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INTERNATIONAL

Rights and Issues Investment Trust

Investment companies | Update | 4 February 2025

Normal programming to resume

The first nine months of 2024 appeared to provide signs of a return to normality in the UK. With inflation falling, the Bank of England felt able to begin its rate-cutting cycle, while a steady pickup in growth may have encouraged a sense of optimism that had long been absent from the market. The Rights and Issues Investment Trust (RIII) delivered a shareholder total return of 17% over the nine months ended 30 September 2024. This momentum slowed over the latter part of the year as investors sold UK small caps, particularly AIM stocks, in advance of the budget, and yields climbed on both UK gilts and US treasuries, back towards cycle highs.

The manager suggests that the conditions that drove the first half recovery remain in place, and the recent weakness should not detract from the generally positive outlook for the UK, and RIII in particular. Market activity has begun to pick up, perhaps as investors capitalise on historically cheap valuations. The manager feels that for an active, high-conviction approach like RIII's, the opportunity to outperform in the coming years has arguably never been better.

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).

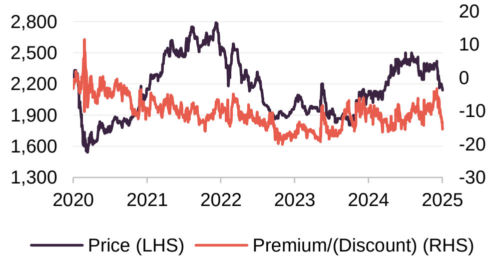
Year ended	Share price total return (%)	NAV total return (%)	MSCI UK total return (%)	Deutsche Numis Small Co. + AIM ex Inv Co. TR (%)
31/01/2021	(3.4)	4.0	(10.9)	7.9
31/01/2022	18.3	19.1	22.8	10.7
31/01/2023	(19.5)	(12.8)	9.3	(11.7)
31/01/2024	7.5	(0.8)	2.2	(3.3)
31/01/2025	4.0	10.2	17.5	7.8

Source: Morningstar, Marten & Co

Sector	UK smaller companies
Ticker	RIII LN
Base currency	GBP
Price	2,160.0p
NAV	2,495.6p
Premium/(discount)	(13.5%)
Yield	2.0%

Share price and premium/(discount)

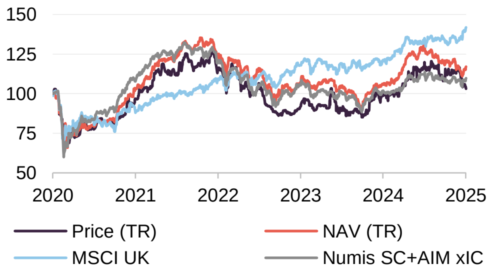
Time period 31/01/2020 to 03/02/2025



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/01/2020 to 31/01/2025



Source: Morningstar, Marten & Co

Contents

Market backdrop	**3**
Asset allocation	**5**
Portfolio changes	6
Top 10 holdings	8
Performance	**10**
Peer group	**12**
Premium/(discount)	**14**
Fund profile	**15**
Previous publications	15

Domicile	United Kingdom
Inception date	31 July 1962
Jupiter appointment	3 October 2022
Manager	Matthew Cable
Market cap	104.17m
Shares outstanding (exc. treasury shares)	4,822608
Daily vol. (1-yr. avg.)	7,844.8 shares

Click for our most recent note

Click for an updated RIII factsheet

Click for RIII's peer group analysis

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Market backdrop

Throughout the first three quarters of 2024, RIII's share price delivered a shareholder total return of 17%. After what could be described as a challenging few years, financial conditions appeared to have started to turn favourably for UK investors, with inflation falling sharply back towards the Bank of England's 2% target, while forecasts for economic growth increased over the course of the year. The positivity seemed to be supported further by the election result, which may have helped provide a sense of political stability that had perhaps been lacking in the UK. These conditions were particularly beneficial for the more cyclical sectors of the UK economy, with the beginning of the BoE's easing cycle helping reduce the pressure of higher interest rates.

Although underlying conditions might remain broadly supportive, in recent months we have begun to see some of this positive sentiment deteriorate, driven in particular by the rebound in government bond yields which at one point had risen by over 100 basis points (bps) off their cycle lows. This move picked up pace at the start of the new year, with yields jumping by almost 30pbs in just a handful of sessions to come within touching distance of 5%. As of publishing, the 10-year gilt sat at 4.54%.

