h2Radnor View

Follow the money

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Much has changed in the five and a half years since I joined h2Radnor, or Radnor Capital Partners as it was back then. One trend, however, was already well under way.

Building on what my colleague Neville Harris wrote last month, consolidation within the Private Wealth space has significantly altered the make-up of the investor audience that my team and I engage with when it comes to our UK Small & Mid-Cap PLC (SMID) clients. How so?

When Radnor was founded in 2016, many of the investor meetings it organised would have been with **the great and the good of Private Wealth:** Investment Managers who were avid stock pickers with a **respectable allocation to UK SMID**, which their clients welcomed. At each firm, these larger Wealth Managers tended to be able to write both a decent sized ticket and/or pick up a few shares, whether on their own or as a collaborative posse.

Fast forward almost six years and the trend of **Private Wealth consolidation** (coupled with an unhelpful combination of heightened compliance/risk management, centralised research favouring large cap, and a significantly increased allocation to US equities/index funds, all at the expense of UK equities) has accelerated to the point where this specific cohort is allocating less to UK SMID (the powers that be say: "too small"; "too illiquid"; "off benchmark"; "not allowed"). But fear not!

Where h2Radnor is still engaging these specific investors, it is likely because he/she has left a large house to set up shop on their own or moved to a smaller house, **eager to continue stock-picking in UK SMID, free from the shackles of scale**. A lot of Wealth Managers dislike being told how to manage their clients' wants and needs, particularly when they are individuals/families they have known for generations.

It is understandable, therefore, that **our investor reach has broadened** to include, alongside the traditional institutional investors, an array of esoteric and **boutique firms, both in the UK and increasingly in Europe.** These are the **marginal buyers.** Whether smaller private wealth, small funds or family offices, our business model - unconstrained by MiFID - is agnostic when it comes to engaging investors. The key is that **our corporate SMID clients are given the opportunity to engage with the most relevant investors.**

My point? The industry has evolved, and we have adapted accordingly. We are also well placed to do so again when the next trend kicks in. Markets are dynamic and will continue to be. What could that next trend be? With current Trump-driven market volatility showing signs of challenging the recent belief that large / mega-cap / anything US is better, **could UK equities finally be coming back into fashion?**

What if Private Wealth clientele notices the **UK stock market outperforming the US** and ponders why they are underperforming their home market? Could this lead to more interest and focus on UK exposure that, over time, delivers a **trickle-down effect from large caps down to SMIDs**. This is what typically occurs. The FTSE 100 did, after all, recently close out a 16-day hot streak (previous record: 11 consecutive up-days).

This trend could well already be in motion based on our conversations. Debate remains fierce about how to encourage (re)allocation to UK equities more generally. It is also no secret that UK equities are cheap: Private equity and public to private M&A has been telling us so for the past 2-3 years!

An extremely positive sign of late is certain **UK Local Authority Pension funds** (another cohort we engage with) **beginning to reallocate some of their capital back to the UK**, either in-house or to dedicated UK SMID managers, rather than outsourcing it to 'global' exposure. Fixing begins at home…

Additional anecdotal evidence, of a desire for change? Firstly, one young portfolio manager at a large Private Wealth house, who was lucky enough to witness several formative years of stock-picking under a senior colleague, now pines for "the good old days" when the central buy list did not rule. He will likely seek this elsewhere (i.e. smaller or boutique firm).

Secondly, a portfolio manager who has departed a medium sized Private Wealth firm to help a Family Office that has made the decision to **bring its equity allocation in-house,** after becoming unhappy with the performance and service it was receiving from the Private Wealth houses it had been outsourcing to.

Thirdly, having upped their allocation to the UK, spurred on by M&A, **Continental European stock pickers are increasingly asking us** for targeted and relevant ideas that match their investment mandate. Being less au fait with the UK market and UK PLCs, they welcome the opportunity to engage.

Lastly, a recent CityWire article focused on the Top 30 [wealth managers] Under 30 showed a reassuringly high conviction towards UK Equities, being the most favoured area of investment ahead of US, Asia and Global Equity or Fixed Income. Young investors cited compelling valuations in SMID companies which are in good financial shape, vindicated by M&A over the past year attracting an average 50% bid premium.

There is, thus, hope that the new/younger generation of UK portfolio managers wants to buck the trend and try and take back control, while Continental investors also want to make the most of the valuation opportunity relative to their home markets.

h2Radnor already engages with the broadest range of investors who seek to invest in UK SMID PLCs. **We make it our business to 'follow the money' and are known for being extremely good at it** (own trumpet blown!). We are also ready to engage with all those who wish to return to the UK SMID party after a few years away (whether the hiatus was their choice or not).

As the old saying goes: **the trend is your friend, until the bend at the end.**

For investors who want SMID ideas relevant to their investment approach, drop us a line.

For corporates looking to engage with a wider, relevant audience, this is my team's bread and butter.

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