the top 10. Positively, this does not appear to be a reflection of any fundamental weakness in the company. As the manager notes, there are also several positive catalysts which they expect will drive returns going forward, including the arrival of a highly-regarded new CEO and the benefits of Treatt’s recent investment programme. As noted on page 6, Carr’s Group was sold outright due to the potential for structural changes to the company’s operations.

In addition to the top 10 changes, we have also seen some movement within the list, most notably precision engineer Renold – whose shares are up 65% so far this year, making it RIII’s largest holding – and foreign exchange specialist Alpha Group. These are discussed on pages 10 & 11.

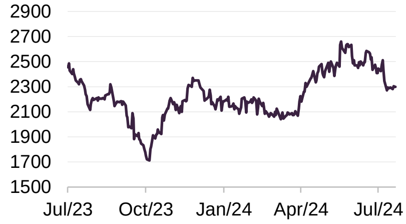
Oxford Instruments

Oxford Instruments is a global leader in the design and manufacture of highly specialist electronic equipment used in research and advanced manufacturing. The company effectively works as a commercialisation lab for new technologies, connecting academic researchers with commercial applications. The investment provides the RIII portfolio with exposure to strong structural upside, which is a nice balance to some of its more value-focused assets.

It remains a developing opportunity as management balances top-line growth with profitability. A recent corporate restructure was well received by the market, with the company simplifying its operations, which is expected to boost both revenue growth and margins. There remains plenty of opportunity to unlock further efficiencies, thanks to a strong order book and pipeline.

For RIII, the position is expected to remain a core holding over the long term, which is hoped will compound significantly going forward.

Figure 8: Oxford Instruments



Source: Bloomberg

Renold – Fundamental value play in precision engineering

Renold is a market-leading precision engineer, delivering power transmission products to a wide range of global industries from subway trains to power stations. It provides a good example of the types of opportunities which exist across the smaller-cap sector, especially since the COVID-19 pandemic, with many companies trading on wide discounts despite maintaining sound fundamentals.

For many years, Renold has struggled with debt and pension liabilities and a relatively disjointed business model. These issues have weighed heavily on the company's shares, and were further exacerbated by the pandemic; however, despite this, the underlying business remained an attractive proposition, given its established revenue base and strong market positioning. This potential was identified by RIII, and over the last few years, the company has made significant efforts to improve profitability, operational leverage, and financial flexibility. A focus on automation has also been effective at driving down costs, and it appears that we are starting to see the benefits of these changes, which – in addition to increasing demand – has led to a period of solid growth for the company, with both revenue and earnings up strongly. An improving financial position has helped drive the company's M&A ambitions as Renold aims to flex its global presence in an effort to consolidate what remains a very fragmented industry, providing a significant growth runway for the company.

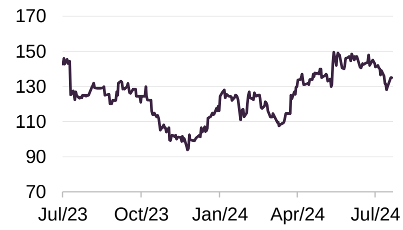
The stock has responded accordingly to these positive updates, up 94% in the last year. As a result, Renold is now RIII's largest holding, and the manager is confident that the company can continue to deliver strong returns with earnings and cash flow multiples still trading below historic averages.

