LF Gresham House UK Smaller Companies 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 a 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 Smaller Companies Fund increased by 1.21% during the month, versus 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; **Sabre Insurance** (+13%) 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 **Halfords Group** (+18%) following a CMD which outlined a clear path to significantly increasing profitability over the medium term.

The largest detractors to performance were **Franchise Brands** (-27%) following the announcement of a discounted primary placing to fund a significant strategic acquisition; and **Liontrust** (-16%), following market concerns around the risks of a potential large strategic takeover of an overseas competitor – we have subsequently fully exited the position due to a change of view on the balance of risk/reward.

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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.

Portfolio activity

We made three new investments in the period, into: **Elixirr**, a challenger consultancy firm with a track record of outperforming market expectations and which the Manager knows well from other funds under management; **Essentra**, an international manufacturer and distributor of components into a diverse range of industrial supply chains, with a clear growth strategy and new, high-quality management team following the 2022 disposal of their two other divisions; and **Mattioli Woods**, a provider of wealth management and employee benefit services, which the Manager believes is well placed to consolidate a highly fragmented market.

We also made a number of selective follow-on investments, including into: **Franchise Brands,** a consolidator of market leading franchise businesses, as we participated in the placing to fund its strategic acquisition; **Team 17 Group,** an independent video game developer and publisher, which the Manager believes is well positioned and reasonably valued versus the broader sector; and **XPS Pensions Group,** a leading pension and actuarial consultancy, which the Manager believes is well positioned to capitalise on several structural tailwinds including regulatory change, a shift towards greater personal pension control and growing demand for ESG and alternative asset exposure within pension portfolios.

There were two full exits during the period, from **Devro** (+57%) following the completion of the Recommended Cash Offer from Saria; and from **Capita** (-13%) following the announcement of a data breach in April 2023, which, despite the attractive long term investment case, the Manager believed presented an unquantifiable risk exposure at that point in time.

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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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.

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