Gresham House
Specialist asset management

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary – July 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

Following disappointing performance in June, UK equity indices recovered in July with the FTSE 100, 250, Small Cap and AIM All Share indices all delivering low single digit returns in the month, bolstered by a better-than-expected improvement in UK inflation. Despite the year to date 'de-equitisation' of UK markets following elevated levels of takeover activity and equity fund outflows, July saw the first "sizeable" UK IPO in 2023, which should hopefully act as a sign of confidence in the UK equity market outlook. However, macro uncertainty continues to weigh on investor sentiment, with a number of indicators (e.g. PMI, consumer confidence) pointing towards economic challenges.

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 in the first half of this year, several further takeover announcements followed in July, including the Recommended Offer for DWF Group plc by Inflexion Private Equity.

Performance[1]

The LF Gresham House UK Multi Cap Income Fund increased by 1.10% during the month, underperforming the IA UK Equity Income sector which increased by 2.68% and the FTSE All-Share Index which increased by 2.48%.[2]

Key positive contributions came from **DWF Group** (+60%) following the announcement of a Recommended Offer from Inflexion Private Equity at a 52.7% premium; **Domino's Pizza** (+26%), following strong interim results which led to analyst upgrades, and the appointment of a new CEO; and **XPS Pensions Group** (+5%), following the announcement of a non-core disposal at a significantly accretive valuation multiple to the

1. Please refer to the factsheet for full UCITS-compliant performance figures.
2. The IA UK Equity Income sector and FTSE All-Share Index comparator are used for illustrative purposes only.

wider group.

The largest detractors to performance were **Watkin Jones** (-32%), following a profit warning and the subsequent resignation of the CEO; and **EKF Diagnostics** (-18%), following the release of H1 result which, whilst in line with expectations, pointed to a larger H2 weighting due to the timing of life sciences contracts.

Portfolio activity

We made no new investments during the period.

We made several selective follow-on investments 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; and **Ten Entertainment**, a market leading UK operator of family-friendly ten-pin bowling venues with an expanding offering across leisure and entertainment, which continues to deliver year-on-year growth despite strong post-COVID comparative performance in the prior year and which the Manager believes is attractively valued.

We made no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout the remainder 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.

Building on the elevated levels of takeover activity in the year to date, we expect to see further activity amongst listed UK companies throughout the remainder 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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