Figure 9: Renold

Source: Bloomberg

Alpha Group

Figure 10: Alpha Group



Source: Bloomberg

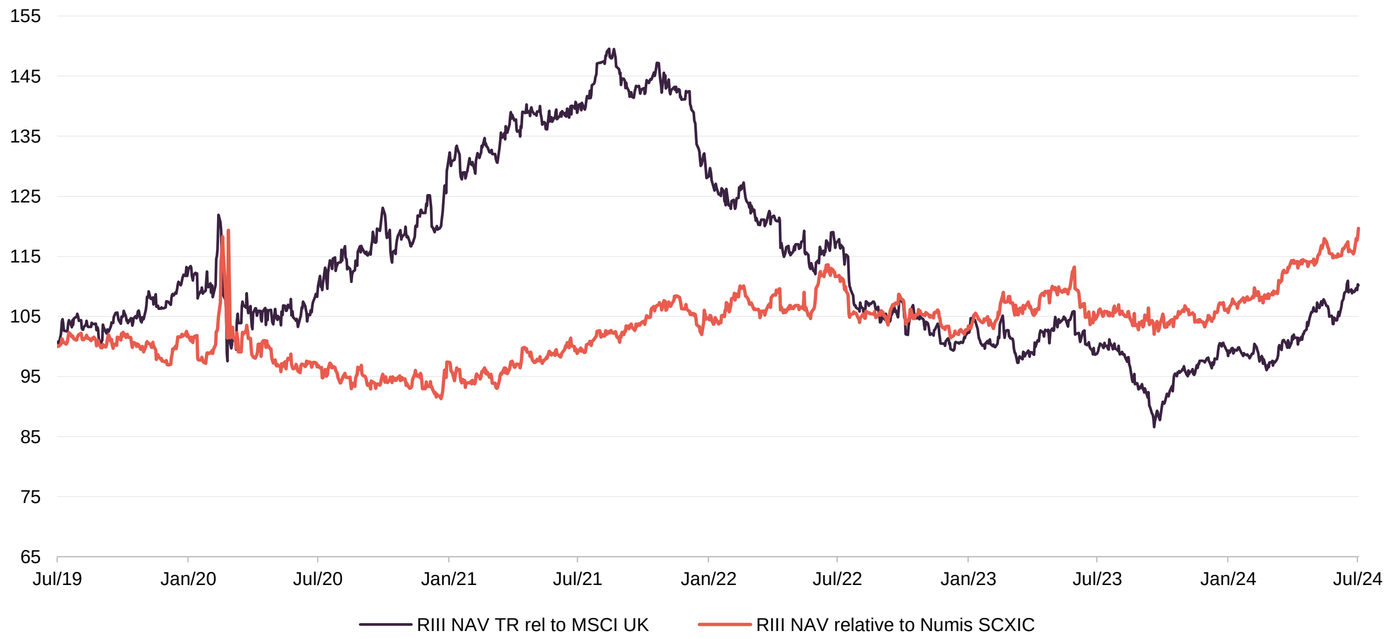
Alpha Group, which provides specialist foreign exchange and banking services, has been another of RIII's best performers so far this year, up 45%. The fintech stock has experienced a period of strong growth over the past 12 months as higher interest rates have enabled it to generate strong returns from client balances, thanks to its fixed cost base. This has led to the company's almost tripling its net cash position from the previous year. The group also shifted from the AIM to a main market listing, generating further momentum.

The financial windfall from higher rates was tempered somewhat by the challenges these created to the company's underlying business, impacting its organic growth. However, management remains positive about the company's trajectory, exiting the period with a reinforced balance sheet alongside further geographic expansion and the completion of its first acquisition.

For RIII, the company provides increased diversity to the fund in addition to a strong growth profile with earnings and revenue expected to grow in the high teens over the next couple of years. The company also provides excellent upside at current prices, currently trading on a price to earnings multiple of 20x, which remains well below its peers and its own recent averages.

Performance

Figure 11: RIII NAV total return performance versus MSCI UK and Deutsche Numis Smaller Companies plus AIM ex Investment Companies indices over five years ending 31 July 2024



Source: Morningstar, Marten & Co

As Figure 12 shows, the RIII portfolio has had an impressive 12 months, comfortably outperforming its comparative benchmarks and broader market indices. Part of this is influenced by timing factors, with shares falling to the cycle lows during the middle of 2023. However, this should not detract from the execution of the portfolio over this period and highlights the potential for the trust to deliver outsized returns, especially when conditions are favourable.

