

UK EQUITIES

December 2024

A GENERATIONAL OPPORTUNITY?

WRITTEN BY

Neil Shah

edisongroup.com

+44 (0) 20 3077 5700

nshah@edisongroup.com



 **EDISON**

BRILLIANT KNOWLEDGE

THE LIST
POWERED BY EDISON

20 brilliant ideas
QUARTERLY

UK equities

A generational opportunity?

UK equities are at a fascinating inflection point. At a time when global investors are heavily concentrated in the US market, UK equities trade at their steepest discount to global peers in over three decades. Since Brexit, the question has been: does anyone care? After 41 consecutive months of outflows from UK equities, we saw the first net inflows in November 2024. A possible hiatus, or the start of something bigger? Black Friday week also saw three bids for UK businesses (Renewi, Direct Line and Loungers), underscoring the value seen in the UK market. Our conversations with US-based funds indicate that they are seeking diversification and a margin of safety, and the UK looks appealing. We highlight 20 names and several closed-end funds that provide exposure to the UK.

The UK discount: More than mean reversion at play

Starting valuations are a significant determinant of future expected returns. With signs that investors are looking for diversification from US growth, the UK's valuation, economic profile, pension fund reform, continued bid activity and growing appetite for share buybacks suggest that sentiment can improve. The UK discount can start to unwind, with many of the reasons for it (Brexit, political upheaval and stagflation risks) now receding into the rear-view mirror.

The case for global rebalancing

Historical market cycles suggest that investor sentiment often swings to extremes before reversing. In this report, we highlight the historically high optimism of US consumers towards their domestic equity market as a sign that things might start to turn. The current market environment, with the end of the zero interest-rate policy (ZIRP) era and inflation rates higher than the ZIRP period, could favour UK equities. The UK's bias towards capital-intensive, cash-generative businesses may prove increasingly valuable, positioning the market well for a new regime where generating sufficient returns to exceed inflation becomes the primary challenge. While media commentary has focused on efforts to make London a more appealing market, we believe that a paradigm shift back to investing in value and cash flows, which historically has attracted alpha seekers to the UK small- and mid-cap sectors, will be the only thing that answers the question: the UK is cheap, does anyone care?

US exceptionalism is here to stay

We recognise the bull arguments for continued exposure to the US market. Technological leadership, companies that are capturing global rather than domestic opportunities, deep capital markets and a political backdrop that protects US interests are compelling factors. Our approach is to take a barbell stance by maintaining selected exposure to US structural growth stories while building a pool of capital in UK value stocks that offer downside protection and exposure to any shift in investment approach if inflation persists. In this report, we highlight 20 names that stand out from a valuation, capital allocation or yield perspective, drawing on insights from our analysts and our Illuminator stock screen. We also highlight nine closed-end funds that provide exposure to the UK market.

Themes

12 December 2024

Companies in this report

[4imprint](#)
[abrdn UK Smaller Companies Growth Trust](#)
[Card Factory](#)
[Creo Medical](#)
[Dowlais Group](#)
[Foxtons Group](#)
[Games Workshop Group](#)
Gamma Communications
GlobalData
[Henderson Opportunities Trust](#)
[HqT](#)
International Consolidated Airlines Group
[Lowland Investment Company](#)
ME Group International
Mitie Group
Onward Opportunities
[Pan African Resources](#)
Plus500
Renew Holdings
Rightmove
Rockwood Strategic
Schroders UK Mid Cap Fund
[Smiths News](#)
Softcat
[Target Healthcare REIT](#)
[The Diverse Income Trust](#)
[The Law Debenture Corporation](#)
The Merchants Trust
[Topps Tiles](#)
[Wheaton Precious Metals](#)

Companies in green are Edison clients.

Analyst

Neil Shah

nshah@edisongroup.com

Market context: A tale of two markets

Following years of sustained outflows and declining global relevance, UK equities are at a fascinating inflection point. Current valuations may offer a generational opportunity, one that could be overlooked when global investors have never been more concentrated in a single market – the US.

