

LF Gresham House UK Micro Cap Fund

Factsheet commentary – June 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.** Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview

Despite global equity indices broadly delivering positive returns in June, UK indices delivered flat to negative performance as domestic macroeconomic concerns, particularly around inflation stickiness and monetary tightening, weighed on investor sentiment. Notably, this macroeconomic sentiment was also reflected in UK Gilt yields, which approached (and, for short maturities, exceeded) the levels reached in Q4 2022 following the “Mini Budget” developments.

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 we believe they could 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, remain material. Building on the strong momentum in UK plc takeover announcements so far this year, several further takeover announcements followed in June.

Performance¹

The LF Gresham House UK Micro Cap Fund decreased by 1.46% during the month, marginally underperforming the IA UK Smaller Companies sector which decreased by 1.37%.²

Key contributions came from **XPS Pensions Group** (+10%) following well received annual results, which exceeded market expectations and led to analyst upgrades; **Oxford Metrics** (+25%) after reporting a record H1 performance, with strong demand across all verticals leading to forecast upgrades; and **Angling Direct** (+19%) following an in-line trading update, which highlighted the group’s robust net cash position.

The largest detractors to performance were **Staffline** (-26%), despite releasing an in-line AGM trading update; and **Netcall** (-11%), on no specific news.

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 during the period, including into **Hostelworld Group**, a hostel-focused online travel agent, with the Manager viewing the business as materially undervalued with attractive structural market dynamics, as exemplified by its recent strong Q1 trading update, leading to upgrades; and **Oxford Metrics**, an intellectual property-rich business that sells hardware and software solutions into a range of applications, with core competency in motion management – the business operates in a sector with attractive structural dynamics and continues to outperform expectations.

There were no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout the second half of 2023, with a particular focus on the UK's inflation trajectory and implications for, inter alia, the monetary policy path. 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 companies we view as having high-quality characteristics with attractive long-term structural capital growth at sensible valuations.

As already supported by announcements during the first half of the year, which continued at pace in June, we expect to see further takeover activity amongst listed UK companies in the second half of the year, as corporate and private equity buyers seek to benefit from the ongoing dislocation between strong company fundamentals and UK equity valuations. Significant levels of capital yet to be deployed by private equity firms could continue to provide a supportive landscape for elevated corporate activity over the short to medium term.

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