

WS Gresham House UK Smaller Companies Fund

Quarterly commentary – Q2 2025

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. Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview – Q2 2025

UK equity market performance was mixed in the second quarter of 2025 as smaller company stocks generally outperformed their larger peers. The Deutsche Numis Smaller Companies plus AIM ex-Investment Trusts Index, FTSE AIM All Share, and FTSE 250 Index rose by **13.6%**, **13.8%** and **12.5%** respectively, while the FTSE 100 Index rose by just **3.2%** in comparison.

In early Q2 2025, global equity markets sold off broadly following the US government's 'Liberation Day' tariff announcements on 2 April. We saw a sharp inflection to 'risk off' investor sentiment given the uncertain economic and geopolitical implications, as well as rising US bond yields, a falling US dollar, and several earnings warnings issued by US corporates. Despite this dislocation, we view the UK as a relative safe haven with a strong currency, political stability, improving economic data, and a government with an agenda to stimulate domestic investment and economic growth.

While the FTSE 100 contains a significant amount of overseas earners, we believe UK small caps were well protected compared to other businesses given their domestically focused earnings, isolated exposure to global supply chains, and leverage into a recovering UK economy. Looking at our portfolio, we took initial comfort from the fact that 90% of net asset value¹ (NAV) was held in services-focused businesses, while the average UK revenue exposure across the portfolio was 74%.² Nevertheless, we recognised that the idiosyncrasies of our portfolio companies had to drive our overall response to tariffs, and as such, we took a granular bottom-up approach to assessing and adjusting for relevant risks.

Beyond tariff risks specifically, we conducted a wider review of potential portfolio risks including, inter alia: reduced earnings visibility, end-market cyclicality, customer concentration risk and discretionary spending exposure.

Having refined our initial view of risk exposure and mitigation levers across the portfolio, and in conjunction with our level of conviction in each opportunity, we took appropriate rebalancing action to reduce the – already low – portfolio allocation towards companies that we deemed to have elevated exposure to tariff dislocation. Given that our portfolio construction naturally leads to lower exposure towards sectors which are likely to see the highest tariff impacts – for example manufacturing and other industrials exporters – the portfolio rebalancing in response to our tariff risk assessment comprised marginal adjustments as opposed to wholesale change.

Having re-positioned the portfolio to minimise tariff and other risks, we were then able to opportunistically capitalise on the valuation dislocation in the UK smaller companies space borne of the tariff-related drawdown. During the period, we cornerstoned the £271m AIM IPO of MHA plc, a leading UK accountancy firm and the UK member of Baker Tilly International, which we believe offers attractive long-term growth

prospects and a high-quality financial profile, at a clear valuation discount (6x EV/EBITDA) to several double-digit EV/EBITDA precedent transactions in the UK accountancy space. Similarly we built new positions in four new companies (Global Data, Trainline, JTC, Cerillion), which like MHA are high-quality growth businesses characterised by majority recurring revenues, high EBITDA margins and strong cash generation, and are also benefitting from structural market tailwinds. All of these new investments were made at steep valuation discounts to the companies' longer term trading histories and, in our view, intrinsic value, driven by short-term technical factors rather than fundamental concerns.

During the remainder of the quarter, we observed a strong UK and global equity market recovery as the US administration struck preliminary agreements with global trading partners including the UK, appearing to moderate its previously aggressive tone on tariffs. Our portfolio no doubt benefitted from this broader market recovery, but more pleasing to us was the continued strong operating performance of the vast majority of portfolio companies despite the broader economic uncertainty; indeed, during the quarter, 93% of portfolio company updates were positive or in-line with market expectations.

Alongside portfolio rebalancing and new investment activity, the team worked hard to actively engage with companies which had suffered a loss of value earlier in the year. Importantly we helped catalyse the recently announced takeover of Ricardo plc, a strategic position held across the Gresham House equity funds, at a 69% premium to the 90-day volume weighted average price. We leveraged our c.23% equity stake and stakeholder engagement to ease the pathway to shareholder approval, and have subsequently recovered the vast majority of value lost following the unexpected profit warning earlier in January.