Figure 1: UK 10-year gilt yields

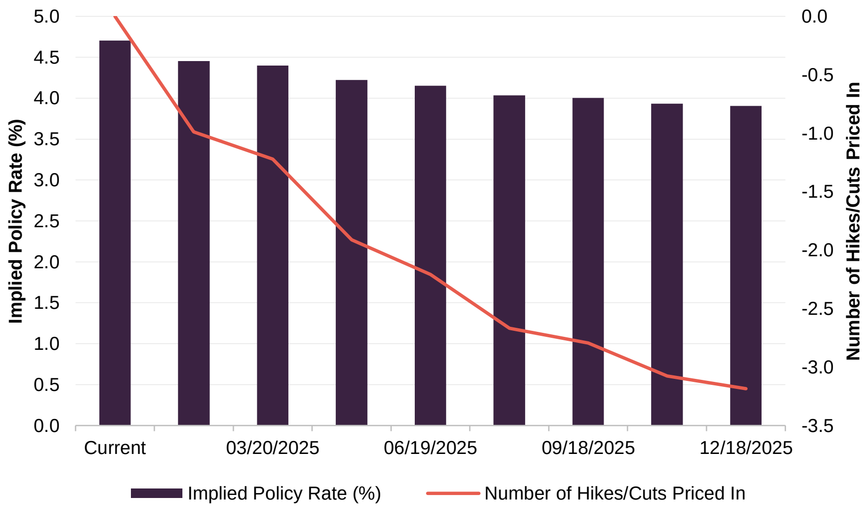
Source: Bloomberg

The initial spike in yields appeared to be due to fears around the budget deficit, with new government spending adding pressure to an inflation backdrop, which, whilst much improved, remains smouldering, particularly in the services sector. However, there is likely a secondary factor to the UK's sensitivity to US treasuries, given its large deficits and reliance on foreign financing for its debt. As has been well documented following Trump's election victory, US yields have spiked as markets attempt to price the impact of anticipated policy changes – including trade, immigration, and tax – all of which are feared to be inflationary. This has been compounded further by stubborn inflation and economic data which shows the US economy still firing on all cylinders, increasing the pressure on the US Federal Reserve after its larger than normal 50bp cut in September, and subsequent 25bp cuts in November and December.

Markets are now pricing just thee cuts over the next 12 months, for an implied bank rate around 4%.

These factors have limited the BoE's ability to cut interest rates as aggressively as it otherwise may have. This is highlighted in Figure 2, which shows markets are now pricing just three cuts over the next 12 months, for an implied bank rate around 4%. Although this is still a significant shift down from the peak of 5.25%, only a few months ago expectations were for up to five rate cuts over this period, which has led to a repricing of some rate-sensitive sectors of the market after a period of optimism earlier in the year.

Figure 2: UK implied overnight rate & number of cuts



Source: Bloomberg

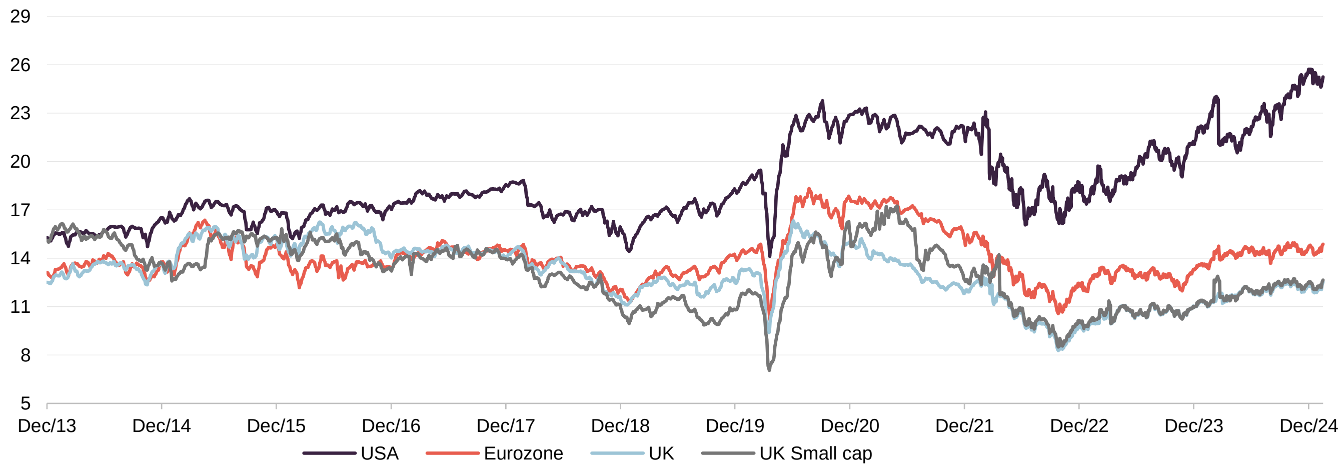
Improving economy

Positively, it could be said that the backdrop for UK equities continues to be supportive. The BoE remains committed to easing monetary policy, and outside of the external influence of the US treasury markets, economic prospects in the UK have improved significantly since this time last year. In fact, much of the underlying domestic inflation is a result of real wage growth across the economy. This could be seen as a positive, especially if the new government's "unashamedly pro-growth approach'', which includes initiatives and regulatory reforms to speed up capital deployment and business development, can work to drag the market out of its long-running productivity slump.