Figure 12: Total return cumulative performance over various time periods to 31 July 2024

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
RIII share price	13.6	20.8	33.7	6.5	41.0
RIII NAV	11.9	24.2	26.6	7.7	46.0
MSCI UK	3.3	11.9	13.5	35.8	33.6
Deutsche Numis SC plus AIM ex Inv Trusts	6.7	10.1	11.1	(11.1)	22.3
Peer group[1] median share price	10.5	13.9	19.1	(13.4)	28.7

Source: Morningstar, Marten & Co. Note 1) peer group is defined below

Three-year performance is much more modest, although notably remains well ahead of its smaller-company benchmark and peer group, highlighting the value proposition of the trust. This is also a reflection of the success that the manager has had reshaping the portfolio in recent years, despite the increasingly volatile economic backdrop since it took over the trust in October 2022. It is hoped that going forward, a more well-rounded and resilient portfolio – which we have seen take shape over the last 24 months – can help drive further outperformance against the peer group, particularly on a risk-adjusted basis.

The opportunity is not just limited to the small-cap universe. Long-term, the sector has consistently outperformed its large-cap peers, and with valuations now trading around record lows, their appears to be an increasingly attractive opportunity for investors to increase allocations as the economic backdrop improves.

As discussed, economic conditions over the past few years have been especially difficult for small caps, with the sector highly sensitive to changes in interest rates and growth. In the UK, the issues have been compounded by domestic struggles and negative sentiment. Very few companies have been unaffected, but this has created a situation whereby those who have been able to navigate these challenges, thanks to effective balance sheet management and resilient business models, look increasingly well-positioned to benefit as interest rates return to trend and growth steadily improves. This is a scenario which should favour active managers such as RIII, with the performance of companies such as Renold and Alpha Group highlighting the potential that exists across the sector.

Peer group

Up-to-date information on RIII and its peer group is available on the QuotedData website

RIII is a constituent of the AIC's UK Smaller Companies sector, which represents one of the mainstays of the investment trust universe. For the purposes of comparison, we have removed a handful of very small funds, and also Marwyn Value Investors, which follows a very different investment strategy from other members of this peer group.

Figure 13: Peer group comparative data as at 31 July 2024

	Premium/ (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (£m)
Rights & Issues Investment Trust	(12.8)	1.7	0.9	130
Aberforth Smaller Companies	(6.9)	2.4	0.79	1,407
abrdn UK Smaller Companies Growth	(10.9)	2.0	0.95	395
BlackRock Smaller Companies	(6.9)	2.8	0.8	754
BlackRock Throgmorton	(7.0)	2.1	0.54	613
Henderson Smaller Companies	(8.0)	2.7	0.44	724
Invesco Perpetual UK Smaller Companies	(11.7)	3.6	1.01	159
Miton UK MicroCap	(6.2)	0.2	1.72	40
Montanaro UK Smaller Companies	(12.1)	4.1	0.91	186
Odyssean Investment	1.1	0	1.48	224
Oryx International Growth Fund	(21.1)	0	-	199
River and Mercantile UK Micro	(18.8)	0	1.71	62
Rockwood Strategic	7.0	0.3	1.58	89
Strategic Equity Capital	(7.6)	0.7	1.22	178
Median	(8.0)	2.1	1.0	186.0
RIII rank	13/14	9/14	10/14	11/14

Source: Morningstar, Marten & Co

Despite the recent rally, RIII's discount remains one of the widest in the peer group, providing an attractive entry point for the trust which has continued to generate strong returns over the last five years. It ranks in the middle of the pack in terms of dividend yield, although in general, this peer group is not managed to produce a yield. The company is smaller than the median fund in the peer group, but still over £100m, which makes it investable for some wealth managers.

RIII's discount remains one of the widest in the peer group, providing an attractive entry point.

Figure 13 highlights the strength of RIII's recent returns. As noted above, the company has comfortably outperformed its peer group both over recent periods and longer-term, delivering annualised returns of close to 10% in the last five years – an impressive feat, given the volatility we have seen over this period.

