

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary - March 2022

Overview

The recent market themes, highlighted in last month's commentary, persisted in March. Volatility-driven negative sentiment surrounding inflationary pressures, interest rate rises, and an impending cost of living squeeze in the UK continued to weigh on UK equities. Russia's invasion of Ukraine has resulted in an ongoing broader correction across global equity markets, being particularly pronounced in UK and European equities. There have also been sharply rising commodity prices, notably across key Russian and Ukrainian exports such as oil, natural gas and wheat as well as a rush to safe haven assets.

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.

Despite the increased volatility and weaker sentiment, we continue to believe that the longer-term opportunity across the market cap spectrum of UK equities, underpinned by the continuing discounted valuations applied both to the UK and to the smaller companies segment, remains material.

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 increased by 4.2% during the month, compared to the IA UK Equity Income sector which increased by 2.6% and the FTSE All-Share index which increased by 1.3%.

Key positive contributions to performance came from **Brewin Dolphin** (+76%), on news of a takeover offer by Royal Bank of Canada; **TP ICAP** (+27%), after a US activist hedge fund took an economic interest in the company; and **Sabre Insurance** (+9%), on the back of positive full year results.

The key detractors were **Moneysupermarket.com** (-8%); **B&M** (-8%); and **Ricardo** (-8%), all of which de-rated on no specific news.

Portfolio activity

We made a number of follow-on investments into existing portfolio holdings, including **Peel Hunt**, **Halfords Group**, and **Alpha FMC** 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 redemptions in the sector, 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.

We made one full exit, **Volution Group**, a provider of residential and commercial ventilation solutions, where the investment case had played out resulting in significant yield compression and crystallising a return of 58.7%

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. This has caused acute dislocations in asset classes globally and deteriorating market sentiment towards the end of March.

However, we believe our portfolio of high-quality businesses with resilient growth fundamentals and robust income streams is well positioned to deliver good long-term returns. 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.

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.

The elevated levels of corporate activity within the UK equity space continue to play out, with Brewin Dolphin being the latest investment subject to a takeover offer. We believe our investment process and private equity lens across public markets position us well to identify investment opportunities with potential strategic value that could be attractive acquisitions for both corporate and financial buyers.

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.

Past performance is not necessarily a guide to future performance. Portfolio investments in smaller companies typically involve a higher degree of risk. Capital at risk.

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