

LF Gresham House UK Micro Cap Fund

Factsheet Commentary – November 2021

Overview

November continued October's themes, with an increasing level of market volatility driven by heightened supply chain shortages across the UK and ongoing negative sentiment surrounding inflationary pressures. Additionally, the end of November saw a drop-off in the broader market amid investor fears over the newly-identified Covid variant resulting in the FTSE All Share index closing the month in negative territory. Despite this backdrop, equity issuance remained active, with a number of smaller companies issuing new equity, and some IPO activity continued, although at a more moderate level than earlier in the year.

Despite the increased volatility and weaker sentiment, we continue to believe that the longer-term opportunity in UK Smaller Companies - which is underpinned by the continuing discounted valuations applied to the UK and to UK Smaller Companies in particular - remains material. We believe this situation is supportive of finding attractive investment opportunities and should provide some downside protection to the UK market in the event of macroeconomic or geopolitical shocks.

The 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

LF Gresham House UK Micro Cap Fund (the Fund) delivered a return of -2.7% during the month, modestly outperforming the IA UK Smaller Companies and the NSCI + AIM (ex IC) index which decreased by 3.8% and 3.6% respectively.

Key contributions came from **Alpha Financial Markets Consulting** (+11%), after announcing a positive trading update showing first half trading was in line with expectations; **Marshall Motor** (+34%), on news of a potential takeover offer from Constellation Automotive Group; and **Mattioli Woods** (+6%), which re-rated on no specific news.

The largest detractors to performance were **Staffline** (-18%), which de-rated on no specific news; **City Pub Group** (-19%), which de-rated on market sentiment around the potential near-term impact of the new Omicron Covid variant; and **Angling Direct** (-15%), which fell on the back of disruption due to a cyber attack which temporarily took down its ecommerce operations - although this has subsequently been resolved with limited financial impact.

Portfolio activity

The Fund made a follow-on investment into **Ricardo**, taking advantage of market volatility to top up its position.

Outlook

Our medium-term view remains that the economic recovery in the UK should continue to support earnings growth and share prices. However, we continue to expect volatility in the short term driven by an inherently uncertain environment for market estimates. Additionally, we have seen negative market sentiment in recent weeks amid fears around the newly-identified Covid variant and the potential for travel restrictions and other mandatory restrictions being imposed. We are still seeing aftershocks from the pandemic, such as the currently elevated level of inflation across a number of areas and both global and domestic supply chain disruption impacting at the company level. We also anticipate a rising number of profit warnings in coming months. This in turn is likely to exacerbate 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 with the opportunity to take market share and build strong long-term franchises.

We continue to believe that our fundamentals-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 we believe can deliver strong returns through the market cycle regardless of the performance of the wider economy.

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