

# LF Gresham House UK Smaller Companies Fund

---

## Factsheet commentary - July 2022

**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. Extracted portfolio performance is not necessarily indicative of the performance of the fund.**

### Overview

Market volatility was lower in July compared with previous months, despite ongoing concerns around inflationary pressures, interest rate rises and the cost-of-living squeeze which all continued to be exacerbated by the ongoing conflict in Ukraine. Central banks pushing through rate rises of unprecedented size relative to recent history and predictions of a protracted recession in the UK and elsewhere reinforce the concerns around macroeconomic headwinds. In that context we do not view the market rally during July as a reason to become more optimistic about the market outlook but more as a temporary respite from what we expect to be ongoing market and stock level volatility.

During 2022 we have focused on undertaking an in-depth, bottom-up risk review of the portfolio in the context of the economic headwinds in the market. This has driven some changes to portfolio weightings but largely has confirmed our view that the Fund is well positioned with a portfolio of relatively resilient businesses exposed to structural growth trends and with robust financials and low financial leverage. Whilst mindful of the shifting economic paradigm and the risks that all companies face, we are confident in how robust the business fundamentals are in the majority of our portfolio companies, as well as the margin of safety on valuation relative to our view of long-term fundamental value.

Despite the uncertain environment, we continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied both to the UK but more accentuated within the smaller companies segment, remains material.

We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth characteristics at sensible valuations.

### Performance<sup>1</sup>

The LF Gresham House UK Smaller Companies Fund increased by 2.0% during the month, compared to the IA UK Smaller Companies sector which increased by 4.8%.

The largest detractors to performance were **Sabre Insurance** (-27%) following a profit downgrade due to inflationary pressures on the cost of claims – we have subsequently increased our position on weakness **Inspired** (-14%) on no specific news and **Moneysupermarket** (-8%), on ongoing negative sentiment around energy markets.

Key positive contributions came from **Telecom Plus** (+18%), due to their strong market position in the context of current energy market disruption; **Smart Metering Systems** (+14%), following a positive trading update; and **Halfords Group** (+25%), recovering from recent share price weakness.

## Portfolio activity

We made two new investments during the month, **Franchise Brands**, a collection of market-leading franchise businesses and **Moneysupermarket** a price comparison website, both companies we know well and where we have had longstanding investments in other Gresham House UK Equity funds but which now meet the criteria for this Fund. We also made a number of follow-on investments into existing portfolio holdings, including **Sabre Insurance**, **Kape Technologies**, and **Tribal Group** amongst others.

We made one full exit, specialist financial services group **Speedy Hire** (-25% return) driven by the announced retirement of the CEO and increasing market headwinds facing some parts of its business.

## Outlook

The macroeconomic and equity market outlook continue to exhibit elevated levels of uncertainty as we appear to be at a generational paradigm shift from low to higher inflation and low interest rates to a sustained period of increasing rates and unwinding of government stimulus as well as an equity rotation from growth to value that is well underway.

We anticipate this uncertainty will continue to drive periods of sentiment driven volatility in equity markets well into next year. While we view this outlook with suitable caution, we also expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing.

We believe our portfolio of high-quality businesses with resilient growth fundamentals is well positioned to deliver 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.

## Important information

The information contained in this document (the Document) is being communicated in the United Kingdom for the purposes of section 21 of Financial Services and Markets Act 2000 and has been issued by Gresham House Asset Management Limited (GHAM or the Manager). GHAM whose registered office is at 5 New Street, London, EC4A 3TW is a company authorised and regulated by the Financial Conduct Authority (FCA). The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares, or securities or to form the basis of a contract to be relied on in any way. GHAM provides no guarantees, representations, or warranties regarding the accuracy of this information. No third-party liability is accepted by GHAM, its members and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act 2000.

Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investing in the securities and legal, regulatory, credit, tax, and accounting aspects in relation to their particular circumstances. The recipient should consult its tax, legal, and accounting or other advisers about the issues discussed herein and shall be solely responsible for evaluating the risks and merits involved in the content of this Document.

This Document is provided for the purpose of information only and before investing you should read the Prospectus and the Key Investor Information Document (KIID) as they contain important information regarding the Fund, including charges, tax and fund specific risk warnings and will form the basis of any

investment. The Prospectus, KIID and application forms are available from Link Fund Solutions, the Authorised Corporate Director of the Fund (Tel. No. 0345 922 0044). Investors are reminded that past performance is not indicative of future results. Funds investing in smaller companies may carry a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid than securities in larger companies.

No person, especially those who do not have professional experience in matters relating to investments, must rely on the contents of this document. If you are in any doubt as to the matters contained in this Document, you should seek independent advice where necessary. This Document has not been submitted to or approved by the securities regulatory authority of any state or jurisdiction. This Document is intended for distribution in the United Kingdom only. Any dissemination or unauthorised use of this Document outside the United Kingdom by any person or entity is strictly prohibited.

Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this presentation. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

[www.greshamhouse.com](http://www.greshamhouse.com) | (0)20 7382 0999