The data paint a stark picture. While the US now commands an unprecedented 70% of leading global indices (up from 30% in the 1980s), UK equities trade at their steepest discount to global peers in over three decades. Bloomberg highlights that the UK is trading at a 40% discount to global peers. The comparison with the US is even more striking (see Exhibit 1). For context, an investor seeking broad-based exposure to the US could buy the Vanguard Total Stock Market ETF, which is made up of 3,644 US stocks, with a median market capitalisation of \$185.9bn at a prospective P/E ratio of 26x and a price-to-book ratio of 4.2x. Alternatively, one could gain broad exposure to the UK market via the Vanguard FT 250 UCITS ETF, which is made of 251 stocks, with a median market capitalisation of £1.8bn at a prospective P/E ratio of 10.5x and a price-to-book ratio of 1.2x. This c 50% P/E discount, when adjusted for sector differences, narrows to around 35% but, even with the adjustment, the data support the regular headline that the UK market looks cheap.

This extreme market polarisation raises critical questions for institutional investors. We believe the investment case for UK equities rests not merely on mean reversion potential but also on fundamental changes in the market environment that could favour the UK market's characteristics. The end of the ZIRP era and persistent inflation create conditions where the UK's bias towards capital-intensive, cash-generative businesses may prove increasingly valuable. This requires a leap of faith that what has been working as an investment strategy (playing beta and exposure to growth stocks with expanding multiples) may require a rethink, which we expand on below.

Exhibit 1: MSCI UK 12m forward P/E ratio relative to MSCI USA



Source: LSEG Data & Analytics

The US dominance story

The extent of US market dominance has reached extraordinary levels. Beyond the headline 70% share of global indices, the US now attracts over 70% of flows into the £10.4tn global private investment market, according to the *Financial Times*. Foreign investors directed capital into US debt at an annualised rate of £800bn in 2024, nearly double the flows into the eurozone.

Notably, this dominance extends well beyond the much-discussed mega-cap technology stocks. When examining indices that weigh stocks equally and adjust for Big Tech dominance, the US has

still outperformed the rest of the world by more than four to one since 2009. This suggests a broader market phenomenon rather than simply a technology sector story.

The resulting disconnect is striking. While the US accounts for 27% of the global economy, it represents 70% of global market capitalisation. Market consensus views this premium as justified, citing the earnings power of leading US companies, their global reach and their dominant position in technological innovation. Recent political developments, particularly the impact of a Trump presidency, have reinforced this narrative. Investors anticipate that policies around tariffs, tax cuts and deregulation could further support US assets. The US track record and dominant position is summed up in the current market phrase: 'US exceptionalism'.

The UK discount

Against this backdrop of US supremacy, UK equities trade at levels that our historical analysis suggests signal exceptional forward returns. The market's 10.5x forward P/E ratio sits well below long-term averages, while dividend yields materially exceed global peers. Crucially, these discounts persist even when adjusting for sector composition differences, suggesting the undervaluation may reflect sentiment toward the UK listing venue itself rather than underlying business quality.

This discount appears increasingly disconnected from improving fundamental indicators. Simon Gergel, manager of The Merchants Trust, highlights that many of the issues linked to the discount (pension fund regulation, Brexit, stagflation and the political turmoil that culminated in the Truss-Kwarteng mini budget) are now largely consigned to the rear-view mirror.

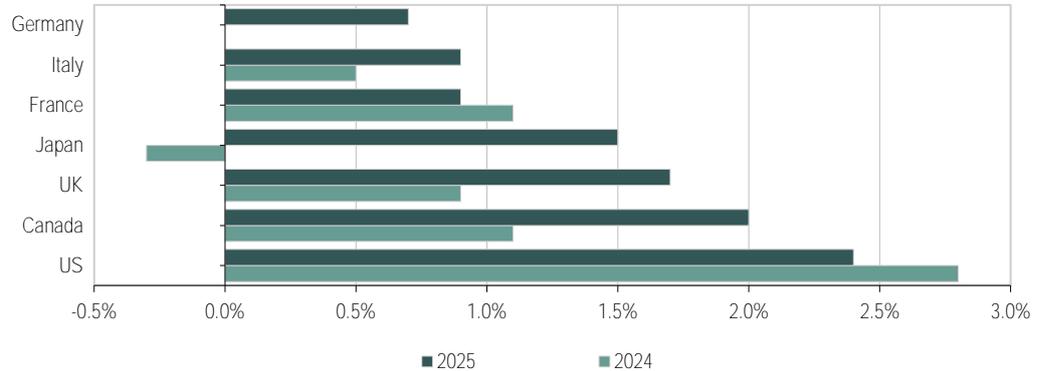
Our analysis of UK economic data presents a more nuanced picture than commonly portrayed in media headlines. While continental European peers face significant challenges, particularly evident in German and French economic weakness, the UK shows multiple signs of resilience.