The RIII managers note that the fundamentals of the economy remain in good shape. Compared to previous business cycles, there is potentially very little financial risk in the system with healthy corporate balance sheets, solid employment data, and resilience in the housing market suggesting all the component parts are in place for a cyclical upswing.

Crucially, these conditions are set against an equity market that still trades at a steep discount to its historic average, especially across the small- and mid-cap universe, which remains the focus of RIII.

Figure 3: World markets: 12m forward PE ratios



Source: RIII

The valuation story for UK equities is nothing new. However, one piece of evidence that may suggest that investors have finally started to appreciate the value on offer is the strength of corporate dealmaking, with takeovers of listed UK companies now comfortably ahead of their 2019 peak, and well above long-term averages. The average premium paid is also up strongly, rising roughly 20% above pre-pandemic levels. We have seen additional momentum from the IPO market and a significant increase in the volume of share buybacks, including repurchases made by the RIII board, all of which the managers feel supports their long-held view that valuations in the UK have become completely detached from the fundamentals.

There could appear to be considerable optimism across the UK investment landscape around this nascent growth, and as evidenced by the performance over the first nine months of 2024, when sentiment does change, this can happen quickly. One might also expect that the current backdrop should be particularly supportive for RIII's investment style as high-conviction active managers. As we discuss in the asset allocation section, the wide dispersion of returns has created a wealth of opportunities for the managers to invest in quality companies trading at deep discounts to their historic averages. This is especially true in the small- and mid-cap sectors, which have been hit hardest by the increased interest rate volatility.

Takeovers of listed UK companies are now comfortably ahead of their 2019 peak

Asset allocation

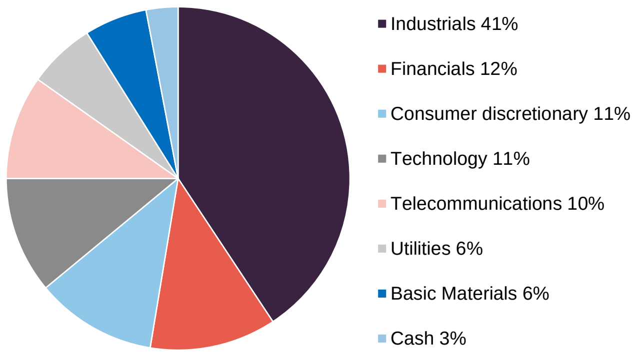
As we have discussed in our recent coverage, Matt and the team have been steadily fine-tuning the RIII portfolio to improve its resilience and better reflect their views and the structural changes that we have seen across the economy over the last few years. Whilst it remains a targeted, high-conviction portfolio, they have reduced its concentration and exited some of the 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 31 December 2024, the top 10 holdings account for 58.0% of the trust, compared to 76% at the beginning of 2023

This resulted in a considerable amount of portfolio turnover in recent years; however, by design it remains a low-turnover, high-conviction vehicle and the managers believe they have now achieved the vast majority of the desired restructuring.

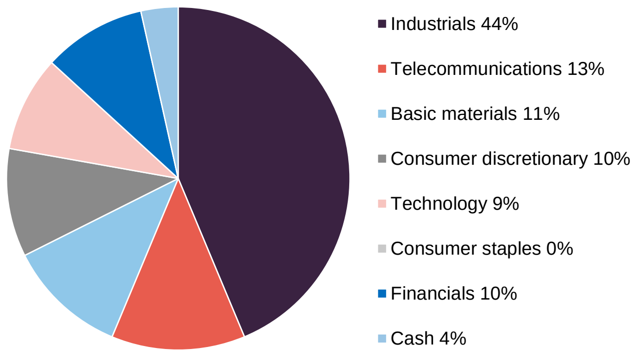
As of 31 December 2024, the top 10 holdings accounted for 58.0% of the trust, compared to 76% at the beginning of 2023, with positions across 22 different companies, plus a 3.0% allocation to cash.

