

LF Gresham House UK Smaller Companies Fund

Factsheet commentary – January 2023

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

2023 started with a positive resurgence in market sentiment and performance across UK equities following a flatter end to 2022, as activity and trading volumes returned to the market. Despite this perceived renewed optimism, we are cautious in our expectations around its longevity.

We believe the wider economic backdrop remains highly uncertain and longer-term challenges persist. 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 global geopolitical tensions are an additional ongoing risk.

Performance¹

The LF Gresham House UK Smaller Companies Fund **increased by 5.95%** during the month, outperforming the IA UK Smaller Companies sector which increased by 3.26%.²

Key contributions came from **Medica Group (+18%)** following a well-received trading update, which confirmed that previously announced capacity constraints had been temporary and subsequently alleviated; **Moneysupermarket (+22%)** alongside an analyst upgrade to earnings; and **XPS Pensions Group (+24%)** on no specific news.

The largest detractors to performance were **Devolver Digital (-39%)** following a downwards revision in earnings guidance; **Restore (-8%)** following the disclosure of a short position; and **Telecom Plus (-8%)** on no specific news.

Portfolio activity

We made no new investments during the period.

We made selective follow-on investments into a number of existing portfolio holdings, including **Learning Technologies Group**, an international provider of workplace digital learning and talent management solutions; **Tribal Group**, a leading global provider of software and services into the education sector; and **Next Fifteen**, a technology and data driven growth consultancy.

There were no full exits and no partial exits during the period.

Outlook

It feels prudent to expect that market conditions will continue to be volatile throughout 2023, particularly as recessionary pressures could weigh on corporate earnings. However, the fund remains well positioned despite the macro-backdrop, with a portfolio of relatively resilient businesses, exposed to structural growth trends and with strong fundamental characteristics, that we believe should perform well through the cycle.

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 enhanced this valuation anomaly from the perspective of overseas buyers which has the potential to support a resurgence in takeover activity amongst listed UK companies as 2023 progresses.

Other factors that provide a supportive landscape for ongoing elevated corporate activity include significant levels of capital yet to be deployed by private equity firms, ongoing dislocation between company fundamentals and listed valuations, and a general prudent re-basing of market expectations.

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

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