Gresham House
Specialist asset management

LF Gresham House UK Micro Cap Fund

Factsheet commentary – April 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 in April over fears of widespread banking sector contagion, and 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.

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. 85% of portfolio company 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 so far this year, an elevated level of takeover developments continued into April, including the Recommended Cash Offer for one of our core holdings, Medica Group plc.

Performance[1]

The LF Gresham House UK Micro Cap Fund increased by 0.71% during the month, underperforming the IA UK Smaller Companies sector which increased by 1.90%.[2]

Key contributions came from **Medica Group** (+36%) following the Recommended Cash Offer from IK Partners, a European private equity firm, at a 32.5% spot premium; **Staffline** (+21%) following well received FY22 results; and **SysGroup** (+41%) whose shares strengthened on no stock-specific news, other than the announcement of a significant new disclosable holder.

The largest detractors to performance were **Franchise Brands** (-27%) following the announcement of a discounted primary placing to fund a significant strategic acquisition; and **Randall & Quilter** (-15%) following the announcement of the disposal of its 40% stake in a non-core asset, which we view positively as it helps to monetise a key balance sheet asset and leaves their capital focused on core activities of programme management and legacy insurance.

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

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

Portfolio activity

There were no new investments during the period.

We made selective follow-on investments into **Franchise Brands**, a consolidator of leading franchise businesses, as we participated in the placing to fund its strategic acquisition; and **Windward,** a maritime artificial intelligence company, which we view as materially undervalued versus broader SaaS peers, particularly given its significant organic growth potential and high level of recurring revenue.

There was one full exit during the period, from Seraphine Group (-95%), as a result of a takeover from its largest shareholder, Mayfair Equity Partners.

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 structural capital growth at sensible valuations.

As already supported by announcements during the first few 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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