

LF Gresham House UK Multi Cap Income Fund

Factsheet Commentary - July 2021

Overview

Market conditions were benign during the month as the elevated deal flow environment we have seen since the beginning of the year began to moderate for the summer holiday season. Liberum research suggests that 2021 has already been the strongest year for IPO equity issuance in the UK market in over two decades with several months still to go. There continues to be a good pipeline of IPOs scheduled for September and the remainder of the 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 a positive signal of improving sentiment towards the UK and should be supportive for smaller company share prices.

Private equity takeover activity has been particularly prominent this year and as long as valuations remain attractive, we expect this to continue across the market cap spectrum and across multiple sectors as the year progresses.

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 long-term sustainable income and capital growth characteristics at sensible valuations.

Performance

The Fund increased by 2.28% during the month, compared to the IA UK Equity Income sector which increased by 0.91% and the FTSE All Share index which increased by 0.39%.

Key positive contributions came from **Belvoir Lettings** (+15%), which re-rated on no specific news; **Tatton** (+15%), continuing a strong share price run after positive results in June; and **Morrison Supermarkets** (+12%), after private equity firm Apollo Global expressed an interest in making a possible offer for the business, subsequently announcing that this would be alongside Fortress Investment Group.

The key detractors were **Argentex** (-25%), after weaker than expected results and forecast downgrades; **Telecom Plus** (-11%), which drifted on no specific news; and **Sabre Insurance** (-10%), which announced interim results that showed a slower than anticipated recovery following the end of lockdown and forecast downgrades.

Portfolio activity

During the period the Fund made a number of follow-on investments into existing portfolio holdings including **3i**, **Brewin Dolphin** and **Smart Metering Systems**.

Outlook

We continue to expect the strong economic recovery in the UK to continue driven by vaccine penetration and the removal of lockdown restrictions. Nevertheless, the extreme uncertainty that has hung over many sectors and companies is still limiting short term visibility. In turn we expect this to 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 for long-term investors to back quality companies with attractive, sustainable income streams and long-term structural capital



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Specialist asset management

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.