Consumer behaviour provides especially interesting insights. Simon Murphy of Tyndall Investment Management noted in his most recent review that the GfK Consumer Confidence Index showed improvement in November 2024, while the Asda Income Tracker highlights continued year-on-year growth in disposable income. Jean Roche, manager of the Schroder UK Mid Cap Fund and a former retail analyst, points to retail sales data revealing evolving rather than declining consumption patterns. Notable strength has been observed in sectors such as computers and telecommunications, pet products and home-related purchases. This selective consumer spending suggests discriminating rather than distressed consumers, a characteristic typically associated with healthier economic conditions.

From a relative perspective, the UK's position appears increasingly favourable. The latest OECD forecasts place the UK among the best-performing G7 economies, with projected growth of 1.7% in 2025, outpacing the eurozone (1.3%), Japan (1.5%), France (0.9%), Germany (0.7%) and Italy (0.9%). While trailing the US (2.4%) and Canada (2%), this represents a significant improvement in the UK's relative position and prompted the OECD to upgrade its previous 1.2% forecast. This improvement comes despite recent political noise around the Labour budget. Beyond the noise, the budget provides additional stimulus through its £70bn annual increase in public expenditure. The OECD specifically praised the government's commitment to 'productivity-enhancing public investment' that should 'improve growth potential over the long run'.

This more favourable growth outlook coincides with moderating inflation, though the OECD notes that price growth remain sticky at 2.7% for 2025. Our analysis suggests this combination of moderate growth and gradually normalising inflation could provide a supportive backdrop for UK equities, particularly given current valuation discounts. Moreover, the UK's improved relative position versus European peers could attract increased international capital flows, especially given the strengthening US-UK relations and ongoing continental European economic challenges, most notably in Germany, where growth is forecast at just 0.7% for 2025.

Exhibit 2: OECD GDP forecasts have the UK as the third fastest growing economy in the G7 in 2025



Source: OECD annual report, December 2024

The case for continued US dominance

The overwhelming consensus supporting US market dominance rests on several compelling arguments. Foremost is the US's undisputed leadership in technological innovation. US companies command dominant positions in AI, cloud computing and platform economics – sectors that benefit from powerful network effects and scalability advantages. Moreover, these companies increasingly capture global rather than purely domestic opportunities, as evidenced by the international revenue contribution exceeding 40% for S&P 500 constituents.

The structural advantages supporting US markets appear equally formidable. The dollar's reserve currency status provides a natural advantage in attracting global capital flows, while the US's deep, liquid capital markets offer unmatched execution capabilities for institutional investors. The country's innovation ecosystem, supported by world-leading universities and venture capital networks, continues to produce category-defining companies at a pace unmatched globally.

An argument can be made that current premiums may have moved beyond fundamental justification. When the US last commanded similar market dominance in the late 1960s, the country generated nearly 40% of global GDP, compared to 27% today. Even during the dot-com bubble of 2000, US equities did not trade at such an extreme premium to international peers.

The challenge for any asset allocator is that this argument could have been made a year ago. Exhibit 3 shows the year-to-date returns of the three newly promoted UK 100 entrants, Games Workshop, St James's Place and Alliance Witan, against the Magnificent 7 and the extent to which the Magnificent 7, on a simple average, outpaced what arguably are the UK stock market success stories.

Exhibit 3: Year-to-date performance of the magnificent 7 against newly promoted UK 100 entrants (priced 5 December 2024)

Company	Ytd performance
Alliance Witan	16.9%
St James's Place	29.8%
Games Workshop	43.4%
Average	30.0%
Apple	30.8%
Netflix	99.5%
Amazon	51.4%
NVIDIA	195.7%
Microsoft	24.4%
TESLA	56.7%
Alphabet	26.5%
Meta Platforms	80.1%
Average	70.6%

Source: LSEG Data & Analytics

The case for global rebalancing

Our examination of historical market cycles suggests the pendulum of investor sentiment often swings to extremes before reversing. Several factors lead us to believe UK equities may be approaching such an inflection point.