Performance – Q2 2025

Performance in the WS Gresham House UK Smaller Companies Fund increased by **12.6%** during the quarter, slightly underperforming the IA UK Smaller Companies sector which increased by **13.1%**.⁴

Key positive contributions during the quarter came from **Costain (+1.4% CTR)**, which announced in-line trading and further momentum in winning UK water-infrastructure business; **Ricardo (+1.4% CTR)**, following the Recommended Cash Offer from WSP; and **Capita (+1.3% CTR)**, following strong momentum in contract wins in the first five months of 2025, which saw Total Contract Value up 24% year-on-year.

The largest detractors to performance were **Next 15 (-0.4% CTR)**, following a profit warning in relation to misconduct allegations in relation to a number of subsidiary management personnel and the costs (explicit and opportunity) arising as a result of this; **Global Data (-0.3% CTR)**, following the termination of an Offer Period in which ICG and KKR were previously named as potential Offerors for the business and which had led to a prior share price rally; and **Wilmington (-0.2% CTR)**, despite no material newsflow.

Portfolio activity

We made five new investments during the period: into **MHA** (see above); **Global Data**, a global data analytics provider with high levels of recurring revenue and highly attractive financial characteristics, with strong founder equity alignment; **JTC**, a leading global provider of fund, corporate and private client services with high levels of recurring revenue and operating in structural growth markets; **Trainline**, the leading digital rail-ticketing platform with attractive financial characteristics, a material ex-UK growth runway, and share price overhang due to some market perception of political risk emanating from the UK Government's railway transformation; and **Cerillion**, a provider of billing, charging and CRM SaaS solutions to the telecoms industry, with high quality recurring revenue, organic growth and a leading market position.

We made two full exits during the period: from **Learning Technologies**, following its takeover by General

Atlantic; and **Essentra**, for which the combination of existing and new potential risk factors following the April tariff uncertainty meant that it no longer suited the risk profile of this portfolio.

We made several selective follow-on investments during the period, including into **Craneware**, following share price weakness as its possible Offer from Bain Capital lapsed; **Spire Healthcare**, following in-line trading and progress on its cost efficiency initiative; and **Sabre Insurance**, following encouraging current trading and reiteration of its guidance.

Outlook – Q3 2025

Moving into Q3, it is clear that macroeconomic and geopolitical challenges are likely to persist at least in the short-term, hence our focus remains on prioritising high-quality portfolio companies with defensive characteristics, monitoring company trading patterns and potential risks, and selectively building new positions which meet our quality and valuation criteria.

As expected, takeover activity has accelerated across UK equity markets given low valuations relative to global equity market peers and M&A precedent transactions. Notably, calendar year 2025 to date has already seen 38 firm offers made, versus a full year median of 55 (2020-2024). There has also been a notable skew towards smaller deal values, with 97% of firm offer announcements relating to <£2bn deals (matched only by 2023 in the period since 2020), and an uptick in mixed cash and share offers to 18% (vs. 7% median 2020-2024) reflecting the growing interest in UK public M&A from listed, strategic investors alongside private equity bidders. We believe this activity will continue to drive the potential for portfolio outperformance, especially since our investment criteria are often aligned with those of private equity or strategic buyers. Our focus on high-quality financial characteristics makes many of our portfolio companies suitable for the private equity leveraged buyout model, while the strategic value of our portfolio companies is underpinned by their differentiated value propositions, alignment to structural growth tailwinds, and leading market positions.

The first six months of 2025 saw a muted UK IPO market, with deal volumes reportedly at 30 year lows¹. However, we still believe that there is capital ready to be deployed in UK IPOs of high quality businesses, as demonstrated in the IPO of accountancy firm MHA in Q2 2025, in which funds managed by Gresham House were a cornerstone investor. Looking forwards, we are also pleased to observe some additional greenshoots of UK IPO activity, having attended a number of “early look” meetings with potential IPO candidates.

In this light, we continue to believe that government policy has lacked appropriate support for London’s senior and junior markets – both critical incubators of UK innovation and future economic growth. In our view, removal of stamp duty, further simplification of UK listing rules, unlocking pension fund capital for domestic public equity investment, and including AIM companies within the recently expanded Mansion House Accord would signal a strong vote of confidence in the UK capital market ecosystem. It is essential to establish a level playing field between public and private assets within the policy framework, given the co-dependence of these two spheres, as well as to unlock additional liquidity and foreign investment to support structural higher valuations, new company listings, and ultimately stem the toxic trend of UK de-equitisation.

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