

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary - February 2022

Overview

February continued recent themes, with an increasing level of market volatility-driven negative sentiment surrounding inflationary pressures, expectations of ongoing interest rate rises, and an impending cost of living squeeze in the UK. We highlighted geopolitical tensions over Ukraine in our January commentary – these tensions worsened with Russia implementing a full-scale invasion of Ukraine. Towards the end of February this resulted in a broader market correction across global equity markets, being particularly pronounced within UK and European equities. We also saw sharply rising commodity prices, notably across key Russian and Ukraine exports such as oil, natural gas and wheat as well as a rush to safe haven assets that drove the price of gold sharply higher.

We have been anticipating increasing market and stock level volatility for some time and believe our portfolio is set up to deliver long-term resilient income streams and capital growth opportunities. This is due to our rigorous investment process focusing on high quality fundamentals-based businesses that are largely insulated from wider macro factors and are trading at reasonable valuations.

Despite the increased volatility and weaker sentiment, we continue to believe that the longer-term opportunity across the market cap spectrum of UK equities – which is underpinned by the continuing discounted valuations applied both to the UK and to the smaller companies segment – remains material, providing some downside protection in more challenging market conditions.

Notwithstanding the fast-moving geopolitical situation, we believe market conditions are increasingly supportive of finding attractive investment opportunities for those prepared to take a longer-term view. We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable income and capital growth characteristics at sensible valuations.

Performance

The LF Gresham House UK Multi Cap Income Fund's (the "Fund") performance decreased by 4.4% during the month, compared to the IA UK Equity Income sector which decreased by 2.1% and the FTSE All-Share index which decreased by 0.5%. The Fund's underperformance during the month was partly driven by relative outperformance of large cap vs small cap stocks and due to certain sectors that do not fit the Fund's mandate – such as banks and commodities – outperforming.

Key positive contributions to performance came from **Moneysupermarket** (+11%), after announcing resilient full year results in challenging markets; **Clipper Logistics** (+33%), after announcing a possible takeover by GXO; and **B&M** (+5%), which re-rated on no specific news.

The key detractors were **Randall & Quilter** (-11%); **TP-ICAP** (-17%); and **Currys** (-13%), all of which de-rated on no specific news.

Portfolio activity

The Fund made a number of follow-on investments into existing portfolio holdings, including **Safestore**, **XPS Pensions Group**, and **Randall & Quilter** amongst others. The Fund has seen robust recent inflows which have been selectively deployed across the existing portfolio into high conviction holdings where we have been able to take advantage of mispricing opportunities, given the wider market volatility.

We believe the current environment, where equity markets are experiencing an indiscriminate sell-off due to a combination of negative sentiment, geopolitical uncertainty and fund redemptions, creates attractive opportunities for us to continue to back high conviction, quality businesses with strong long-term prospects, at significant discounts. In the face of current uncertainty and market volatility we believe there is the potential to generate significant long-term risk adjusted returns from the consistent application of our investment strategy and process, and selective deployment of cash.

Outlook

Aftershocks from the pandemic that emerged during the start of this year, such as elevated inflation across a number of areas and global and domestic supply chain disruption, have been exacerbated by the Russia / Ukraine crisis. These specific aftershocks have been superseded by a wider set of macro factors, driven by the Russian invasion of Ukraine, that caused acute dislocations in asset classes globally and deteriorating market sentiment towards the end of February.

However, we believe our portfolio of high-quality businesses with resilient growth fundamentals and robust income streams is well positioned to deliver long-term success. In this period of higher uncertainty, we continue to apply our disciplined investment process and selectively seek out structurally attractive long-term investment opportunities that we believe have the ability to outperform through different and evolving market cycles.

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. 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 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 market 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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