Banging the drum

RIII's high-conviction strategy seems to be delivering.

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The drum is one of the oldest forms of musical instrument, unsurprisingly, really, given one can fashion a drum out of pretty much anything – banging a tree trunk with a stick, say. Indeed, homo sapiens were playing idiophones (which produce sound via the vibration of the entire instrument) with mammoth bones as early as 70,000 BC, evidence has found.

Military drums also have a long history, from ancient China, Genghis Khan's Mongols right through to the 12th century Crusaders and during the Napoleonic Wars. They're often used as a rallying call. It's where the saying 'beating the drum' originates.

I certainly feel like I've been banging the drum for UK mid and small caps a lot recently. They are, surely, too cheap to overlook. One can see the evidence for this in the sheer number of UK companies that are being picked off by private equity and trade buyers who quite obviously see a lot that their public market counterparts don't.

There are headwinds, sure. The UK political climate remains fraught and uncertain, as a new Prime Minister has just stepped into 10 Downing Street; public sector debt is still elevated and there seems to be no let-up in the rising cost of living, crimping consumers' wallets.

Yet, plenty of UK companies are thriving and, while the ones that have been left to fester on ludicrously low valuations are being snapped up left, right and centre, there are lots more which are rewarding shareholders with rising share prices.

This gives us some confidence in the outlook for UK smaller companies investment trusts such as **Right & Issues (RIII)** in particular. Some of RIII's top holdings have seen spectacular performance recently – and for a trust with such a high-conviction portfolio, this can really move the needle.

Trendsetting

Ashtead Technologies is a good, successful example of RIII manager Matt Cable's investment process in action. Based in Aberdeen, Ashtead rents underwater equipment used to service and maintain offshore wind turbines and energy rigs. Providers of these facilities will rent things that are too bulky and expensive for them to own outright, like remotely operated submarines, underwater cameras and heavy machinery, but crucial for their operations.

Importantly, this equipment needs regular servicing, which Ashtead can deliver that helps to bring in additional, regular revenues above and beyond the rents its collects. It also means Ashtead runs an asset-light business model, giving it higher margins than pure rental businesses tend to garner.

After floating on the stock market at 163p in November 2021, shares eventually soared as high as 893p by July 2024, almost a 450% gain. It then got caught up in the US administration's tariff pronouncements, as well as worries over the oil price, with shares de-rating by about two-thirds.

Matt has known Ashtead ever since its IPO and some of the open-ended funds within Jupiter Asset Management's UK equity stable, of which Matt is a team member, were already shareholders.

With shares now looking cheap, Matt met with management in Aberdeen and judged that the fundamentals of the business had remained strong; assessing instead that the share price movement was market noise, Matt added it to the RIII portfolio, with an expectation that plenty of patience would be needed.

Yet, as the market has finally caught up with Matt's view that Ashtead remains a high-quality operator – and, of course, conflict in the Middle East has contributed to a rising oil price – shares have performed strongly, up c. 42% since the start of the year, as of 20/07/2026.

Other successful investments in recent times include the groundworks engineer Keller, which has seen its share price double in the year-to-date; Colefax, which designs and supplies home furnishings; and Hill & Smith, which makes safety components for infrastructure such as road crash barriers. Shares in the latter two are up c. 50% and 40% respectively this year.

That's not to say that RIII isn't benefiting from M&A activity. There were a total of four bids for companies held within its portfolio last year – Reynold's, Alpha Group, JTC and Treatt, with three of those completing. There's been interest in another, Gamma Communications, too.

It's a double-edged sword, of course – having companies being bought-out contributes to performance and helps to realise some value, yet it potentially hinders long-term returns, since these companies are obviously seen as being worth more than the market is currently pricing in.

Quality traits

Still, it goes to show the concentrated and high-conviction nature of Matt's investment process, which we think is a real appeal – each of the 20 to 25 stocks that are in the portfolio at any one time have a sufficiently high weighting so as to have a material impact on performance.

This, of course, brings some potential pitfalls, particularly as one can imagine it will see more volatility over time. However, the investment trust wrapper really comes into its own here, as it means RIII can cope with and even take advantage of that volatility.

Matt seeks companies with classic quality characteristics, including high returns on capital, solid cash generation and strong margins, as well as strong brands and high-quality assets. There's also an emphasis on competent management teams.

Hence, the portfolio is heavily tilted to quality companies, but there's also a bias towards value, the companies held in the portfolio must be available at attractive valuations.

There's a clear bias towards industrials businesses, though Matt still looks to reduce concentration of risk by investing across a range of sectors. That's helped by a top-down overlay and risk management handled by colleague Tim Service.

We think that RIII is a unique proposition within the UK smaller companies space. Its quality-value approach strikes us as attractive within a space we see as rife with world-leading companies trading at unfairly depressed levels. It also benefits from relatively low charges and a progressive dividend policy resulting in a c. 2% yield.

We see the re-establishment of the trust's share buyback authority, which had previously been blocked by a large shareholder, as being a potential gamechanger, too. It may have little impact in the near term, but we think this should help to narrow the discount over time, leading to positive shareholder returns.

For a while now, we've seen real scope for strong returns from the UK small-cap segment and will continue to bang the drum, despite not knowing what the exact catalyst for a re-rating will be. In the meantime, RIII should see its concentrated and high-conviction portfolio continue to deliver for shareholders, ready for that turning point.

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