Marlborough

Monthly Commentary: November 2024

Multi Cap Income

Manager
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Capital is at risk. Please read full risk warning at the end of this document.

- Highly diversified portfolio of around 120 companies, with a bias to small and mid-cap stocks
- Team identify outstanding but underappreciated companies paying attractive dividends or with strong dividend growth
- Companies must also have high-calibre management and robust balance sheets

During October, the price of the fund's 'P' class income shares fell 1.62% from 136.85p to 134.63p. The price of the 'P' class accumulation shares also fell 1.62% from 238.19p to 234.33p. The FTSE All-Share Total Return (TR) Index (with dividends reinvested) fell 1.64%, while the FTSE All-Share Index fell 1.76%. Year to date the fund is up 8.76% ('P' class accumulation shares), while the FTSE All-Share TR Index is up 8.05% and the FTSE All-Share Index is up 4.72%.

Losers for the month included retailer **Card Factory** (-c.19%), which now expects a larger second-half weighting for earnings than normal. This is due to freight costs being higher than expected during a brief (but key) period for the company. Oil and gas services business **Hunting** (-c.18%) guided down on softer demand at its Titan division (due to US election uncertainty, but also lower natural gas prices). **Hunting** was upbeat about the rest of the business, with an order book of c.$650m helped by winning orders from the likes of Kuwait Oil Company. Asset manager **Liontrust** (-17%) continued to see outflows from UK equities ahead of the Budget. Food-on-the-go retailer **Greggs** (-c.12%) was lower for a combination of reasons. First, it saw a slowdown in sales growth, then the finance director sold shares worth £1.9m and finally there was the Budget, which did result in an increase in costs for employers. Audio-visual equipment distributor **Midwich** (-c.12%) profit warned, as its German market weakened and demand from the education and corporate sectors deteriorated. **Paragon Bank** (-c.12%) sold off on a note from investment bank Jefferies reducing its target price for the stock. This was on valuation grounds, because it prefers the big banks and peer OSB, which we no longer hold (having exited pre-profit warnings). The aggregate weight of the above names is c.7.8% of the fund.

Winners for the month included **Mortgage Advice Bureau** (+c.26%), which comforted the market by maintaining compliance with Consumer Duty standards. This followed a strong set of interim results at the end of September. Posting c.26% adjusted diluted earnings-per-share growth year on year, along with a positive outlook, rewarded the share price. In our view, the company had been unfairly sold off since July. Construction business **Galliford Try** (+c.26%) rose on stronger-than-expected results, with an order book that was up 2.7% to £3.8bn, average month-end net cash of c.£155m and full-year dividend growth of 47.6%. A recent addition to the fund, employee benefits consultancy **XPS Pensions** (+c.24%), released a pre-close update pointing to revenue growth of 23% from continuing operations. Construction company **Morgan Sindall** (+c.23%) released a trading update to say results would be ahead of expectations. This is a good result given peers in the partnership housing and office fit-out sectors (such as **Vistry** and ISG respectively) have been struggling. The aggregate weight of the above names is c.5.7% of the fund.

The Budget on 30th October proved to be less negative than feared by financial markets. Inheritance Tax relief for AIM shares was halved rather than being scrapped altogether, and the effective base rate of 20% will only come into force from April 2026. The AIM index, which had

Data source: Morningstar, Bloomberg, Canaccord, FTSE www.ftserussell.com/legal/legal-disclaimer

sold off ahead of the Budget, reacted positively by rising 4.5% on the day. There was a ripple effect for smaller companies more generally and sterling was relatively unaffected, having already corrected from c.$1.34/£ to just below $1.30/£. Sectors such as healthcare (which will benefit from an additional £25bn of spending) and life sciences (which will be boosted by a new £520m innovative manufacturing fund) are beneficiaries. Meanwhile, the oil & gas sector and independent farmers are likely to fare less well.

Inflation in the UK has dropped to below 2.0%. Government measures such as a higher rate of National Insurance contributions for employers (up 1.2% to 15%) and a higher minimum wage (increased by 6.7% generally, but up 16.3% for younger workers) are likely to be inflationary. However, these policies alone are unlikely to send the overall inflation rate above the 2.0% target level for a sustained period. The Office for Budget Responsibility (OBR) expects inflation to touch 2.6% in 2025, which is perfectly manageable for many of our companies and a long way below the recent peak of 11.1%. Inflation is then expected to settle back down to 2.0%, albeit gradually by 2029, and this is indicative of a stable range. Peel Hunt left its forecasts for GDP growth unchanged at 1.7% for 2025 and 1.9% for 2026. This compares with a Bloomberg pre-Budget consensus of 1.3% and 1.5% respectively, which may see some upward revisions. The OBR expects GDP growth of 2.0% in 2025 and 1.8% in 2026. All else being equal, our view is more aligned with that of Peel Hunt. Overall, even if interest rate cuts are fewer, they will still be a form of economic stimulus over the next 12-18 months.

The FTSE All-Share Index yields 3.64% (4th November 2024, Financial Times), while the fund is offering a prospective yield of 4.59% at the time of writing. On this basis, we remain comfortably positioned to meet and exceed the Investment Association's yield test for the UK Equity Income sector once again. Dividend per share payments made at the end of September (for the six-month period ending 31 July 2024) can be found in the table below.

Distribution Per Share (DPS) September pay rates for the period to 31st July 2024:

Share Class	Income in p.p.u	Pay date
A Accumulation	6.2917	30/09/24
A Income	3.5418	30/09/24
P Accumulation	6.5310	30/09/24
P Income	3.8592	30/09/24

Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The Fund will be exposed to stock markets and market conditions can change rapidly. Prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The Fund will be exposed to smaller companies which are typically riskier than larger, more established companies. Difficulty in trading may arise, resulting in a negative impact on your investment. Shares in smaller companies may be harder to sell at a desired price and/or in a timely manner, especially in difficult market conditions. The Fund invests mainly in the UK therefore investments will be vulnerable to sentiment in that market which may strongly affect the value of the Fund. The Fund invests in real estate investment trusts (REITs) and other companies or funds engaged in property investment, which involve risks above those associated with investing directly in property. In particular, REITs may be subject to less strict regulation than the Fund itself and may experience greater volatility than their underlying assets. In certain market conditions some assets may be less predictable than usual. This may make it harder to sell at a desired price and/or in a timely manner. In extreme market conditions redemptions In the underlying funds or the Fund itself may be deferred or suspended. All or part of the fees and expenses may be charged to the capital of the Fund rather than being deducted from income. Future capital growth may be constrained as a result of this. Dividends paid by companies are not guaranteed and can be cancelled, which may impact the fund's ability to deliver an income to investors.

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Copies of the Prospectus and Key Investor Information Documents are available from **www.ifslfunds.com** or can be requested as a paper copy by calling 0808 178 9321 or writing to IFSL at the registered office above.

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