

LF Gresham House UK Multi Cap Income Fund

Factsheet Commentary - November 2021

Overview

Ongoing volatility and negative sentiment continued to impact markets through November 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. 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, dealflow activity has remained relatively elevated across both secondary equity fundraisings and IPOs, and was relatively dispersed across the market cap spectrum. We continued to evaluate dealflow opportunities and remained selective and disciplined in our appraisal of these.

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 being seen into UK equities which is a positive signal of improving sentiment towards the UK and should be supportive for share prices.

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 long-term sustainable income and capital growth characteristics at sensible valuations.

Performance

The Fund's performance decreased by 1.1% during the month, compared to the IA UK Equity Income sector which decreased by 2.0% and the FTSE All Share index which decreased by 2.2%.

Key positive contributions to performance came from **Telecom Plus** (+14%), following an upbeat capital markets day, good interim results and a positive outlook; **Alpha FMC** (+11%), after announcing a positive trading update; and **River & Mercantile** (+16%), on news of a possible takeover.

The key detractors were **TP ICAP** (-19%), on the back of a weaker trading update; **Property Franchise Group** (-12%) and **Balfour Beatty** (-9%) both on no specific news.

Portfolio activity

The Fund made a number of follow-on investments into existing portfolio holdings, including **XPS Pensions Group**, **Bioventix**, **Bloomsbury** and **Speedy Hire** amongst others.

Outlook

We maintain the view that the economic recovery in the UK should continue to support corporate earnings growth and share prices. This is despite the negative market sentiment that has been seen in recent weeks amid fear of the newly-identified Covid variant and imposition of travel restrictions and other mandatory rules. However, we 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.

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 fundamentals-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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