Figure 4: RIII sector allocation at 31 December 2024



Source: Jupiter Asset Management

Figure 5: RIII sector allocation at 30 June 2024



Source: Jupiter Asset Management

Portfolio changes

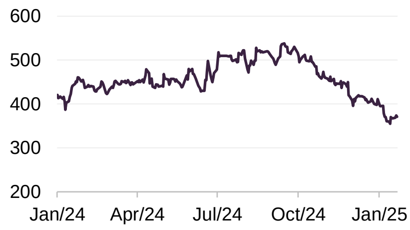
There were two forced changes to the portfolio during the year following the acquisitions of Gresham Technology and Spirent Communications, which were discussed in our previous note. While they resulted in a significant uplift for the portfolio, Matt notes that this is a double-edged sword, with both companies identified as staple holdings capable of compounding earnings over a long period of time. In order to maintain the trusts technology exposure, software technology company GB Group, which specialises in fraud prevention, was added.

There have been three additions and one sale to the portfolio since we last published.

Since we last published, the managers have made one additional sale – Spirax Engineering. This was part of the original portfolio before Jupiter took over as the investment adviser (see our commentary on this here). Matt and the team were of the view that the company no longer aligned with the make-up of the portfolio, given its scale, and additional concerns around its margin outlook prompted the sale.

There have also been three additions: alternative asset manager Foresight Group, industrial designer and bathroom and kitchen hardware specialist Norcros, and UK recruiter SThree.

Figure 6: Foresight Group



Source: Bloomberg

Foresight Group

Foresight Group is a favourite across the Jupiter desk, and is a company which Matt has targeted to increase the diversification of the RIII portfolio while helping address the current underweight to the financial sector.

The alternative asset manager specialises in two main areas: renewable energy and related infrastructure investments, and regional private equity (PE) in the UK. It has carved out an increasingly attractive niche, providing relatively small ticket size funding, around £1m-£10m, to companies outside of the normal scope of traditional PE, often backed by local authorities or pension funds. These generally have mandates to invest in local areas with a goal to drive economic development, and social and environmental benefits. Investments are sector-agnostic, but target companies requiring external funding for growth, and have traditionally generated strong fees over relatively long investment periods.

Foresight's infrastructure investments may have proved to be more challenging in recent times due to macroeconomic conditions which have weighed heavily on the sector. AUM growth has been slower than initially hoped and the company's short-term price action remains closely tied to changes in interest rates, as highlighted in Figure 6. Since the end of September 2024, the shares have fallen more than 30% as yields have headed higher. Despite this, the company has continued to deliver solid operational performance thanks to the strength of its regional PE investments. Due to the resilience of these markets and the expected re-rating of its infrastructure sector exposure as interest rates normalise, the company's management is increasingly confident around the outlook for the trust, outlining an expectation for profits to double over the next five years, which would drive significant upside for the shares.

Figure 7: Norcros

Source: Bloomberg

Norcros

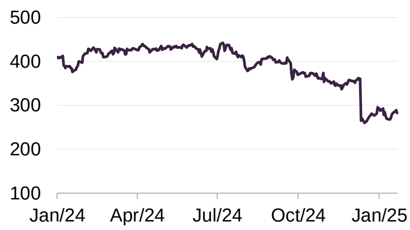
From one view, UK bathroom products supplier and manufacturer Norcros is an excellent example of RIII's investment strategy of targeting excellent companies whose growth prospects are underappreciated by the market. The company has undergone a significant transformation over the past decade, shifting away from its capital-intensive heavy manufacturing roots towards the asset-light, R&D-focused manufacturer we see today. The company now focuses on its increasingly high-value design and distribution verticals in the bathroom products space, and is a market leader in electric showers, enclosures, and wall panelling. Much of the manufacturing is now outsourced, with the management utilising the company's strong channel and B2B relationships to drive growth, especially when it comes to developing new products.

This updated strategy has been set against a significant reduction in legacy issues that had previously plagued Norcros. In particular, the company has addressed the issues surrounding its pension liabilities, which are now an accounting surplus, while divesting several of its lower-ROI business units.

This strategic transformation seems to have resulted in significant improvements to the company's operational performance, notwithstanding what has been a challenging trading environment. Despite this, the company trades on a forward price to earnings multiple of just 7.9x, which is well below the 13.7x average for the peer group. It could be suggested that the successful transformation of the business towards a more modern, lean manufacturer remains dramatically underappreciated by the market. Solid organic growth, market share gains, and an active M&A strategy provide additional upside, creating a possibly compelling opportunity at current prices.

SThree

Figure 8: SThree



Source: Bloomberg

UK recruitment agency SThree is another nod towards fund diversification. Specifically, the investment focuses on adding more early-stage business cycle exposure to offset the later-cycle industrial and materials sectors that make up a large portion of the RIII portfolio.

