SVM UK Emerging Fund plc

Quarter to 31 March 2024

Inception Date

18 October 2000

Listed

London Stock Exchange

Benchmark

IA UK ALL Companies Sector Average

Q1

ISIN

GB0000684174

For Professional Advisers Only

Market Report

SVM UK Emerging Fund plc

Report for Q/E 31 03 2024

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Performance Summary

Positive Performance Factors

- Rebound continues from October 2023 lows
- Mid cap sentiment improves with takeover activity

Negative Performance Factors

- Smaller companies lag largest FTSE 100 constituents
- Some consumer discretionary shares lag

Performance Review

The quarter was a strong one for most markets, with UK shares continuing their recovery from lows reached in early October 2023. The Fund extended its recovery in net asset value, but its gain lagged the broader indices that have greater emphasis on large companies.

Although January brought news that the UK economy had formally moved into recession at the end of 2023, with two quarters of decline in GDP, the setback was small. As the quarter under review progressed, better news emerged pointing to a resumption of UK economic growth and inflation coming under control. This underpinned the rally and updates from most portfolio companies were positive. There was also a market pattern of increasing takeover bid activity, particularly in mid cap, that suggested some share prices had fallen below true commercial value.

During the quarter under review the best contributions to performance were spread across a range of sectors; 4Imprint Group, Beazley, Boku, CRH and Keystone Law. The disappointments included; JD Sports Fashion, Whitbread, Unite Group, Entain and Treatt. The portfolio was further focused, reducing the positions from 49 shares to 43 and ending with 99% market exposure. There were 3 new purchases – Tesco, IMI and Marks & Spencer – with significant additions also to Greggs, Boku, Segro and Compass. Complete sales were made of Dianomi, Rentokil, Oxford Instruments, Spectris, RS Group, Loungers, Entain, Treatt and JD Sports Fashion. Unite Group was reduced.

Fund Activity Review

Portfolio length was reduced by 9 sales and 3 new holding.

Positions sold.

- Dianomi
- Rentokil
- Oxford Instruments
- Spectris
- RS Group
- Loungers
- Entain
- Treatt
- JD Sports Fashion

New investment

- Tesco
- IMI
- Marks & Spencer

Fund Positioning and Market Outlook

During the quarter under review the opportunity was taken to improve the liquidity characteristics of the portfolio and reduce exposure to businesses that continued to disappoint despite the improving economic backdrop. Reducing the number of holdings has made little change to sector weightings or the concentration in the largest ten positions. Representation of banks, commodities and pharmaceuticals amongst smaller and medium sized companies is low and accordingly the Fund has little investment in these areas. There is no exposure to banks and just one investment in each of healthcare and commodities/materials. The sole investment in healthcare is Kooth, a provider of digital services assisting youth mental well-being. Although a UK smaller company, Kooth operates in the US as well as the UK, and it recently reported record revenues.

The portfolio includes two non-life insurers, Beazley, and Conduit, together representing just over 6% of the total. Conduit is capitalised at £830m and is benefitting from higher underwriting income helped by a favourable industry background. It has reported

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that it is seeing good opportunity to deploy capital. Beazley is capitalised at £4.4bn and in March it reported record earnings and favourable underwriting conditions.

During the quarter additional investment was made in mobile payments business, Boku, capitalised at £540m and UK-listed, it is US headquartered and services clients internationally, with an emphasis on emerging markets that offer growth and less competition. Over the last nine months Boku has seen upgrades to profits expectations and its shares, although premium-rated, are at a discount to larger international competitors.

The Fund emphasises businesses assessed by the manager as having a credible growth strategy that management can deliver. Typically this involves a competitive edge in their sector or niche that helps growth and assists in protecting profit margins. Recognising the medium to longer term potential of these businesses, portfolio turnover is lower than average. The aim is to follow smaller and medium sized companies as they grow to a size that attracts more institutional investment and research coverage, with the potential to improve valuation and liquidity. Some larger companies are included in the portfolio to assist overall liquidity and participate in some favourable trends and business characteristics not readily available in smaller companies. The Fund is positioned to benefit from an improving UK economy and recovery of interest by international investors. Some portfolio companies may benefit from re-rating if they can attract US investors via a move of their primary stock market listing.

Market Background

Falling UK inflation offers the prospect of interest rate cuts by the Bank of England.

This will ease the impact of austerity and real wage growth should help discretionary consumer demand.

International tensions and conflict pose a threat to investor confidence.

Strong UK stock market start in the quarter, with improving confidence shown in bid activity.

The UK stock market continued to decline in importance in global terms, with same major FTSE 100 companies making plans to move their primary listings to Wall Street. Despite the Government suggesting stock market reforms to attract international investors and retain more investment from domestic institutional investors, to date little has happened. Most other G7 nations retain a higher proportion of pension fund investment in their domestic equities. However, the pickup in merger activity and takeovers of UK smaller and medium sized companies has brought some life back into the smaller company sector. What is needed now is improvement in new listings to replenish the listed numbers and maintain meaningful breadth to the UK market.

