

WS Gresham House UK Multi Cap Income Fund

Quarterly commentary – Q3 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 – Q3 2025

UK equity market performance was mixed in the third quarter of 2025 as smaller company stocks generally underperformed their larger peers. The Deutsche Numis Smaller Companies plus AIM ex-Investment Trusts Index, FTSE AIM All Share, and FTSE 250 Index rose by **2.9%**, **2.0%** and **2.7%** respectively, while the FTSE 100 Index rose by **7.5%** in comparison.

During the third quarter, we observed an inflection in global capital allocation. Over the last three years, outflows from UK equity funds have been recycled into an outperforming US stock market, driving the relative valuation discount of UK equities to multi-decade highs. However, the recently pervasive narrative of US stock market exceptionalism is becoming increasingly fragile: S&P 500 currency-adjusted returns have lagged major global peer indices during the year-to-date; US consumer confidence is weakening; credit card delinquencies and US inflation expectations are rising. and US policy uncertainty with regard to global trade and regional conflicts remains high. All of these factors contributed to \$36.4 billion of outflows from US equity funds over the period – the largest quarterly redemption in over a year.¹ In contrast, European equity funds attracted net inflows, the only major equity region to do so. We believe that the UK, with its strong household and corporate balance sheets, relative political stability, and a services-focused economy insulated from global trade wars, is increasingly well-positioned as a safe haven for international capital.

UK economic fundamentals tell a story at odds with prevailing sentiment. Household and corporate balance sheets remain robust and stronger than G7 peers.² Real wage growth has been sustained for over two years, supporting consumer confidence that now sits above its ten-year average.³ Demand is recovering across discretionary categories with rises in non-essential card spending.⁴ Business sentiment remains elevated compared to recent history,⁵ and the vast majority of our portfolio companies continue to perform in-line with or ahead of market earnings expectations (92% in Q3 2025). None of this indicates an economy in distress. Given the solid and improving fundamentals of the UK economy, we see domestic equities as a potentially meaningful beneficiary of capital rotation out of the US in due course. Moreover, while we believe company fundamentals have become mis-priced across the UK equity universe, and more so in the small-cap space, we believe the value of our portfolio companies are generally driven by idiosyncratic factors

¹ Bloomberg data; Calastone Fund Flow Index, Q3 2025; University of Michigan US consumer confidence data; NY Fed inflation data; NY Fed Household Debt Report data.

² ONS National Balance Sheet, 2024.

³ Bank of England Financial Stability Report, July 2025; GfK Consumer Confidence Index, Q3 2025.

⁴ Barclays Consumer Spending Report, August 2025.

⁵ Lloyds Bank Business Barometer, September 2025.

within management team control, as opposed to wider economic factors. We emphasise that any improvement in UK economic or equity market conditions denotes potential upside to our current return expectations, which are not reliant on portfolio re-rating.

Equity capital markets (ECM) activity, combined with our observations of rising deal flow, corroborate the improving outlook for UK equities, particularly for the smaller companies space. In Q3 2025, UK companies raised £1.5 billion of additional capital (i.e. non-IPO funding), while companies between £250 million and £1 billion market capitalisation raised £269 million – a 93% increase on Q2 2025. A growing number of UK plc management teams from diverse sectors are raising growth capital and often seeking to invest directly within the UK real economy. This activity not only stimulates economic growth in and of itself but reflects rising corporate and investor confidence in the return opportunities available.

While we see upside for UK equities as the economic and stock market backdrop improves, we remain focused on the Fund's bottom-up and private equity-led investment approach. Our high-conviction stock selection and portfolio management style emphasises company fundamentals which we believe provide insulation from broader economic and geopolitical uncertainty. We seek to invest in high-quality UK companies with capable and aligned management teams, structural market drivers, solid and defensible market positions, high-quality earnings streams such as recurring revenues, high margins, and resilient balance sheets.

Performance – Q3 2025

Performance in the WS Gresham House UK Multi Cap Income Fund increased by **1.6%** during the quarter, underperforming the IA UK Equity Income sector which increased by **2.9%**.

Key positive contributions over the period came from: **JTC (+1.2% CTR)**, following a strong first-half trading update and disclosure of multiple potential takeover offers from private equity firms, Permira and Warburg Pincus, which were rejected but with whom the board is in ongoing discussions; **Elixirr (+0.9% CTR)**, following completion of its AIM-to-main market transition and its transformational acquisition of US strategic consultancy business, TRC Advisory, for maximum consideration including contingent consideration of \$125m (7.8x EV/EBITDA); and **Balfour Beatty (+0.5% CTR)** following interim results which delivered profit before tax ahead of market expectations, re-iterated full-year guidance, and a positive business outlook.