This ties in with the manager's strategy of balancing portfolio exposure across the growth/value spectrum to reduce volatility and avoid any substantial relative underperformance when particular styles are in or out of favour. It also aligns with their bottom-up approach to investment decisions, rather than attempting to time market cycles.

The managers believe that SThree provides an excellent balance, benefitting from any upswing in economic momentum, with employment generally a solid leading indicator of a market recovery. It also may appear to be better positioned than many of its peers to manage risks across the cycle, thanks to its focus on sticky sectors of the economy such as science, tech, engineering and mathematics, providing a considerably better fit for RIII's long-term approach.

The managers do note that the company has been a poor performer since being added to the portfolio, highlighting the challenges of timing these investments. Although this is unfortunate, the fundamental story behind the investment remains the same, and as a long-term position, the managers remain confident of its ability to re-rate.

Top 10 holdings

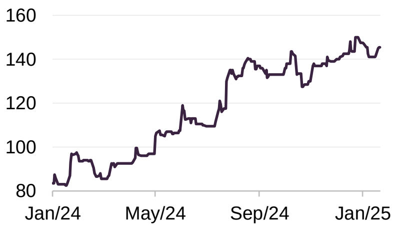
Since we last published, there have been three new additions to the top 10, with planning and design software provider Eleco, British airline and travel company Jet2, and ingredients manufacturer and supplier Treatt moving up in place of Alpha Group, Oxford Instruments, and OSB.

Figure 9: 10 largest holdings at 31 December 2024

Holding	Industry	Percentage of NAV 31/12/2024 (%)	Percentage of NAV 30/06/2024 (%)	Change (%)
Renold	Industrials	7.1	8.2	(1.1)
Gamma Communications	Communication services	6.3	6.5	(0.2)
VP	Industrials	6.1	7.7	(1.6)
Macfarlane Group	Consumer cyclical	6.1	6.0	0.1
Hill and Smith	Industrials	6.0	7.4	(1.4)
Telecom Plus	Communication services	5.9	5.9	-
Eleco	Communication services	5.2	3.5	1.7
Colefax Group	Consumer cyclical	5.2	6.4	(1.2)
Jet2	Consumer cyclical	5.1	3.7	1.4
Treatt	Basic materials	5.0	3.9	1.1
Total		**58.0**		

Source: Jupiter Asset Management

Figure 10: Eleco



Source: Bloomberg

Eleco

Computer-aided design software and AI solutions provider Eleco has been a long-term holding for RIII, with the company's strong recent performance pushing it into the top 10 holdings. Over the past year, shares are up almost 70% following positive momentum from the build out cycle, and the growing adoption of technology to assist the increasingly complex demands of construction and property management.

Organic growth has been compounded by an active M&A strategy, with the company acquiring the Vertical Digital Group, a software developer and IT consultancy for £1.1m early 2024. This could appear to have been a strong addition, with the manager believing Vertical Digital will complement Eleco's own products with its roster of international clients, including Lufthansa Technik, PwC, VW Financial Services, Deloitte, and Zoopla.

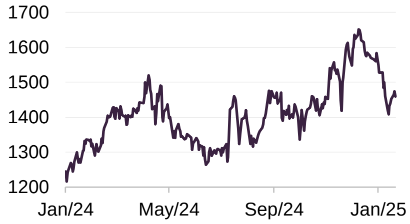
In January 2025, Eleco announced that it had also acquired SaaS maintenance and management provider PEMAC for €6.0m in cash and up to €2.4m in earn-outs. This could seem to be another excellent addition, tapping into the fast-growing regulatory management space across industries such as healthcare and life sciences. The acquisition could be immediately accretive to Eleco's bottom line and is expected to be highly complementary to its existing maintenance and management operations, allowing Eleco to tap into PEMAC's list of customers, including Coca Cola, Heineken, and Stryker.

Despite the strong run-up in its shares, the company continues to trade on an attractive valuation as a result of its strong earnings outlook, with EPS growth expected to be over 30% in 2025. On a forward earnings basis, the company's P/E ratio of 23x is a steep discount to the peer group average multiple of 30x.

This combination of feasibly impressive organic growth, and an active acquisition strategy, could provide considerable optimism going forward.

Jet2

Figure 11: Jet2



Source: Bloomberg

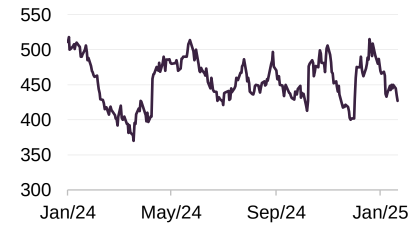
Jet2 is a staple holding across the Jupiter desk, with the UK's third-largest airline continuing to deliver market share gains and strong fundamental execution. The company seems to offer a relatively unique play on the structural growth opportunities that exist in the travel and leisure market. Whilst still a cyclical and at times volatile industry, it arguably 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 P/E of just 6.5x.

