

LF Gresham House UK Micro Cap Fund

Factsheet Commentary - September 2021

Overview

September saw increased activity both in terms of trading volumes and fundraising transactions. In addition to the fundraisings that completed during the period, there continues to be a good pipeline of IPOs for the rest of this year. The market backdrop was characterised by heightened supply chain shortages across the UK and ongoing negative sentiment surrounding inflationary pressures, which put some downward pressure on share prices and created some of the market volatility we have been anticipating.

Once again, we reiterate a theme we have been flagging for some 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.

Private equity takeover continues to be at elevated levels with auction processes between bidders from small cap right up to large cap names such as WM Morrison. This supports our view of the attractive valuations still to be found in the UK market. We expect this to continue across the market cap spectrum and across multiple sectors as we approach 2022 and beyond until market multiples re-rate materially.

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 0.5% over the month, compared to the IA UK Smaller Companies sector which decreased by 2.6% and the NSCI + AIM (ex IC) index which decreased by 2.4%.

Key contributions to returns came from **Elixirr** (+15%) following positive results and upgraded forecasts; **Instem** (+14%) following an accretive acquisition; **Access Intelligence** (+14%) after completing a transformational acquisition.

The largest detractors to performance were **Seraphine Group** (-31%) following a profit downgrade driven by supply chain disruption; **Staffline** (-14%) and **Inspired** (-12%) both de-rated on no specific news.

Portfolio activity

The Fund made one follow-on investment into **Angling Direct** and took some profits from **Kape Technologies**, **Mattioli Woods**, **GetBusy** and **Mortgage Advice Bureau**.

Outlook

Consistent with prior periods our view remains that the economic recovery in the UK should continue to support earnings growth and share prices over the medium term. However, the extreme uncertainty that has hung over many sectors and companies continues to impair 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 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.



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Specialist asset management

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.