Gresham House
Specialist asset management

LF Gresham House UK Multi Cap Income 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 and sustainable income 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, several further takeover announcements followed in June.

Performance[1]

The LF Gresham House UK Multi Cap Income Fund increased by 0.98% during the month, outperforming the IA UK Equity Income sector which decreased by 0.71%, and outperforming the FTSE All-Share Index which decreased by 1.48%.[2]

Key positive contributions came from **XPS Pensions Group** (+10%) following well received annual results, which exceeded market expectations and led to analyst upgrades; **FRP Advisory Group** (+14%); and **Moneysupermarket** (+9%), both on no specific news.

The largest detractors to performance were **Sabre Insurance** (-7%), which de-rated following strong share

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.

price appreciation in the preceding months; and **Smart Metering Systems** (-17%), following no specific news.

Portfolio activity

We made one new investment during the period into **Brooks Macdonald**, an investment management services provider, which is well known to the Manager. The Manager believes that Brooks Macdonald is a leading consolidator in the highly fragmented (and rapidly consolidating) wealth management sector, and that the business is materially undervalued relative to recent comparable M&A transactions in the space.

We made several selective follow-on investments during the period: into **Telecom Plus**, a multi-utility gas, electricity, home insurance and connectivity supplier, which experienced some temporary share price weakness during June despite the Manager's conviction in its long-term investment case but encouragingly saw strong share price appreciation following the release of its FY23 results in June; **Watkin Jones**, a leading developer and project manager of purpose-built student accommodation and build-to-rent properties across the UK and Ireland, which de-rated following a challenging H1 2023 but which the Manager believes stands to benefit from long-term structural growth tailwinds; and **Domino's Pizza**, the master franchisee for Domino's Pizza Group in the UK and Ireland, which continues to demonstrate like-for-like sales growth and strong current trading despite the challenging macroeconomic environment, reflecting its strong consumer value proposition. The Manager is particularly attracted to the capital-light franchise model.

We made 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 high-quality companies with attractive long-term structural capital growth and sustainable income 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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