LF Gresham House UK Smaller Companies Fund

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 a 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last month over fears of widespread banking sector contagion, as February's Silicon Valley Bank developments were superseded by the rapid collapse of Credit Suisse in early March.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 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. 87% 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[1]

The LF Gresham House UK Smaller Companies Fund decreased by 4.49% during the month, outperforming the IA UK Smaller Companies sector which decreased by 5.74%.[2]

Key contributions came from **Franchise Brands** (+17%) following the release of strong FY22 results, ahead of expectations, driven by a particularly strong performance of Filta following its transformational acquisition in March of last year; **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 necessary pricing actions to catch up with inflation; and **Moneysupermarket (**+10%) on no specific news.

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.

The largest detractors to performance were **Gym Group** (-29%) after management noted a difficult macro-economic environment, with lower-than-expected membership growth YTD, which is expected to continue through the year, leading to lower FY23 expectations; and **EMIS Group** (-26%) following concerns that its proposed takeover by UnitedHealth could be blocked by the CMA.

Portfolio activity

We made one new investment during the period, into **Capita**, an international provider of business process outsourcing services with long term contracts and strong margin and cash generation potential that is not reflected in the current valuation.

We made a number of selective follow-on investments, including into **Gym Group,** an operator of low cost, 24/7 gyms, with the Manager capitalising on share price weakness despite no relevant stock specific news; **Restore,** a support services company with a primary focus on developing and expanding services to offices, whose FY22 results demonstrated good progress in cost reduction actions and pricing improvements; and **Brooks Macdonald,** an aggregator in the wealth management space, which the Manager believes is well positioned to capitalise on the active consolidation activity in that sector.

There were two full exits during the period, from **AssetCo** (+1%)[3], which was held following the all-share takeover of River & Mercantile by AssetCo last year, but which did not fit the investment criteria for this fund; and from **Devolver Digital** (-80%), following the Manager's change in view of the investment thesis following a period of underperformance relative to sector peers.

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.

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

Important information

The information contained in this document (the Document) is being communicated in the United Kingdom for the purposes of section 21 of Financial Services and Markets Act 2000 and has been issued by Gresham House Asset Management Limited (GHAM or the Manager). GHAM whose registered office is at 5 New Street, London, EC4A 3TW is a company authorised and regulated by the Financial Conduct Authority (FCA) (no.682776). The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares, or securities or to form the basis of a contract to be relied on in any way. GHAM provides no guarantees, representations, or warranties regarding the accuracy of this information. No third-party liability is accepted by GHAM, its members and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act 2000. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investing in the securities and legal, regulatory, credit, tax, and accounting aspects in relation to their particular circumstances. The recipient should consult its tax, legal, and accounting or other advisers about the issues discussed herein and shall be solely responsible for evaluating the risks and merits involved in the content of this Document.

This Document is provided for the purpose of information only and before investing you should read the Prospectus and the Key Investor Information Document (KIID) as they contain important information regarding the Fund, including charges, tax and fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available from Link Fund Solutions, the Authorised Corporate Director of the Fund (Tel. No. 0345 922 0044). Investors are reminded that past performance is not indicative of future results.

Funds investing in smaller companies may carry a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid than securities in larger companies.

No person, especially those who do not have professional experience in matters relating to investments, must rely on the contents of this document. If you are in any doubt as to the matters contained in this Document, you should seek independent advice where necessary. This Document has not been submitted to or approved by the securities regulatory authority of any state or jurisdiction. This Document is intended for distribution in the United Kingdom only. Any dissemination or unauthorised use of this Document outside the United Kingdom by any person or entity is strictly prohibited.

Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this presentation. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

www.greshamhouse.com | (0) 20 7382 0999