

LF Gresham House UK Micro Cap Fund

Factsheet Commentary - August 2021

Overview

August was another quieter month after the deal frenzy that has characterised much of 2021 so far. The market traded up on lower volumes as reopening continued to improve sentiment. There continues to be a good pipeline of small-cap IPOs and deal flow activity has already picked up markedly post-period end.

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 since Q4 2020. Some sustained positive flows are now being seen into UK equities and particularly 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 continues to be at elevated levels and we believe this validates our view of the attractive valuations to be found in the UK market. We expect this to continue across the market cap spectrum and across multiple sectors as the year progresses until market multiples re-rate materially.

The dynamic current 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 3.93% during the month, compared to the IA UK Smaller Companies sector which increased by 4.59% and the NSCI + AIM (ex IC) index which rose by 4.38%.

Key contributions to returns came from **Staffline** (+24%), positively re-rating following its recapitalisation equity raise earlier in the summer; **Kape Technologies** (+16%), re-rating on no specific news; **Accrol** (+17%), recovering lost ground earlier in the year after a more optimistic tone from management on its full year results roadshow.

The largest detractors were **City Pub Group** (-6%), weaker on no specific news; **Knights Group** (-5%), which also de-rated on no specific news; and **Angling Direct** (-4%), which drifted despite an in-line trading update.

Portfolio activity

The Fund made a number of follow-on investments into our existing portfolio holdings, including **Access Intelligence**, **Silver Bullet** and **Angling Direct**.

There were two full exits: **Oxford Metrics** (+121%), a longstanding holding which had performed well and where the Manager decided to take profits and reinvest in other opportunities with more attractive long-term return prospects; and **Pebble Group** (+14%), where the Fund had a subscale position and the Manager was unwilling to continue buying after a strong share price rally based on valuation considerations.

Outlook

There has been no significant change to our view that the economic recovery in the UK should continue to support earnings growth and share prices. However, it remains the case that the extreme uncertainty that has hung over many sectors and companies is limiting short-term visibility. We expect this to result in material earnings revisions both positive and negative in the coming months driving share price



Gresham House

Specialist asset management

volatility for individual stocks.

We believe stock level volatility across the market, 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.