The first is that there are indicators suggesting investors in US equities are looking for downside protection and diversification. If an investor like Warren Buffet is holding \$325bn in cash, it raises questions as to why. Two indicators we focus on are:

- **US consumer sentiment.** According to The Conference Board, American consumers are more bullish on equities than ever. The US Consumer Confidence survey, which has been running since 1987, shows a record 56.4% of individuals are expecting equities to rise. This has historically been seen as a sell signal, indicating lower returns on the horizon. Think of (apocryphal or not) Joe Kennedy dodging the 1929 crash by selling out when he heard the shoeshine boy giving him stock tips.
- **Market concentration risk.** The Magnificent 7 now make up about a third of the S&P Index. A small number of constituents representing such a significant proportion of the S&P's total capitalisation is expected to lead to higher volatility compared to a more diversified group of stocks. This concentration demands higher returns to compensate investors for the risk but, coupled with high relative valuations, also suggests lower long-term. By contrast, the UK's valuation case is compelling across multiple metrics. The UK market's current discount to global peers exceeds two standard deviations from long-term averages, a level that has historically preceded periods of sustained outperformance. Importantly, this discount appears largely sentiment-driven rather than reflecting a fundamental deterioration in corporate performance.

Secondly, the market environment is evolving in ways that could favour UK market characteristics. The end of the ZIRP era marks a profound shift in market dynamics that could particularly benefit UK equities. Our analysis suggests that the ZIRP period created significant distortions in global capital allocation, disproportionately favouring mega-cap growth stocks while structurally undermining smaller companies. This effect was particularly pronounced in the UK market, where smaller companies historically have represented a larger portion of the listed universe than in the US.

As markets continue to transition to a higher rate environment, several structural shifts align with UK market characteristics. The return to more normalised interest rates should benefit companies focused on current earnings and cash generation rather than long-duration growth, a notable feature of UK-listed businesses. Moreover, emerging inflationary pressures from infrastructure spending, deglobalisation and onshoring trends play to the UK market's strengths in capital-

intensive industries. With a higher cost of capital on the horizon, companies that have already invested in plant and machinery gain a competitive advantage.

Furthermore, our analysis indicates the post-ZIRP environment may trigger a fundamental shift in investment approaches. The era of ‘growth at any price’ and passive mega-cap beta exposure could give way to a period favouring value-conscious, active management – an approach well-suited to the UK’s market structure. With many UK-listed companies trading at historically low valuations despite strong cash generation, the market appears well-positioned for this new regime, where generating sufficient returns to exceed inflation becomes the primary challenge.

Corporate activity provides additional support for this view (see page 7). Recent months have seen an uptick in both domestic M&A and international interest in UK assets. Notably, overseas acquirers appear particularly attracted to mid-cap companies, where the valuation disconnect is most extreme.

Implementation framework

Portfolio construction considerations

The extreme nature of current market polarisation demands careful consideration of implementation strategies. Investors should consider a barbell approach: maintaining selected exposure to US structural growth stories while building positions in UK equities, where valuations offer a significant margin of safety.

For UK exposure, we see particularly compelling opportunities in the UK 250 and smaller companies segments. These areas have suffered disproportionately from reduced analyst coverage and declining market liquidity, creating opportunities for well-researched stock selection. Historical precedent from 1965–85 shows that UK small caps outperformed during a similar period of sterling weakness and economic challenges. With UK small- and mid-caps starting from historically depressed valuations, this provides an attractive entry point. Dividend cover for the UK 250 names is about 2.5x and many of the businesses are presently cash-rich, with the opportunity to scale and grow market share in a more challenging environment.

Stock selection criteria

Our research indicates several key characteristics that could prove particularly valuable in the current market environment:

- **Capital allocation efficiency:** companies demonstrating strong capital discipline and return on invested capital materially above their cost of capital warrant premium valuations. This becomes increasingly important as the cost of capital normalises from historic lows. Games Workshop Group is a good example of this, with its strong intellectual property and growth track record, which it has funded from its own cash flows rather than raising equity. This is reflected in its high return on capital.
- **Market position resilience:** businesses with genuine pricing power and defensible market positions offer protection against persistent inflation. However, while this is the ultimate protection, these businesses are also expected to be at the forefront of automation and efficiency savings. Tesco, for example, believes it can mitigate much of the increase in National Insurance from the last budget through efficiency measures rather than passing these costs on to customers. Compare a visit to a supermarket today with five years ago: self-checkouts are just one example of the growing trend towards automation.
- **Balance sheet strength:** companies with robust balance sheets are positioned to weather potential economic turbulence as well as to take advantage of acquisition opportunities. Recent

corporate activity suggests well-capitalised UK companies are finding attractive bolt-on acquisitions at compelling valuations. Card Factory’s shares rose c 8% on 5 December 2024 following the announcement of its acquisition of Garven Holdings.