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, due 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 may provide another area of advantage for the company over its competitors, given the supply imbalances created 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.

Treatt

Figure 12: Treatt



Source: Bloomberg

Treatt is a specialist developer and manufacturer of flavouring and fragrance ingredients, and has been a longstanding holding for RIII. The position is based on the strength of its customer proposition, which has been founded on many decades of research and development expertise. It is seen as a UK-based global champion, although the majority of its revenue is derived from outside the UK. The company experienced a challenging few years following the pandemic, which resulted in a change of CEO in 2023; however, the normalisation of demand trends and an overhaul of the company's cost base has seen operational performance rebound strongly.

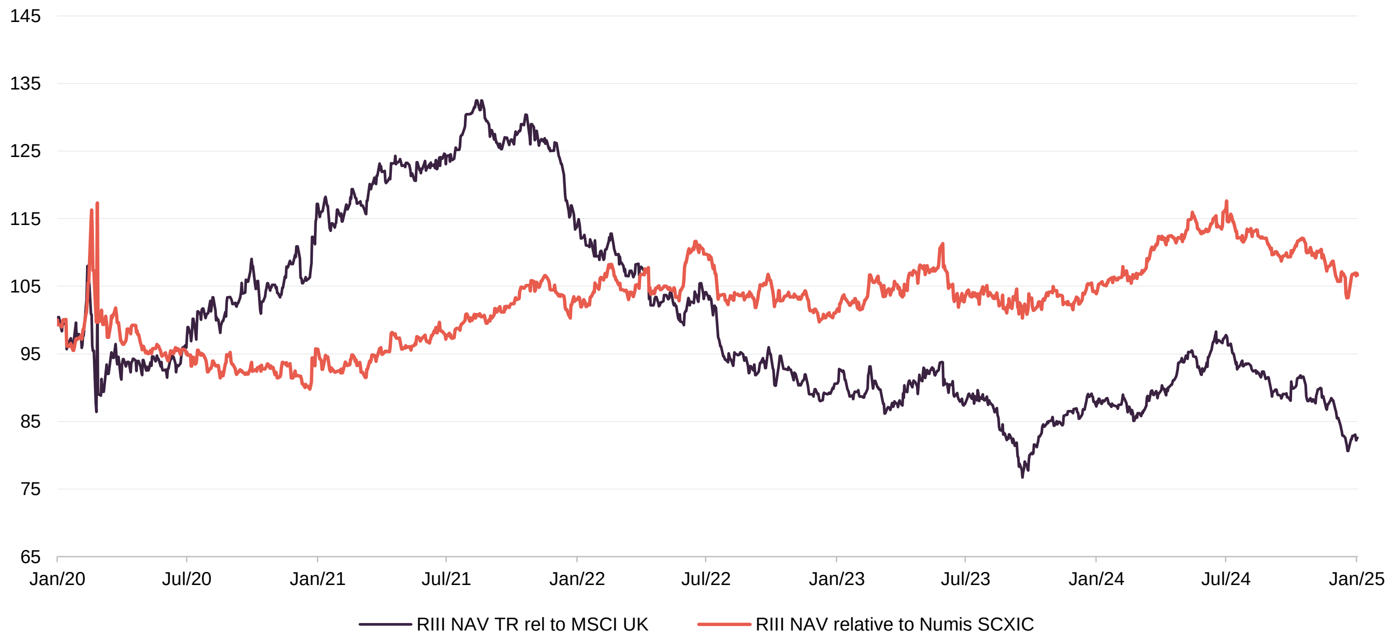
Recent capacity expansions in the UK and US provide further optimism, particularly when set against the current valuation – which remains well below the company's historical average – and a more than 50% discount to the wider peer group.

Performance

RIII's performance over the past 12 months can be clearly broken down into two periods, with the trust struggling to continue its strong momentum over the second half of 2024. As we have discussed, the majority of the weakness stems from the rise in bond yields driven by the US, and from one perspective should not detract from the generally positive outlook for the UK economy, which helped drive the market recovery throughout the first half of 2024.

Figure 13 highlights the extent of the weakness experienced over the second half of 2024, especially in Q4, where the company's NAV declined by 6.3%. As discussed in the asset allocation section, this fall has occurred despite improving fundamentals across much of the RIII portfolio, and it could be argued that market conditions in the UK are much more reflective of performance in the first half of 2024 than the second.

