Gresham House
Specialist asset management

# LF Gresham House UK Smaller Companies Fund

## Factsheet Commentary - November 2021

### Overview

November continued the themes of the previous month 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 is underpinned by the continuing discounted valuations applied to the UK and to UK Smaller Companies, in particular, which 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

The LF Gresham House UK Smaller Companies Fund (the Fund) delivered a return of -3.1% during the month, compared to the IA UK Smaller Companies sector which decreased by 3.8% and the NSCI + AIM (ex IC) index which decreased by 3.6%.

Key contributions came from **River & Mercantile** (+14%), on news of possible takeover offers for the company; **Devolver Digital** (+9%), which continued to rally following its successful IPO; and **Alpha FMC** (+4%), after announcing a positive trading update showing first half trading was in line with expectations.

The largest detractors to performance were **TP ICAP** (-16%), on the back of a disappointing trading update; **Reach** (-19%), on no specific news despite issuing a positive trading update; and **Gym Group** (-12%), on sentiment regarding the new Covid variant and the potential reimposition of restrictions.

### Portfolio activity

The Fund made a new investment into **XPS Pensions Group,** an actuarial consultancy firm that is well known to the Manager and is a high-conviction position held across other portfolios. The Fund also made a number of follow-on investments into existing portfolio holdings, including **River & Mercantile, Inspired**, and **Loungers** amongst others.

There were a number of full exits in the month: **Argentex** (-11%), which was a sub-scale holding that has underperformed over the prior 12 months; **James Fisher & Sons** (-56%), following a profit warning and fundamental change in view; **Redcentric** (-2%), following a recent acquisition which reduced our conviction in the long-term upside; **STV Group** (+10%), due to increased concerns over the risks around its large pension deficit; and **Belvoir Group** (+47%); **ULS Technology** (+19%) and **Galliford Try** (+47%), all sold taking profits after strong share price performance, in order to redeploy capital to higher conviction holdings.

## 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 possibility of travel restrictions and other mandatory restrictions therefore 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 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.


www.greshamhouse.com | (0)20 7382 0999