Catalysts for change

In addition to valuation, economic recovery and a move to real wage growth, three factors stand out as potential catalysts specific to the UK market: pension fund reform, corporate activity and growing acceptance of share buybacks.

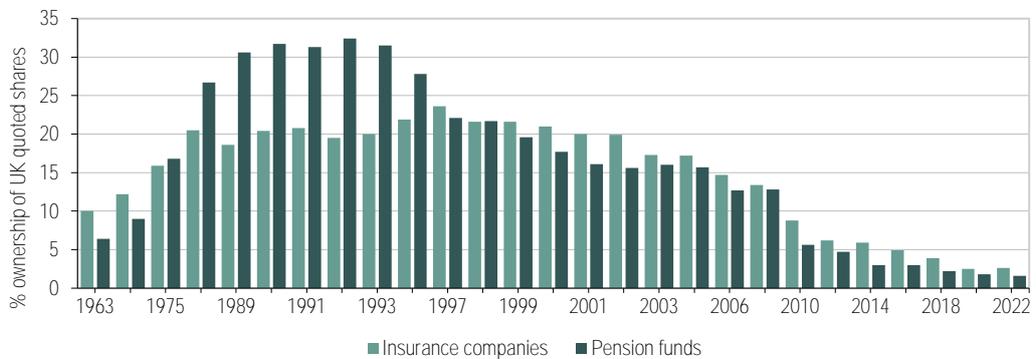
Pension fund reform

The Emma Reynolds review of pension fund allocation, due by end-2024, represents perhaps the most significant potential catalyst for a UK equity re-rating. Our analysis suggests UK pension funds’ domestic equity allocation has fallen from c 30% in the 1990s to below 5% currently. The fact that UK pension funds have been one of the biggest sellers of UK equities and are now nearing a point where allocations cannot fall much further is, in itself, a bullish sign.

A mandated minimum allocation of even 5–7% to UK equities, as some industry participants suggest, could drive significant buying pressure given current market liquidity conditions. Markets such as Australia and Israel, which have implemented pension reforms, have created significant pools of capital for their respective domestic markets.

If pension fund reform is coupled with potential diversification flows out of US large-cap technology stocks, we could see what Gervais Williams describes as ‘large flows into small thimbles’.

Exhibit 4: Pension and insurance holdings of UK equities are at a historic low



Source: ONS data

Corporate activity: Validation of value

The pace of corporate activity in UK equities provides compelling evidence that sophisticated buyers recognise the market’s extreme undervaluation.

In the first six months of 2024, data from Travers Smith showed 30 bids for UK companies, 13 of which were private equity-backed takeovers. More recent Bloomberg analysis shows that c 45 companies have delisted from the London market in 2024 due to mergers and acquisitions (the highest level since 2010), while year-to-date deal volumes targeting UK companies have surged 81% compared to 2023, exceeding \$160bn. This acceleration in activity spans both strategic and financial buyers, suggesting multiple classes of acquirers see value at current levels.

Private equity firms have been particularly active, as demonstrated by Starwood Capital Group’s £674m acquisition of Balanced Commercial Property Trust, EQT’s £2.1bn purchase of Keywords

Studios and Thoma Bravo's \$5.3bn takeover of Darktrace. Strategic buyers are also moving aggressively, with Czech billionaire Daniel Křetínský's £3.6bn Royal Mail deal and Carlsberg's £3.3bn approach for Britvic highlighting the appeal to international acquirers. The pipeline remains robust, as evidenced by Aviva's £3.3bn bid for Direct Line and General Atlantic's potential acquisition of Learning Technologies Group.

This surge in corporate activity, occurring while UK equities trade at a record 40% discount to global peers, suggests acquirers see a significant disconnect between public market valuations and private market worth. The concentration of deals in the mid-cap space, where companies often suffer from reduced analyst coverage and trading liquidity, indicates opportunity in this segment of the market. In our view, the current wave of corporate activity is a powerful validation of the value proposition in UK equities.

