

LF Gresham House UK Micro Cap Fund

Factsheet commentary – March 2023

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. Not to be construed as investment advice or recommendation.

Overview

Global equity markets remained unsettled last month over fears of widespread banking sector contagion, as February's Silicon Valley Bank developments were superseded by the rapid collapse of Credit Suisse in early March. Whilst our portfolio contains no direct exposure to banking institutions, in line with our investment strategy, we were not wholly immune to the global softening of risk appetite.

Offsetting this were a number of positive UK economic developments, including signs of inflation and the cost-of-living crisis easing, a positive January GDP surprise (announced in March), and Sterling strengthening (in particular vs. the US Dollar). We maintain our view that the UK's resilient fundamentals, well-regulated banks and capital markets, and robust corporate earnings may lead to improving sentiment.

Despite the challenging environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth trends or self-help opportunities and therefore able to perform well despite the wider macroeconomic uncertainty.

News flow across our portfolio companies has on the whole been positive and well received by the market, with a number of trading updates demonstrating better than expected financial performance. In the year to date, c. 80% of portfolio company updates have been in-line or positive relative to market expectations.

The longer-term discounted valuations applied to UK equities, and in particular the smaller companies segment, remains material. Building on the strong momentum in UK plc takeover announcements in January and February, March continued to show an elevated level of takeover developments, including: Cenkos / finnCap (merger), ECSC Group, Hurricane Energy, Purplebricks and Unbound Group.

Performance¹

The LF Gresham House UK Micro Cap Fund decreased by 2.31% during the month, outperforming the IA UK Smaller Companies sector which decreased by 5.74%.²

Key contributions came from **Franchise Brands** (+17%) following the release of strong FY22 results, ahead of expectations, driven by a particularly strong performance of Filta following its transformational acquisition in March of last year; **Costain** (+21%) which released positive FY22 results, indicating stronger than expected cash generation; and **Kooth** (+27%) following the announcement of a transformative international contract, which management has indicated will have a "material" impact on FY24 sales.

The largest detractors to performance were **Gym Group** (-28%) after management noted a difficult macro-

1. Please refer to the factsheet for full NURS-compliant performance figures.

2. The IA UK Smaller Companies sector comparator is used for illustrative purposes only.

economic environment, with lower-than-expected membership growth YTD, which is expected to continue through the year, leading to lower FY23 expectations; **Windward** (-24%) which has faced continued share price weakness on no-stock-specific news, despite the release of in-line FY22 results indicating 25% organic revenue growth.

Portfolio activity

We made one new investment in the period, into **AssetCo**, a UK based asset manager which has expanded through acquisition; the Manager views the business as undervalued on a sum-of-the-parts basis, with a significant net cash balance relative to its market capitalisation.

We made selective follow-on investments into a number of existing portfolio companies, including **Hostelworld**, a hostel-focused online travel agent, with the Manager viewing the business as materially undervalued with attractive structural market dynamics, as exemplified by the release of its strong FY22 results; and **Oxford Metrics**, an intellectual property-rich business that sells hardware and software solutions into a range of applications, with a core competency in motion measurement – the Manager views the business as materially undervalued with attractive structural market dynamics.

There were no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout 2023, despite early signs of positive economic developments. However, the fund remains well positioned, with a portfolio of relatively resilient businesses, – exposed to structural growth trends and with strong fundamental characteristics – , that we believe should perform well through the cycle.

While we view the outlook with suitable caution, we expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing. We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth and sustainable income characteristics at sensible valuations.

As already supported by announcements during the first couple of months of the year, we expect to see a resurgence of takeover activity amongst listed UK companies as 2023 progresses, as corporate and private equity buyers seek to benefit from ongoing dislocation between strong company fundamentals and UK equity valuations. Significant levels of capital yet to be deployed by private equity firms, combined with the easing of longer-term interest rates, could continue to provide a supportive landscape for elevated corporate activity over the short- to medium term.

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