

# WS Gresham House UK Smaller Companies 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 a 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<sup>1</sup>

Performance in the WS Gresham House UK Smaller Companies Fund increased by 5.81% during the month, underperforming the IA UK Smaller Companies sector which increased by 6.04%.<sup>2</sup>

Key positive contributions came from **Trustpilot** (+36%) on no specific news; **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; and **Loungers** (+23%) following the release of strong interim results.

---

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.

The largest detractors to performance were **Team 17 Group** (-36%) following a significant profit warning, driven by weakness within its core Games Label, which included a one-off £11.5mn impairment charge; **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 the 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 because of the incident.

Where a portfolio company reports a material unexpected profit warning our process dictates that a detailed review of the investment case will be undertaken by a different member of the investment team than the original sponsor in order to objectively assess whether the long-term thesis remains intact. In the case of Team 17 Group this review has been completed post period-end. This review has concluded that the long-term fundamentals of the business remain strong and the current reduced share price offers an attractive opportunity to add to the Fund's position.

## Portfolio activity

We made two new investments during the period, into **Ascential**, a leading international media company, which is currently in the process of disposing of two parts of its business, which ultimately will leave a pure-play events business, with two market leading events in Cannes Lion and Money 20/20, which is trading at an attractive valuation. The fund also invested into **Spire Healthcare**, the UK's largest private hospital group by revenue. The manager believes this business operates in a structurally attractive market with a resilient demand profile and high barriers to entry, and is led by a high-quality management team executing on a clear strategy to augment profit per theatre through operational enhancement and site rollout.

We upweighted our position in **Gamma Communications**, a leading provider of business-critical telephony and voice-enablement products and services. The manager views this as a steadily compounding growth business, with a strong market position aligned to structural tailwinds, and with high quality financial characteristics, that is trading at an attractive valuation.

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-cap, 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.

## **Important information**

The information contained in this document (the Document) is being communicated in the United Kingdom for the purposes of section 21 of Financial Services and Markets Act 2000 and has been issued by Gresham House Asset Management Limited (GHAM or the Manager). GHAM whose registered office is at 5 New Street, London, EC4A 3TW is a company authorised and regulated by the Financial Conduct Authority (FCA) (no.682776). The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares, or securities or to form the basis of a contract to be relied on in any way. GHAM provides no guarantees, representations, or warranties regarding the accuracy of this information. No third-party liability is accepted by GHAM, its members and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act 2000. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investing in the securities and legal, regulatory, credit, tax, and accounting aspects in relation to their particular circumstances. The recipient should consult its tax, legal, and accounting or other advisers about the issues discussed herein and shall be solely responsible for evaluating the risks and merits involved in the content of this Document.

This Document is provided for the purpose of information only and before investing you should read the Prospectus and the Key Investor Information Document (KIID) as they contain important information regarding the Fund, including charges, tax and fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available from Link Fund Solutions, the Authorised Corporate Director of the Fund (Tel. No. 0345 922 0044). Investors are reminded that past performance is not indicative of future results.

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.

No person, especially those who do not have professional experience in matters relating to investments,



**Gresham House**

*Specialist asset management*

must rely on the contents of this document. If you are in any doubt as to the matters contained in this Document, you should seek independent advice where necessary. This Document has not been submitted to or approved by the securities regulatory authority of any state or jurisdiction. This Document is intended for distribution in the United Kingdom only. Any dissemination or unauthorised use of this Document outside the United Kingdom by any person or entity is strictly prohibited.

Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this presentation. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

[www.greshamhouse.com](http://www.greshamhouse.com) | (0)20 7382 0999