A sign of a more optimistic outlook among UK equity owners has been the rebuffing of opportunistic bids, for example:

- Rightmove rejected Rupert Murdoch's REA Group's fourth offer of £6.2bn for the business. Shares were trading at c 550p prior to the bid and are currently at 674p.
- The £338m bid by Fortress Investment Group for Loungers is currently being opposed by existing shareholders, including Slater Investments, Gresham House and AXA, despite the board backing the offer.

Growing acceptance of share buybacks

One of the key features of the US market has been the use of share buybacks. UK companies are now increasingly adopting this mechanism. Historically, UK companies had preferred to pay dividends. Between 2012 and 2019, UK companies bought back c £18bn of stock on average each year. In 2022, this figure rose to £55.6bn and, for 2024, it is expected to be surpassed. From a capital allocation perspective and bearing in mind the valuation differentials between US and UK companies, we see this as a sign of attracting further investor interest.

The trend appears particularly meaningful in the mid-cap space, where companies like Paragon Banking Group and Grafton Group have repurchased 15–20% of their shares over the past two years, while Man Group has reduced its share count by 25% over five years. These actions, occurring while shares trade at historically low valuations, suggest management teams see compelling value in their own shares. Given the higher dividend yields for UK companies relative to other markets, buybacks also result in companies paying out less future cash flows as dividends due to smaller share counts, leaving more cash for growth investments or the potential to raise dividends further in the future.

Importantly, we are seeing evolution in how UK companies approach buybacks, with many now providing specific frameworks for capital return decisions. Rather than ad-hoc announcements, companies increasingly articulate clear metrics, typically based on gearing levels or surplus cash generation, that trigger buyback activity. This increased transparency allows investors to better anticipate capital returns.

How to gain exposure to UK markets

For investors seeking exposure to the UK market opportunity, we highlight 20 UK stocks that have been compiled using (a) our Illuminator stock screen, which has a strong long-term track record of identifying outperforming companies, and (b) stocks our analysts highlight from either a valuation perspective or an inflection perspective. These should be considered in conjunction with investment objectives and risk tolerances. We also highlight a number of closed-end funds that provide exposure to the UK market. More details on these companies can be found via the [Edison website](#) or by contacting our analysts.

Edison's showcase of UK companies

- **4imprint (FOUR.L, £1.42bn market capitalisation):** market leader in North American promotional products with a 5% market share in a highly fragmented \$25bn market, demonstrating consistent market share gains and strong cash conversion at 106%. **Analyst: Fiona Orford-Williams.**
- **Card Factory (CARD.L, £353m market capitalisation):** store base reconfigured to accommodate enhanced product ranges, increasing addressable markets by 75%. Geographic expansion through franchise and wholesale partnerships. **Analyst: Russell Pointon.**
- **Creo Medical (CREO.L, £59m market capitalisation):** cutting-edge electrosurgical devices with CE mark and FDA clearance. Development partnerships with leading robotics players. Targeting gastrointestinal procedures market valued at \$5.9bn. **Analyst: Jyoti Prakash.**
- **Dowlais Group (DWL.L, £901m market capitalisation):** strong market position in driveline (40% share) and powder metallurgy. Long-established 50/50 joint venture in China. The group is agnostic to the electric vehicle transition and targets double-digit operating margins. **Analyst: David Larkham.**
- **Foxtons Group (FOXT.L, £196m market capitalisation):** best-known estate agency brand in London/Southeast. Strategy focused on increasing predictable lettings revenue (now around two-thirds of group revenue). Strong balance sheet offering acquisition potential. **Analyst: Andy Murphy.**
- **Gamma Communications (GAMA.L, £1.6bn market capitalisation):** exposure to continued migration of communication technologies to internet solutions. Strong position in mature UK, Spanish and Dutch markets, with growth potential in German operations. **Analyst: Ross Jobber.**
- **GlobalData (DATA.L, £1.6bn market capitalisation):** established and innovative provider of data and analytics to the healthcare, consumer and technology sectors, leveraging a scalable platform supported by AI. The company has achieved growth through organic progress and highly accretive M&A, focusing on businesses with specialised market expertise, within a total addressable market estimated at approximately £20bn. With strong customer retention targeted to improve to 90% by FY26 from 84% in FY23, GlobalData enjoys high revenue visibility. The sale of 40% of its Healthcare division to Inflexion for £434m in Q224 has provided funds for reinvestment, supporting its target of attaining £500m annual revenue by FY26 and maintaining strong adjusted EBITDA margins of 41%. **Analyst: Fiona Orford-Williams.**
- **HgT (HGT.L, £2.3bn market capitalisation):** exposure to European mid-market software businesses with mission-critical solutions. Portfolio companies demonstrate 20–30% pa sales and/or EBITDA growth at 30%+ margins. **Analyst: Milosz Papst.**
- **International Consolidated Airlines Group (IAG.L, £14.3bn market capitalisation):** has demonstrated strong performance, reflecting prudent management, particularly in its core markets of North America and Europe. Despite facing inflationary pressures, the company has effectively managed costs, resulting in operating profits of €1.24bn and maintaining a robust

