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LF Gresham House UK Multi Cap Income 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.

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.

Private equity takeover continues to be at elevated levels, and we believe 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 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 decreased by 1.9% over the month, compared to the IA UK Equity Income sector which decreased by 1.3% and the FTSE All Share index which decreased by 1.2%.

Key positive contributions came from **Telecom Plus** (+19%), on no specific news but as an expected beneficiary of the dislocation in the UK energy market; **Ricardo** (+8%), which announced their preliminary full year results; and **B&M** (+6%), after announcing a positive trading update showing first half profits were expected to be ahead of expectations.

The key detractors were **Belvoir Group** (-20%), which drifted despite announcing strong first half results; **Moneysupermarket** (-16%), where the share price weakened on no specific news but as the market inferred supply side challenges from the energy market turmoil; and **TP-ICAP** (-15%), which announced interim results slightly below expectations due to challenging market conditions and continuing investment in their strategic initiatives.

Portfolio activity

During the period, the Fund made two new investments into: **Currys**, an omni-channel consumer electricals retailer; and **Peel Hunt**, a UK mid and small cap broker, corporate finance, and trading firm. The Fund also made a number of follow-on investments into existing portfolio holdings including **Mattioli Woods**, **Telecom Plus**, **Emis**, **B&M** and **3i** amongst others.

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 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.