Figure 14: Peer group comparative NAV total return data as at 31 July 2024

	3 months	6 months	1 year	3 years	5 years
Rights and issues	11.9	24.2	26.6	7.7	46.0
Aberforth Smaller Companies	10.9	22.5	26.2	11.2	52.3
abrdn UK Smaller Companies Growth	12.1	18.0	24.3	(18.8)	24.0
BlackRock Smaller Companies	10.2	13.8	19.0	(13.7)	28.7
BlackRock Throgmorton Trust	10.5	13.2	19.1	(19.4)	32.9
Henderson Smaller Companies	14.3	16.5	23.5	(17.7)	25.8
Invesco Perpetual UK Smaller	15.2	13.9	16.8	(13.4)	16.7
JPMorgan Smaller Companies	11.0	18.3	29.1	(6.9)	62.2
Miton UK Microcap	(1.1)	0.7	(7.3)	(44.0)	3.0
Montanaro UK Smaller Companies	6.9	9.4	15.2	(16.9)	18.3
Odyssean Investment Trust	6.4	6.2	8.2	9.0	64.8
Oryx International Growth	8.8	9.5	16.7	(5.3)	68.4
River and Mercantile Micro Cap	13.8	19.8	22.6	(30.6)	13.3
Rockwood Strategic	13.1	30.7	30.5	79.1	147.0
Strategic Equity Capital	10.2	20.5	18.3	17.7	56.4
Median (wider group)	10.5	13.9	19.1	(13.4)	28.7
RIII rank (wider group)	6/14	2/14	3/14	6/14	7/13
Median (concentrated group)[1]	11.0	16.5	23.5	(13.7)	28.7
RIII rank (concentrated group)	4/9	1/9	2/9	2/9	3/9

Source: Morningstar, Marten & Co. Note 1) defined above and highlighted in a darker blue.

Figure 14 also highlights a dispersion in long-term performance among the peer group, which has opened up considerably since the COVID-19 pandemic due to a range of different investment styles. For example, the leading investment companies such as Rockwood Strategic and Odyssean have adopted an activist value strategy, which has proven to be successful given the recent prevalence of M&A activity that we discussed earlier. Because of the wide range of investment mandates, the RIII managers have suggested that a more concentrated group would be useful for comparison. This group, highlighted in blue, excludes Aberforth Split Level Income (on structural grounds), abrdn Smaller Companies Income (given its income mandate), the two micro-cap funds (Downing, Miton and River & Mercantile), and those with some element of an activist approach (Crystal Amber, Odyssean, Oryx, Rockwood and Strategic Equity Capital). Based on these comparisons, RIII has continued to generate one of the best returns across the group in both the short and longer term.

Thanks to the developments made to the in recent years, the RIII portfolio provides diversified exposure across investment styles, reducing the cyclical risks which have weighed on several trusts in the sector. As noted, the manager has broadened the sectoral allocations across areas such as technology and financials, adding exposure to select growt-orientated assets alongside its more traditional value selections. As we highlight in the asset allocation section, this has already proved its value, and we expect the increased diversification of the fund to generate increasingly stable returns going forward.