15% operating margin. The group's recovery in corporate travel and significant debt reduction present substantial opportunities. **Analyst: Harry Kilby.**

- **ME Group International (MEGP.L, £822m market capitalisation):** operates in niche markets with automated photo booths, food and laundry machines, which offer high returns on capital. The company is poised for significant growth as it expands its laundry model into Eastern Europe and Asia. **Analyst: Neil Shah.**
- **Mitie Group (MTO.L, £1.4bn market capitalisation):** has grown from a traditional facilities management and property management business into a broader strategic outsourcing and energy services company. Its valuation looks undemanding, with growth prospects improving and further upside from the use of technology to drive efficiency and improving margins. **Analyst: Neil Shah.**
- **Pan African Resources (PAF.L, £780m market capitalisation):** five producing assets in South Africa and major development project in Australia. Production set to exceed 250koz by FY26 with potential to approach 400koz by decade end. **Analyst: Lord Ashbourne.**
- **Plus500 (PLUS.L, £1.9bn market capitalisation):** a fintech company that operates technology-based trading platforms globally. It offers an online and mobile trading platform that allows its international customers to trade CFDs on various financial instruments. Has been investing to scale operations internationally and with limited capex requirements, the cash profile and a history of distributing excess cash to shareholders make for an attractive yield. **Analyst: Neil Shah.**
- **Renew Holdings (RNWH.L, £780m market capitalisation):** specialist engineering group focused on critical UK infrastructure maintenance and renewal, particularly in water. Delivered record results for FY24, with revenue up 19% to £1bn and profit rising 13% to £70.9m. Strong exposure to structural tailwinds from committed infrastructure spending programmes and ESG agendas. Trades on a 14.3x FY25 P/E ratio despite a high-quality compounder model, with both organic and inorganic growth potential. **Analyst: Neil Shah.**
- **Rightmove (RMV.L, £5.3bn market capitalisation):** the market-leading UK property portal, with an 80% share of consumer portal time, generates significant data volumes. House price growth remains slightly positive, mortgage rates have stabilised and transaction flow is improving. Political priorities to enhance housing supply buoy prospects for the new build market. Continuing product development supports average revenue per account progress, with guidance lifted in November. Strategic growth areas include mortgages, rental services and a commercial platform, diversifying the revenue base and driving stronger organic growth. Lead generation remains strong. An approach from REA highlighted value, lifting the share price, with a current year EV/EBITDA of 18.9x. Surplus cash is returned to shareholders through dividends and share buybacks. **Analyst: Fiona Orford-Williams.**
- **Smiths News (SNWS.L, £157m market capitalisation):** regional monopoly position with long-term contracts covering 74% of annual revenues through 2029. Highly cash generative with focus on shareholder returns. **Analyst: Andy Muphy.**
- **Softcat (SCT.L, £3.1bn market capitalisation):** Leading UK value-added reseller generating 80% of growth from existing customers, with a gross profit compound annual growth rate of 16.8% over the last decade. Balanced exposure across enterprise (21%), SME (41%) and the public sector (38%). **Analyst: Ross Jobber.**
- **Target Healthcare REIT (THRL.L, £540m market capitalisation):** exposure to structurally supported care home market driven by demographics. ESG-compliant portfolio delivering inflation-linked income with high rent collection rates. **Analyst: Martyn King.**
- **Topps Tiles (TPT.L, £79m, market capitalisation):** Expanding into complementary product categories, increasing addressable market by 75%. Strong management track record with a five-year profit compound annual growth rate target of 40%. **Analyst: Russell Pointon.**

- **Wheaton Precious Metals (WPM.L, C\$41.2bn market capitalisation):** unique streaming business model providing exposure to precious metals prices and exploration upside without operational risks. Production heading towards 1Moz gold equivalent annually. **Analyst: Lord Ashbourne.**

