

# LF Gresham House UK Smaller Companies Fund

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## Factsheet commentary - November 2022

**Past performance is not necessarily a guide to future performance. Portfolio investments in smaller companies typically involve a higher degree of risk. Capital at risk. Extracted portfolio performance is not necessarily indicative of the performance of the fund.**

### Overview

Following October's UK political turbulence including a change of Prime Minister and Chancellor, November saw the announcement of a revised budget by the new Chancellor, which seemingly stabilised markets, albeit on the back of significant volatility. Despite the content of the budget pointing to more challenging times for UK businesses and consumers, such as elevated taxes and reduced spending, the markets appeared to react positively in the short term.

Notwithstanding the consequent upward correction in sterling and UK equity markets during the month, the wider economic backdrop and longer-term challenges remain. Concerns around high inflation, rising interest rates and a pervasive cost of living crisis linger. With the reality of a softening economic environment continuing to weigh on sentiment, we view pockets of market optimism as being short-lived. Broadly, market conditions remain fragile and ongoing global geopolitical tensions are an additional ongoing risk.

It seems inevitable that market conditions will be volatile for the final month of this year and well into next year. Despite the seemingly bleak environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth trends or self-help opportunities and therefore able to perform well despite the wider macroeconomic uncertainty. Valuations are undemanding for this set of quality fundamentals.

We continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied both to the UK but more accentuated within the smaller companies segment, remains material. Currency movements during 2022 have enhanced this valuation anomaly from the perspective of overseas buyers which is likely to support a resurgence in takeover activity amongst listed UK companies.

We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth characteristics at sensible valuations.

### Performance<sup>1</sup>

The LF Gresham House UK Smaller Companies Fund increased by 6.5% during the month, underperforming the IA UK Smaller Companies sector which increased by 6.9%.<sup>2</sup>

Key positive contributions came from **Devro** (+72%), following a takeover offer; **Franchise Brands** (+20%),

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1. Please refer to the factsheet for full UCITS-compliant performance figures.

2. The IA UK Smaller Companies sector comparator is used for illustrative purposes only.

on the back of a positive trading update; and **Alpha FMC** (+28%), following better than expected interim results.

The largest detractors to performance were **Inspired** (-25%) on no specific news; **Tribal Group** (-14%) on no specific news; and **Randall & Quilter** (-17%), also down on no specific news.

## Portfolio activity

We made two new investments during the period, into **Learning Technologies Group** and **Team 17 Group**. We also made one follow-on investment into an existing portfolio holding **Medica Group** during the month. There were no full exits during the period. We made one partial exit during the month, taking profits from our holding in **Euromoney**.

## Outlook

The macroeconomic and equity market outlook continue to exhibit elevated levels of uncertainty as we appear to be at a generational paradigm shift from low to higher inflation and low interest rates to a sustained period of increasing rates and unwinding of government stimulus as well as an equity rotation from growth to value that is well underway.

We anticipate this uncertainty will continue to drive periods of sentiment driven volatility in equity markets well into next year. Looking forward we believe it is prudent to expect a tightening environment as businesses and consumers are likely to remain cautious about discretionary costs and spending. We reiterate our continuing focus on resilient companies with business-critical propositions and robust operating and financial models that can deliver through taking advantage of structural tailwinds that are more insulated from the external environment.

While we view the outlook with suitable caution, we expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing.

We believe our portfolio of high-quality businesses with resilient growth fundamentals is well positioned to deliver long-term returns. In this period of higher uncertainty, we continue to apply our disciplined investment process and selectively seek out structurally attractive long-term investment opportunities that we believe have the ability to outperform through different and evolving market cycles.

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