

# LF Gresham House UK Smaller Companies Fund

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## Factsheet commentary – May 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 a recommendation.**

### Overview

Global equity market uncertainty continued in May, with key macroeconomic highlights including the protracted discussions around raising the US debt ceiling and fears of a technical default, signs of weakness in China's economic recovery, confirmation that Germany has entered into recession and stickier than expected UK inflation lifting expectations of further base rate rises.

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. 85% 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 so far this year, further takeover announcements followed in May.

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

The LF Gresham House UK Smaller Companies Fund decreased by 2.45% during the month, underperforming the IA UK Smaller Companies sector which decreased by 1.75%.<sup>2</sup>

Key contributions came from **Sabre Insurance** (+15%) following a well-received trading update that reaffirmed full year guidance; **Franchise Brands** (+6%) and **Inspired** (+15%) which both re-rated positively on no specific news.

The largest detractors to performance were **Watkin Jones** (-28%) following disappointing half-year results and forecast cuts as robust rental demand for Purpose Built Student Accommodation (PBSA) / Build to Rent (BTR) was offset by a slow recovery in investor markets for these assets; and **Restore** (-15%), following a trading update which highlighted disappointing performance in the PC/laptop recycling division and a subsequent profit guidance downgrade. In both cases following a review of the investment case we remain confident in the long-term value potential.

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

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

## Portfolio activity

We made one new investment in the period, into **Craneware**, a leading provider of administrative and operational SaaS solutions to the US healthcare market. The Manager believes that the structural growth opportunity in the US healthcare software market and significant levels of contracted recurring revenue in Craneware are not fully reflected in its valuation.

We also made a number of selective follow-on investments, including into **Ricardo**, a global strategic, environmental and engineering consultancy which is currently going through a strategic transition to focus the business towards higher growth, higher margin and lower capital intensity parts of the business, with growth underpinned by environmental structural tailwinds; **EMIS Group**, a leading healthcare information technology provider, following strong preliminary results and share price weakness as a result of its proposed takeover by UnitedHealth being referred for a CMA Phase 2 investigation; and **Learning Technologies Group**, an international provider of workplace digital learning and talent management solutions, which saw some share price weakness following the release of its full-year results, but which the Manager believes is materially undervalued on a medium term view.

There was one full exit during the period, from **Liontrust**, following the announcement of its proposed acquisition of Swiss asset manager GAM, which the Manager felt increases the risk profile of the business relative to the strategy that it had supported as part of its original investment thesis.

## Outlook

We continue to expect that market conditions will remain volatile throughout 2023, as further economic data are digested and market participants recalibrate their views of inflation stickiness and likely interest rate paths, inter alia. 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 structural capital growth at sensible valuations.

As already supported by announcements during the first few 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.

## Important information

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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.

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