Figure 13: RIII NAV total return performance versus MSCI UK and Deutsche Numis Smaller Companies plus AIM ex Investment Companies indices over five years ending 31 January 2025



Source: Morningstar, Marten & Co

Figure 14: Total return cumulative performance over various time periods to 31 January 2025

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
RIII share price	(4.5)	(14.0)	4.5	(10.0)	2.8
RIII NAV	(3.1)	(11.2)	10.8	(4.7)	18.1
MSCI UK	6.7	5.0	17.0	31.3	43.7
Deutsche Numis SC plus AIM ex Inv Trusts	0.1	(2.1)	7.8	(8.0)	9.9
Peer group[1] median share price	(2.3)	(7.9)	5.4	(7.4)	6.8

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

Despite the trust having continued to outperform its UK smaller companies peer group in the longer term, the recent weakness has weighed heavily on absolute performance. It could be noted, however, that timing factors also play a role in these returns, with both the three-year and five-year growth rates set against previous all-time highs for the trust. Although it could be argued that there is no doubt that recent results have been disappointing, these point-to-point figures used in the comparison in Figure 14 are perhaps not a fair reflection of RIII's absolute performance. For reference, when we last published using data from 31 July 2024, RIII five-year NAV return was 46%.

Figure 13 highlights the extent of the weakness experienced over the second half of 2024, especially in Q4 where the company's NAV declined by 6.3%

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, such as RIII, could be well-positioned to benefit as interest rates return to trend and growth steadily improves.

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 15: Peer group comparative data as at 3 February 2025

	Premium/ (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (£m)
Rights & Issues Investment Trust	(13.5)	2.0	0.9	104
Aberforth Smaller Companies	(11.5)	3.5	0.8	1,189
abrdn UK Smaller Companies Growth	(10.7)	2.4	0.9	342
BlackRock Smaller Companies	(10.7)	3.3	0.8	612
BlackRock Throgmorton	(9.3)	2.5	0.5	493
Henderson Smaller Companies	(12.6)	3.3	0.5	599
Invesco Perpetual UK Smaller Companies	(15.7)	4.6	1.0	113
JPMorgan Smaller Companies	(11.9)	3.4	0.6	402
Miton UK MicroCap	(11.2)	0.2	1.7	35
Montanaro UK Smaller Companies	(10.0)	4.4	0.9	174
Odyssean Investment	(0.9)	0.0	1.5	204
Oryx International Growth Fund	(34.5)	0.0	-	158
River and Mercantile UK Micro	(16.2)	0.0	1.7	60
Rockwood Strategic	2.3	0.3	1.6	101
Strategic Equity Capital	(10.0)	1.1	1.2	145
Median	(11.2)	2.4	0.9	174
RIII rank	12/15	9/15	6/15	12/15

Source: Morningstar, Marten & Co

RIII discount is slightly wider than the median for the sector. This has been helped by the company's progressive share buyback programme which has helped to reduce volatility while providing an economic uplift for shareholders. Over the course of 2024, the company bought back 778,881 shares, equivalent to 13.9% of its issued share capital. On 31 July 2024 it was announced that buyback programme would be extended for a further 12 months.

RIII 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.

Figure 16: Peer group comparative NAV total return data as at 3 February 2025

	3 months	6 months	1 year	3 years	5 years
Rights and Issues	(3.1)	(11.2)	10.8	(4.7)	18.1
Aberforth Smaller Companies	(2.3)	(8.3)	12.0	10.8	23.3
abrdn UK Smaller Companies Growth	0.3	(2.9)	15.1	(12.7)	(0.0)
BlackRock Smaller Companies	(4.4)	(10.0)	2.5	(14.9)	(0.5)
BlackRock Throgmorton Trust	(3.2)	(7.9)	4.4	(13.6)	6.8
Henderson Smaller Companies	(1.9)	(8.9)	6.2	(16.1)	(1.7)
Invesco Perpetual UK Smaller	(9.0)	(14.3)	(2.6)	(22.0)	(11.1)
JPMorgan Smaller Companies	(0.6)	(7.0)	10.5	(3.9)	21.5
Miton UK Microcap	(0.1)	(6.4)	(5.4)	(43.2)	(2.4)
Montanaro UK Smaller Companies	(1.3)	(4.6)	5.0	(6.9)	(5.4)
Odyssean Investment Trust	(3.0)	(9.1)	(2.3)	(4.1)	36.7
Oryx International Growth	(3.5)	(4.2)	4.9	(7.4)	40.2
River and Mercantile Micro Cap	2.5	(5.5)	13.7	(25.6)	6.5
Rockwood Strategic	3.4	1.1	30.6	60.8	125.8
Strategic Equity Capital	(5.7)	(12.7)	5.4	0.9	23.0
Median (wider group)	(2.3)	(7.9)	5.4	(7.4)	6.8
RIII rank (wider group)	11/15	14/15	5/15	6/15	7/15
Median (concentrated group)[1]	(2.3)	(8.3)	6.2	(12.7)	(0.0)
RIII rank (concentrated group)	6/9	8/9	3/9	3/9	3/9

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

Figure 16 highlights the wide dispersion of returns across the UK smaller companies sector. This has increased significantly since the pandemic as a result of the range of different investment styles. For example, the leading investment companies such as Rockwood Strategic and Odyssean have adopted an activist value strategy, which seemed to have been 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 manager has 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).