Not all smaller and medium sized companies are focused on good corporate stewardship; disappointingly some are incentivising executives for strategies that do not appear to emphasise long term value creation. We also believe that a consistent dividend policy is important, even as companies are investing and growing. Repositioning of the portfolio in recent months has recognised stewardship and sustainability. Greggs and Games Workshop Group are examples in the portfolio of businesses that have been managed to deliver long term growth with sustainable management of capital.

Leisure stocks have beaten expectations, as consumers continued to prioritise the experiences denied to them during the lockdowns of recent years. Higher interest rates benefited those with savings and led to the household sector balance of interest payments turning positive for the first time in decades.

The global economic outlook has improved in the recent months, despite heightened international tensions and conflicts. Although UK government borrowing is high, the economy is resilient, and data now suggests that growth and inflation are running much in line with the European averages, following a weaker recovery from the pandemic. The principal UK concerns are high service-sector inflation, a rising benefits cost and a need to address public sector productivity. Most major energy-importing economies, including Germany and Japan, entered 2024 in shallow recessions. Business investment, which had flatlined in the period after the Brexit vote has recently begun to show signs of recovery. Corporate balance sheets are in relatively good health and businesses, with the UK labour market still relatively tight, are taking the opportunity to invest.

The UK Consumer is in reasonably good health. Following UK household balance sheets have never been healthier; UK households have been - since mid-2021 - without net debt. Current savings data and consumer lending activity do not signal an imminent deterioration in this position. the 2023 pressures of rising interest rates and inflationary pressures, consumer confidence is now improving. Mortgage costs and food inflation are easing, with real wage growth now positive. The unemployment rate remains relatively low by historical measures. Consumer sentiment should be further boosted by sizable benefit and pension upratings, alongside a higher minimum

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wage.

There is the prospect of the Bank of England, together with its US and EU counterparts, cutting interest rates in the Summer. Central banks appear alert to the risk that inflation could fall below targets as some disinflationary forces remain. In the UK, a general election will bring further debate on the need for economic growth, and this should be a positive background for consumer discretionary sectors and housebuilding, despite the likelihood of higher taxes. UK growth should accelerate in 2025, and the portfolio is fully invested, with exposure to companies that should benefit from this improving background.

Portfolio Structure

Top 10 Long Holdings

Top 10 Long Holdings	(Net %)
4imprint Group PLC	5.1
Howden Joinery Group PLC	3.7
Beazley PLC	3.6
UNITE Group PLC	3.4
Boku Inc	3.1
Serco Group PLC	3.1
Ashtead Group PLC	3.0
Games Workshop Group PLC	3.0
Experian PLC	2.9
CRH PLC	2.9

Sector Breakdown

Sector Breakdown	(%)
Industrials	28.5
Financials	17.9
Consumer Discretionary	17.2
Consumer Staples	10.1
Communication Services	8.3
Real Estate	8.0
Information Technology	5.7
Materials	2.9
Health Care	1.5
Energy	0.0
Utilities	0.0

Portfolio Analysis

Portfolio Analysis	(%)
Large Cap	46.8
Mid Cap	33.4
Small Cap	4.5
AIM	15.3

Fund Performance

to 31/03/2024

Percentage growth year on year to 31 March 2024

	2024	2023	2022	2021	2020
SVM UK Emerging NAV	3.8	-17.3	-10.0	52.7	-25.6
IA UK All Companies Average	7.7	-1.9	5.4	38.0	-19.1
Performance difference	-3.8	-15.5	-15.4	14.7	-6.5

Source: River Global Investors/FE fundinfo, as at 31/03/2024, total return, UK net tax.

Portfolio Manager

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IMPORTANT INFORMATION

Past performance is not a guide to future performance. The value of your investments and the income from them can go down as well as up and you may not get back the amount originally invested. The fund is to be considered a long term (five years or more) investment option. The fund incurs the following key risks: If an investor redeems the investment shortly after investing, they may not get back the original amount due to market movements. Tax treatment can change at any time without notice and is beyond control of the Fund. The Fund is exposed to credit and settlement risk in its dealings with Counter Parties in day to day business. This may result in a loss to the Fund if a Counter Party business fails. Expenses incurred by the Fund that are chargeable can reduce income and restrain the capital growth of the Fund. Currency movements may cause the value of your investment to fall as well as rise. A Fund with a concentrated portfolio carries a greater risk to that of a Fund with a larger spread of investments. Investment trusts can borrow money to make investments; this can lead to greater losses if markets fall. The Fund uses Contracts for Difference (CFDs) as part of the investment strategy; this can increase the risk profile and volatility of the Fund. Some unquoted investments may become difficult to realise as prices may not be readily available or a reliable indicator of value.