Gaining UK exposure through investment trusts

An alternative to individual companies is to gain exposure through UK-focused investment trusts. As with individual companies, further assessments in terms of fit with investment objectives and risks should be undertaken, but we highlight the following as ways to gain exposure to the UK market:

- **abrdn UK Smaller Companies Growth Trust (AUSC.L, £362m market capitalisation):** the trust aims to achieve long-term capital growth through investment in a diversified portfolio consisting of UK-quoted smaller companies. Performance is measured against the Numis Smaller Companies plus AIM ex-Investment Companies Index. Managers: Abby Glennie and Amanda Yeaman. **Analyst: Mel Jenner.**
- **Henderson Opportunities Trust (HOT.L, £95m market capitalisation):** aims to achieve capital growth in excess of the broad UK stock market from a portfolio of UK investments. Stock selection is not constrained by the benchmark and there are no limits by sector or market capitalisation. Therefore, the portfolio is expected to differ materially from the reference index. Managers: James Henderson and Laura Foll. **Analyst: Martyn King.**
- **Lowland Investment Company (LWI.L, £344m market capitalisation):** Aims to give investors a higher-than-average return with growth in both capital and income over the medium-to-long term by investing in a broad spread of predominantly UK companies. LWI measures its performance against the total return of the broad UK stock market, although its portfolio is markedly different from that of its benchmark index. Managers: James Henderson and Laura Foll. **Analyst: Martyn King.**
- **Onward Opportunities (ONWD.L, £30m market capitalisation):** the trust seeks to generate absolute returns of at least 15% pa through investments in UK smaller companies. The manager runs a concentrated, high-conviction approach to UK small caps and has delivered impressive returns so far in 2024 despite challenging market conditions. Manager: Laurence Hulse. **Analyst: Neil Shah**
- **Rockwood Strategic (RKW.L, £95m market capitalisation):** focuses on companies with market capitalisations below £250m, a segment often overlooked by other small-cap funds due to size and liquidity constraints. The trust holds a high-conviction portfolio of c 20 companies believed to be undervalued and overlooked, targeting a 15% internal rate of return over three-to-five years. The trust takes large stakes in these companies, enabling the trust to actively drive operational, management and strategic changes to unlock value and enhance performance. Manager: Richard Staveley. **Not covered.**
- **Schroders UK Mid Cap Fund (SCP.L, £218m market capitalisation):** focuses on building a portfolio of around 50 unique companies within the UK 250 Index. It targets quality businesses with difficult-to-replicate models, aiming for structural growth and long-term returns. The UK 250 is seen as a dynamic market with diverse, high-growth companies. Managers: Jean Roche and Andy Brough. **Not covered.**
- **The Diverse Income Trust (DIVI.L, £220m market capitalisation):** an AIM-listed investment company that seeks to generate absolute returns of at least 15% pa through investments in UK smaller companies. Managers: Gervais Williams and Martin Turner. **Analyst: Mel Jenner.**
- **The Law Debenture Corporation (LWDB.L, £1.2bn market capitalisation):** the Law Debenture Corporation's investment objective is to achieve long-term capital growth in real terms and steadily increasing income. It aims to achieve a higher rate of total return than the

broad UK stock market through investing in a diversified portfolio of mainly UK equities with some international holdings. The Independent Professional Services business provides a regular flow of income, which augments the dividend income from the equity portfolio.

Managers: James Henderson and Laura Foll. **Analyst: Martyn King.**

- **The Merchants Trust (MRCH.L, £862m market capitalisation):** the trust's objective is to provide an above-average level of income and income growth, together with long-term growth of capital, through investing mainly in higher-yielding large-cap UK companies (up to 10% of the fund may be invested in overseas equities). The benchmark is a broad UK stock market index. Manager: Simon Gergel. **Not covered.**

General disclaimer and copyright

This report has been prepared and issued by Edison. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2024 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. **The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person).** As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers" exclusion from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

www.edisongroup.com

WHEN THE CHIPS ARE DOWN...

Whether you are selling your chips in a packet or on a circuit board – or in a supermarket, restaurant, casino or DIY store – the consumer market is tough right now.

Fortunately, Edison can help lift the mood. We are here to help deliver equity stories that investors will find comforting and easy to digest.



BRILLIANT KNOWLEDGE

[FIND OUT MORE](#)