

# WS Gresham House UK Smaller Companies 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.<sup>1</sup> 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.<sup>2</sup> Real wage growth has been sustained for over two years, supporting consumer confidence that now sits above its ten-year average.<sup>3</sup> Demand is recovering across discretionary categories with rises in non-essential card spending.<sup>4</sup> Business sentiment remains elevated compared to recent history,<sup>5</sup> and the vast majority of our portfolio companies continue to perform in-line with or ahead of market earnings expectations (98% 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

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<sup>1</sup> 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.

<sup>2</sup> ONS National Balance Sheet, 2024.

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

<sup>4</sup> Barclays Consumer Spending Report, August 2025.

<sup>5</sup> 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 Smaller Companies Fund increased by **0.3%** during the quarter, outperforming the IA UK Smaller Companies sector which decreased by **0.3%**<sup>4</sup>

Key positive contributions during the quarter 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 **Everplay (+0.8% CTR)**, following interim results which upgraded full-year earnings guidance, driven by strong performance of the quasi-recurring revenue back-book of historic video games titles.

The largest detractors to performance were **Mortgage Advice Bureau (-0.4% CTR)**, despite in-line interim results which signalled improved UK mortgage market regulation and strategic progress around technology-driven profit gains; **Mears (-0.4% CTR)**, despite interim results which upgraded full-year expectations driven by strong growth in maintenance activities and an accretive cash-funded acquisition; and **Global Data (-0.4% CTR)**, as the announced main market transition created a short-term technical share price disconnected from the recovering sales momentum highlighted at interim results.

## **Portfolio activity**

We made two new investments during the period, into **Science Group**, an outsourced scientific R&D consultancy alongside a critical engineering components supplier into UK naval defence programmes, which we believe is managed by a high-quality and materially aligned Executive Chair, who is executing on a flexible value creation strategy in markets supported by various structural drivers; and **NIOX Group**, a medical diagnostics company with strong IP in measuring airway inflammation, which benefits from highly repeat revenue streams, a strong position in a large global market supported by secular demand trends.

The Fund made one full exit 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.

We made several selective follow-on investments during the period, including into **Global Data**, a data analytics provider with high levels of recurring revenue and highly attractive financial characteristics, with strong founder equity alignment; **Spire Healthcare**, the UK's largest private hospital group by revenue, which operates in a structurally attractive UK private healthcare market, is executing on a clear strategy to grow profit per theatre, is cutting costs materially to expand operating margins, is building a scaled primary care business to drive referral income into the higher margin hospital business, and whose equity trades at a substantial discount to the freehold value of its property portfolio; and **Brooks Macdonald**, an investment management services provider, which we view as a leading player in the highly fragmented wealth management sector and as materially undervalued relative to precedent M&A transactions in the space.

### **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.<sup>6</sup>

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.<sup>7</sup> In many instances, 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.

### **Important information**

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<sup>6</sup> Peel Hunt UK M&A Strategy Report, October 2, 2025

<sup>7</sup> Bloomberg data.

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