

LF Gresham House UK Multi Cap Income Fund

Factsheet Commentary - October 2021

Overview

Ongoing volatility and negative sentiment continued to impact markets through October as challenges lingered across the broader macro backdrop. These centred around previous themes of heightened supply chain shortages across the UK and ongoing inflationary pressures. Despite this, dealflow activity remained elevated across both secondary equity fundraisings and IPOs and was relatively dispersed across the market cap spectrum. However, we noted a slight softening in demand for deals with a number of transactions either not completing or seeing increased pressure on valuations.

We continue to see attractive opportunities across the market cap spectrum of UK equities. Although UK equities have performed strongly over the course of the year to date there remains a compelling structural discount across both UK equities and smaller companies. We believe this should continue to support the higher levels of corporate activity. Ongoing 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.

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 0.6% during the month, compared to the IA UK Equity Income sector which increased by 0.5% and the FTSE All Share index which increased by 1.8%.

Key positive contributions came from **Tatton Asset Management** (+7%), after announcing a positive trading update showing first half trading was in line with expectations; and **B&M** (+7%) and **3i** (+7%), both of which re-rated on no specific news.

The key detractors were **Vianet** (-17%), which drifted despite announcing a positive trading update indicating a strong recovery in the business and an expectation to reinstate the dividend; **Sabre Insurance** (-9%), after announcing a Q3 trading update showing a subdued recovery in market demand for motor policies; and **Strix group** (-14%), where the share price weakened following director share sales.

Portfolio activity

The Fund made a number of follow-on investments into existing portfolio holdings including, **EMIS Group**, **Moneysupermarket**, **Balfour Beatty** and **FRP Advisory Group** amongst others.

Outlook

We remain of the view that the economic recovery in the UK should continue to support corporate earnings growth and share prices but expect this to manifest in a non-uniform way as the post pandemic discontinuity evolves to create a more dispersed set of outcomes across sectors and pockets of the UK economy. We believe that this could drive volatility in the short term, particularly around market estimates. We are seeing some of the further order impacts of the pandemic start to play out such as the currently elevated level of inflation across a number of areas and both global and domestic supply chain disruption, which could have an adverse impact at a company level and lead to a rising number of profit warnings in the coming months. This in turn is likely to exacerbate share price volatility for individual stocks.



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Specialist asset management

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.

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