

# LF Gresham House UK Multi Cap Income Fund

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## Factsheet commentary – March 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. Not to be construed as investment advice or recommendation.**

### Overview

Global equity markets remained unsettled last month over fears of widespread banking sector contagion, as February's Silicon Valley Bank developments were superseded by the rapid collapse of Credit Suisse in early March. Whilst our portfolio contains no direct exposure to banking institutions, in line with our investment strategy, we were not wholly immune to the global softening of risk appetite.

Offsetting this were a number of positive UK economic developments, including signs of inflation and the cost-of-living crisis easing, a positive January GDP surprise (announced in March), and Sterling strengthening (in particular vs. the US Dollar). We maintain our view that the UK's resilient fundamentals, well-regulated banks and capital markets, and robust corporate earnings may lead to improving sentiment.

Despite the challenging environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth and sustainable income trends, or self-help opportunities, and therefore able to perform well despite the wider macroeconomic uncertainty.

News flow across our portfolio companies has on the whole been positive and well received by the market, with a number of trading updates demonstrating better than expected financial performance. In the year to date, c.86% of portfolio updates have been in-line or positive relative to market expectations.

The longer-term discounted valuations applied to UK equities, and in particular the smaller companies segment, remains material. Building on the strong momentum in UK plc takeover announcements in January and February, March continued to show an elevated level of takeover developments, including: Cenkos / finnCap (merger), ECSC Group, Hurricane Energy, Purplebricks, and Unbound Group.

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

The LF Gresham House UK Multi Cap Income Fund decreased by 2.78% during the month, outperforming the IA UK Equity Income sector which decreased by 4.13%, whilst underperforming the FTSE All-Share Index which increased by 1.15%.<sup>2</sup>

Key positive contributions came from **Sabre Insurance** (+11%) following full-year results that illustrated Sabre's strong positioning ahead of a likely turn in the UK motor market, having already implemented the

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

2. The IA UK Equity Income sector and the FTSE All-Share Index comparator are used for illustrative purposes only.

necessary pricing actions to catch up with inflation; **Moneysupermarket** (+11%) on no specific news; and **Belvoir Lettings** (+17%) following robust full-year results further evidencing the power of its franchised model and strategy.

The largest detractors to performance were **EMIS Group** (-26%) following concerns that its proposed takeover by UnitedHealth could be blocked by the CMA; and **Phoenix Group** (-15%) despite the release of FY22 results largely ahead of consensus.

## Portfolio activity

We made a new investment into **Intermediate Capital Group**, a diversified alternative asset manager with scale and attractive underlying asset class exposure.

We made a number of selective follow-on investments into **RWS Holdings**, a provider of language translation software and services and intellectual property filing services, with the Manager capitalising on share price weakness on limited stock specific news flow; and **Tatton Asset Management**, a provider of discretionary fund management services to the IFA sector, which is benefitting from the growing demand for alternative asset classes and ESG.

We made one full exit during the period, from **AssetCo** (-2%)<sup>3</sup>, which following the River & Mercantile takeover and cash distribution had become sub-scale and no longer dividend paying.

## Outlook

We continue to expect that market conditions will remain volatile throughout 2023, despite early signs of positive economic developments. However, the fund remains well positioned, 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.

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 and sustainable income characteristics at sensible valuations.

As already supported by announcements during the first couple of months of the year, we expect to see a resurgence of takeover activity amongst listed UK companies as 2023 progresses, as corporate and private equity buyers seek to benefit from ongoing dislocation between strong company fundamentals and UK equity valuations. Significant levels of capital yet to be deployed by private equity firms, combined with the easing of longer-term interest rates, could continue to provide a supportive landscape for elevated corporate activity over the short to medium term.

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3. Return on River & Mercantile investment for which AssetCo shares were received as part of the all-share takeover in 2022

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