

LF Gresham House UK Multi Cap Income Fund

Factsheet Commentary - May 2021

Overview

The strong market conditions that have so far characterised 2021 continued during May with robust share price performance across the market. This environment continues to support both active equity issuance and elevated levels of takeover activity. Despite some increased uncertainty over the lockdown relaxation timetable in the UK, the increasing vaccine penetration looks well set to support a rapid economic recovery.

The discounted valuation applied to the UK and to UK smaller companies in particular remains material but has finally started to contract with positive flows returning to UK equity funds.

This dynamic environment continues to offer a number of investment opportunities. We remain selective and disciplined in our approach, seeking high quality companies with long term sustainable income and capital growth characteristics at sensible valuations.

Performance

The Fund increased by 3.6% during the month, compared to the IA UK Equity Income sector which increased by 2.1% and the FTSE All Share index which rose by 0.8%.

Key positive contributions came from **Vectura Group** (+39%), after announcing a recommended cash offer by private equity firm The Carlyle Group; **UDG Healthcare** (+24%), after announcing a recommended cash offer by private equity firm Clayton, Dubilier & Rice; and **Belvoir Lettings** (+14%), which announced a trading update for the first four months of the year to April 2021 which showed exceptionally strong trading that was materially ahead of management expectations.

The key detractors were **TP ICAP** (-10%), which announced a Q1 trading update that showed slightly weaker revenues but with good strategic progress being made; **Watkin Jones** (-8%), which announced a placing of founder shares at a discount to the prevailing market price; and **Telecom Plus** (-7%), which drifted on no specific news.

Portfolio activity

During the period, the Fund made one new investment into **Premier Foods**, a branded food products manufacturer. The Fund also made a follow-on investment into existing holding **Mattioli Woods**, participating in a £110m fundraising for two acquisitions.

The Fund took some profits from its holdings in **Alpha Financial Markets Consulting**, **Safestore** and **Clipper Logistics**.

Outlook

We continue to expect a strong economic recovery in the UK during the remainder of 2021 driven by vaccine penetration supporting relaxed restrictions. Nevertheless, the extreme uncertainty that has hung over many sectors and companies makes visibility supporting market estimates unusually low. This means we expect elevated levels of profit warnings, both positive and negative as companies recalibrate expectations over the course of the year. We are already seeing many examples of both during recent weeks. This is likely to drive heightened volatility at the individual stock level. However, we believe that volatility, while creating some challenges, will provide an attractive environment for long-term investors to back quality companies with attractive, sustainable income streams and long-term structural capital growth at reasonable valuations across the market cap spectrum.

Across the UK equity income sector, we believe that there are likely to be compelling diversified, robust, and resilient income generating opportunities, that we are well positioned to uncover, appraise, and deploy capital into. The economic environment and lingering Covid-19 discontinuity will provide agile smaller businesses with strong management teams the opportunity to take market share and build strong long-term franchises.

We continue to believe that over the long-term our fundamental focused investment style has the potential to outperform. The Fund will maintain its focus on building a high conviction portfolio of less cyclical, high-quality businesses with stable and growing earnings streams, good cash flows and dividends. We believe these businesses can deliver strong returns through the market cycle regardless of the performance of the wider economy.