WS Gresham House UK Multi Cap Income Fund

Factsheet commentary – November 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

After a challenging October, market conditions improved in November, with the FTSE 350 increasing 2.5% and the AIM All Share Index up 5.0%. While UK disinflation continued, economic and geopolitical uncertainties remain at the forefront of consumer and investor minds, with particular concern over developments in the Middle East. Meanwhile, M&A activity continued across the UK market as financial and strategic buyers sought to capitalise on the asymmetry between stock market valuations and company fundamentals.

We are confident in the robust fundamentals of our portfolio regardless of wider economic or geopolitical factors. We believe that our holdings are led by strong management teams pursuing effective growth strategies, and that our portfolio businesses have carved out robust competitive positions within structurally growing markets, often with high barriers to entry. The combination of these factors underpin the ability of our companies to grow earnings and generate cash throughout the cycle.

Newsflow across the portfolio was generally positive in November, as many companies announced strong interim or full-year results. It is testament to portfolio resilience that during the year-to-date, c.88% of company updates in the fund have been in-line or positive relative to market expectations.

The pipeline of new investment opportunities remained solid in November, as we look to capitalise on market mispricing of companies exhibiting high-quality fundamentals.

Performance[1]

Performance in the WS Gresham House UK Multi Cap Income Fund increased by 6.92% during the month, outperforming the IA UK Equity Income sector which increased by 4.25% and the FTSE All-Share Index which increased by 2.99%.[2]

Key positive contributions came from **XPS Pensions Group (**+13%), which in addition to strong interim results and upgrades announced that it has been appointed to provide pension administration services for the John Lewis Partnership, the UK's largest employee-owned business; **Intermediate Capital Group (**+18%) on the back of reporting interim results that were ahead of market expectations, leading to

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.

upgraded analyst earnings estimates for future years; and **TP ICAP** (+19%) on no specific news flow.

The largest detractors to performance were **Halfords** (-10%) following the release of interim results which indicated that despite gaining market share across all segments, broader weakness across the more discretionary cycling market has continued, alongside weakness in tyres, which has led to outer-year downgrades; and **Sabre Insurance** (-4%), following short-term market reaction to a reported cyber-attack, despite the company confirming that they do not believe sensitive customer information has been accessed or that there will be any material financial impact as a result of the incident.

Portfolio activity

We made no new investments during the period.

We made several, selective follow-on investments during the period. Notable additions were an upweighting in **Schroders**, a global asset manager which is undergoing a positive shift in business mix towards higher margin, structurally growing areas in alternatives and UK wealth management. We also added to our position in **B&M**, a European discount retail store operator capitalising on its strong market position and sustainable growth strategy via expansion into new UK regions.

The fund made no full exits during the period.

Outlook

As disinflationary trends in the UK and other developed economies continued, traders have started to price in expectations of Federal Reserve rate cuts, as reflected in falling ten-year US treasury yields. However, recent market optimism is at loggerheads with an unquestionably volatile economic and geopolitical backdrop. We do not expect uncertainty around inflation and interest rates as well as developments in Eastern Europe and the Middle East, to abate quickly. That said, present conditions are breeding attractive mispricing opportunities across the UK smaller companies segment of the market, offering compelling potential for value creation over the medium-to-longer term.

We believe our high conviction portfolio can deliver alpha in excess of our peer group despite volatile conditions. Our private equity approach to public markets allows us to validate each component of a new investment thesis, and monitor developments within the existing portfolio, through a specialist network constructed over many years. Combined with a focus on management quality, structural market opportunities, resolute competitive positions, and strong financial characteristics, we believe the growth potential of the portfolio is well underpinned, independent of the cycle.

We expect M&A to remain a prominent feature of the UK market while valuations remain depressed. Mid-to-large leveraged buyout firms – many of which still seek to deploy excess capital – are offsetting an elevated cost of debt by capitalising on steep discounts across UK public markets. In our view, these discounts are disproportionately focused at the smaller end of the market cap spectrum. As the evidence of discrepancy between UK small cap trading multiples and private transaction multiples grows, we see M&A activity as a potential catalyst for broader market re-rating over the short-to-medium term.

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