LF Gresham House UK Multi Cap Income 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 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 which is a positive signal of improving sentiment towards the UK and should be supportive for 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 long-term sustainable income and capital growth characteristics at sensible valuations.

Performance

The Fund increased by 3.2% during the month, compared to the IA UK Equity Income sector which increased by 2.7% and the FTSE All Share index which increased by 2.0%.

Key positive contributions came from **Belvoir Lettings** (+12%), after announcing a trading update showing half year results would be ahead of expectations; and **Strix Group** (+14%) and **Vianet Group** (+12%), both of which re-rated on no specific news.

The key detractors were **Phoenix Group** (-8%), which drifted despite announcing in line first half results; **Sabre Insurance** (-7%), where the shares continued to be weak following the prior month's interim results; and **Balfour Beatty** (-6%), which announced in line interim results that showed strong performance in support services which was offset by weakness in isolated projects.

Portfolio activity

During the period, the Fund made one new investment into **DWF Group**, an integrated legal and professional services business, where we participated in an equity placing of limited secondary sell-down. The Fund also made a number of follow-on investments into existing portfolio holdings, including **Premier Foods, Smart Metering Systems, GSK, B&M** and **Ricardo**.

The Fund made one full exit during the period - **UDG Healthcare** (+45%), an outsourced drug packaging and commercialisation services business to the life sciences market, where the takeover by US private equity firm Clayton, Dubilier & Rice completed.

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 volatility for individual stocks.

We believe stock level volatility across the market, 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.