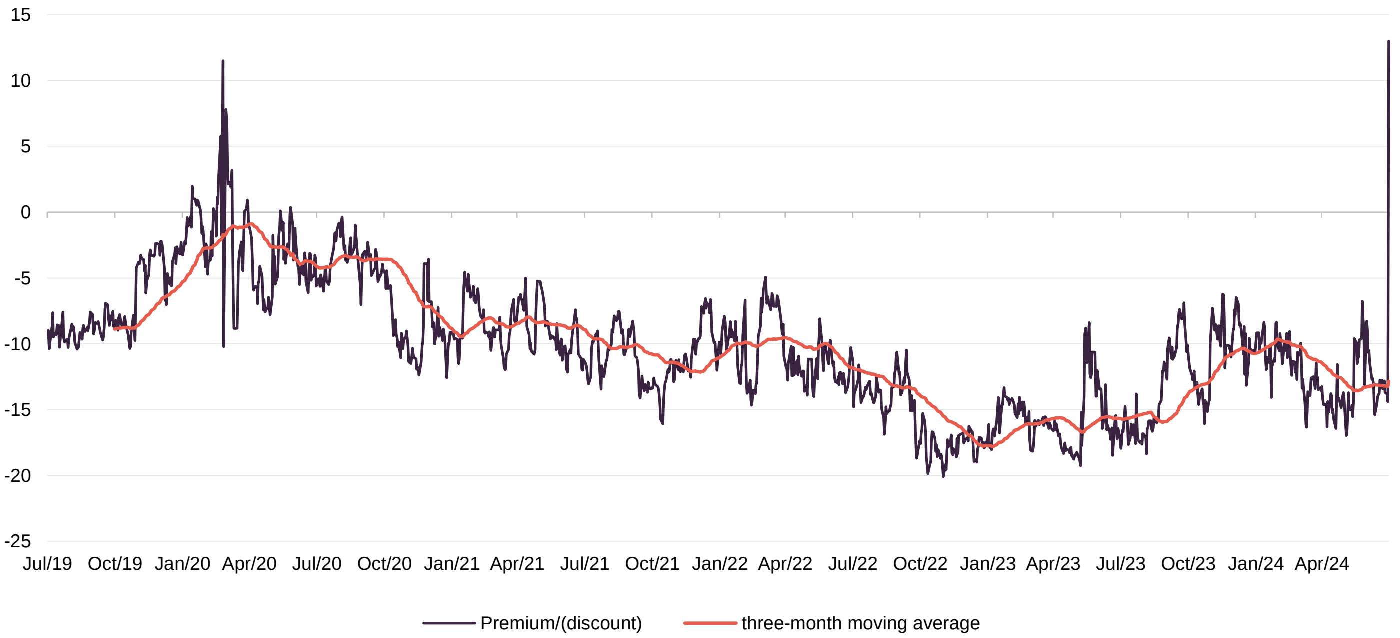
RIII portfolio provides diversified exposure across investment styles.

The other thing which is notable in Figure 14 is the strong returns across the sector over the past 12 months as economic conditions have improved. For many, this has not come as a surprise, considering that the peak-to-trough sell-off for some trusts was worse than or equal to that experienced during the height of the pandemic and global financial crisis. We have made clear across our recent commentary that this has provided an excellent opportunity for investors and continues to do so despite the growth over the past 12 months. Valuations across the sector remain attractive, and for active, high-conviction managers like RIII, the opportunity to outperform in the coming years has arguably never been better, both domestically and against global market benchmarks.

Premium/(discount)

Over the past 12 months, RIII's shares have traded on an average discount of 12.3%, a high of 6.2%, and a low of 18.3%. As of publishing, the discount stood at 8.7%.

Figure 15: RIII premium/discount over five years to 31 July 2024



Source: Morningstar, Marten & Co

As Figure 15 shows, the discount has remained stubborn; however, it continues to trend in the right direction, sitting in the low single digits rather than the mid-teens which were commonplace over the bulk of 2023. As economic conditions improve, both in terms of rates, and the outlook for growth in the UK, we expect this momentum to continue. As we have seen so far this year, momentum and sentiment in the sector can change rapidly and we believe that current discounts have created an attractive entry point for new investors.

Fund profile

Rights and Issues Investment Trust (RIII) aims to generate a total return that exceeds its benchmark index, the FTSE All Share, over the long term while managing risk. The company invests in equities with an emphasis on UK smaller companies, which will normally constitute at least 80% of its investment portfolio. For the purposes of RIII's portfolio construction, "UK smaller companies" is deemed to include both listed securities and those admitted to trading on the Alternative Investment Market (AIM). The benchmark does not influence portfolio construction.

More information is available on the manager's website

For the purposes of this note, we have used the MSCI UK Index as a proxy for the FTSE All-Share and added a comparison to the Numis Smaller Companies plus AIM ex Investment Companies Index, which we believe is more representative of the stocks in RIII's portfolio.

RIII's AIFM has delegated investment management of the trust to Jupiter Asset Management Limited. Dan Nickols and Matt Cable took over responsibility for the trust in October 2022. Dan retired at the end of July 2024 and Matt became lead manager, supported by Tim Service.

Previous publications

Readers interested in further information about RIII may wish to read our previous notes.

Figure 16: QuotedData's previously published notes on RIII

Title	Note type	Publication date
Under new management, same high conviction approach	Initiation	18 April 2023
Old dog, new tricks	Update	19 December 2023

Source: Marten & Co

IMPORTANT INFORMATION

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