The largest detractors to performance were: **Domino's (-0.7% CTR)**, driven by decelerating like-for-like sales growth in Q2 and a 7% downgrade to full-year EBITDA guidance, alongside a lower outlook for new franchisee store openings and government-driven cost headwinds. We remain confident in the long-term prospects of the business, which outperformed key UK food-to-go peers to gain market share (now 54% of UK pizza), is benefitting from structural competitive tailwinds, and leverages a high-quality franchised business model; **Pets at Home (-0.6% CTR)**, as a profit warning driven by a downgraded retail market growth outlook caused a de-rating of the shares, alongside the announced exits of the CEO and CFO; and **Nichols (-0.4% CTR)** despite in-line interim results which demonstrated positive strategic execution, UK soft drinks market share gains in key grocery distribution channels, and a progressive capital allocation policy which signalled possible returns of surplus cash to shareholders in due course.

Portfolio activity

We made two new investments during the period into **Big Yellow Group** and **Safestore**. Both companies are leaders in the structurally growing UK and European self-storage markets, which benefit from long-term inflation-linked and quasi-recurring revenues, high EBITDA margins (c.60%), and substantial freehold asset backing, and both of which trade at attractive entry valuations benchmarked against recent precedent transactions in the UK REIT sector.

The Fund made two full exits during the period: from **Inspired** following an all-cash takeover by HGGC, a US mid-market private equity firm, at 81p per share, a 33% premium to the undisturbed share price; and **Greggs**, following a negative shift in our investment thesis which focused on potentially waning pricing power, elevated threat of market share loss, and perceived risk to medium-term forecasts not sufficiently compensated for in the premium valuation as compared to other UK consumer stocks.

We made several selective follow-on investments during the period, including into: **Nichols**, the global brand owner of Vimto soft drinks, which we believe is well positioned to take share in a structurally growing UK squash market and benefits from a diversified and primarily outsourced business model, generating a high return on invested capital and strong free cash flow to support progressive income growth; **Gamma Communications**, a key provider of B2B Unified Communications as a Service which is benefitting from the shift to cloud-based communication; and **Everplay**, a leading publisher of independent video games with a valuable IP base and back-book, which is well known to the Manager.

Outlook – Q4 2025

Improving UK economic fundamentals, capital rotation away from overvalued US markets, and accelerating domestic fundraising all contribute to a supportive backdrop for UK equities going forwards. As expected, we continue to see compelling evidence of the UK small-cap returns opportunity in the form of elevated corporate M&A and public-to-private activity, with 38 bids announced year-to-date for companies valued over £100m market capitalisation, representing £33bn of equity value. Average UK bid premia of 40% above undisturbed prices reflect buyers' recognition of undervaluation and their willingness to pay for quality financial or strategic assets despite higher deal funding costs compared to previous years.⁶

It remains an anomaly in our view that trade and private equity buyers see a compelling value opportunity in UK equities, particularly in the smaller companies space – 97% of firm offers for UK-listed companies during the year-to-date came at below £2bn in value compared to an historical average of 82% – yet organic investors have been slow to realise the value opportunity, as reflected in consistent fund outflows. We see improving conditions and the removal of uncertainty around the upcoming Autumn budget as potential catalysts for a re-rating of UK smaller company shares and this portfolio.

Moreover, companies that remain listed are responding to undervaluation by deploying strong cash flows into share buybacks at elevated rates. The FTSE 100 buyback yield stands at 39% above its five-year average, the FTSE 250 35% higher, and the AIM 100 184% above trend.⁷ In many instances – for example, Sainsbury's, Balfour Beatty, and TP ICAP across our portfolio – we believe this capital allocation reflects management teams' conviction that their shares represent attractive investment opportunities above the return rates achievable for organic growth projects or M&A activity. For patient investors, share buybacks can create attractive value compounding whereby future equity value creation or income distributions accrue to a smaller pool of investors, improving total returns.

We are increasingly optimistic about the total return opportunity available in the UK smaller companies space. The UK economy is robust, and we are seeing an increasing number of compelling equity value indicators in our space. As a collective, we believe strong UK economic and corporate fundamentals will be recognised in due course, particularly given the waning confidence in US equity market exceptionalism. In the meantime, we continue to focus on executing our bottom-up, private equity-led investment approach, focusing on high-quality companies with clear idiosyncratic value drivers, operating in niche and structurally growing areas of the UK and global economy.

⁶ Peel Hunt UK M&A Strategy Report, October 2, 2025

⁷ Bloomberg data.

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) (no.682776). 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 Waystone Management (UK) Limited., 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 | (0) 20 7382 0999