

LF Gresham House UK Micro Cap Fund

Factsheet Commentary - June 2021

Overview

Market conditions remained positive during June, rounding off a very strong period for UK equities and UK smaller companies in particular throughout the first half of the year. The dealflow environment remains extremely active. There continues to be a steady stream of small cap IPOs and a strong pipeline for the second half although anecdotal evidence of some flotations failing to get away suggests there may be some deal fatigue setting in due to the sheer volume of equity issuance so far in 2021. There is also ongoing secondary issuance by existing listed companies to support acquisitions and growth initiatives as confidence in the vaccine driven recovery gathers pace. A number of our portfolio companies have raised new capital so far this year.

As we have been flagging for some considerable time, the discounted valuation applied to the UK and to UK smaller companies in particular remains material. This is still the case despite the strong performance during H1 2021. Some sustained positive flows are now being seen into UK Smaller Company funds which is an encouraging signal of improving sentiment towards the UK and should be supportive for smaller company share prices.

Large amounts of “dry powder” in private equity funds, combined with still discounted valuations, has triggered a frenzy of takeover activity in the UK equity market ranging from small caps right through to the FTSE100. This represents a double-edged sword for investors who benefit from a short-term share price uplift but then may lose out on the long-term potential of good quality companies that leave the public markets.

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

Performance

The Fund delivered a return of 1.26% during the month, outperforming the IA UK Smaller Companies sector which increased by 0.52% and the NSCI + AIM (ex IC) index which fell by 1.8%.

Key contributions to returns came from **Inspired Energy** (+30%) following an encouraging trading update; **Staffline** (+22%) following a successful equity raise to strengthen its balance sheet and support growth; **Mattioli Woods** (+9%) after it announced an equity placing and two strategic acquisitions.

The largest detractors to performance were **Ricardo** (-12%); **Angling Direct** (-11%); and **Kape Technologies** (-8%) which all de-rated on no specific news.

Portfolio activity

During the period, we made a new investment into **Silver Bullet Data Services** as part of its AIM IPO. The company provides software and services to large corporates to support highly targeted digital marketing communications. We made a number of follow-on investments into our existing portfolio holdings including **Inspired Energy**, **Angling Direct** and **XPS Pensions Group**. We also supported **Mattioli Woods** in its equity placing to fund the strategic acquisitions of Ludlow and Maven to enhance its advisory and asset management activities.

We made a partial realisation to take some profits from our holding in **Pebble Group** following strong share price performance.



Gresham House

Specialist asset management

Outlook

We continue to expect a strong economic recovery in the UK during the second half of 2021 driven by vaccine penetration and restrictions being removed later this month. Nevertheless, the extreme uncertainty that has hung over many sectors and companies is still limiting short-term visibility. In turn, this will drive elevated profit warnings, both positive and negative as the year progresses.

In this context we anticipate heightened volatility at the individual stock level. However, we believe that volatility, while creating some challenges, will provide an attractive environment in which we can unearth good long-term investment opportunities at attractive valuations. 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 our fundamental focused investment style has the potential to outperform over the long term. The Fund will maintain its focus on building a high conviction portfolio of less cyclical, high quality, niche growth businesses which the Manager believes can deliver strong returns through the market cycle regardless of the performance of the wider economy.