Also, in absolute terms performance has been poor across the entire sector. The last few years have been a challenging time for many of these companies. However, as we have discussed, the calculation period used, particularly for the longer-term returns over three and five years, are perhaps unfavourable as they correspond with previous market peaks. Despite the recent weakness, RIII contestably remains one of the best-performing trusts over these periods, due to its high-conviction long-term investment approach and diversified exposure across investment styles, which have reduced the cyclical risks experienced by a number of other trusts.

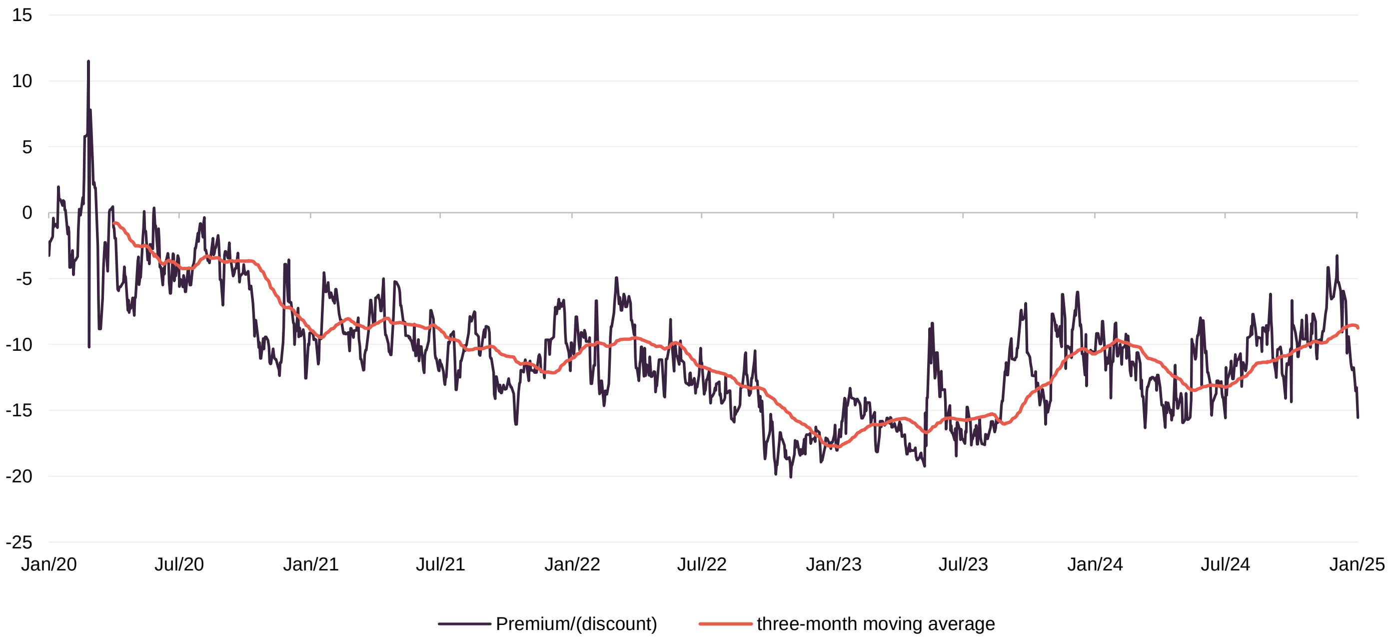
As noted, the manager has broadened the sectoral allocations across areas such as technology and financials, adding exposure to select growth-orientated assets alongside its more traditional value selections. As we highlight in the asset allocation section, this may have already proved its value, and it could be expected that the increased diversification of the fund to generate increasingly stable returns going forward.

RIII portfolio provides diversified exposure across investment styles.

Premium/(discount)

Over the past 12 months, RIII's shares have traded on an average discount of 11.0%, a high of 3.3%, and a low of 16.3%. As of publishing, the discount stood at 13.4%.

Figure 17: RIII premium/discount over five years to 31 January 2025



Source: Morningstar, Marten & Co

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 is potentially 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 18: 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
Lights and tunnels	Annual overview	20 August 2024

Source: Marten & Co

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