

# WS Gresham House UK Micro Cap Fund

## Quarterly commentary – Q4 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 – Q4 2025

UK equity market performance was mixed in the fourth quarter of 2025 as smaller company stocks generally underperformed their larger peers. The Deutsche Numis Smaller Companies plus AIM ex-Investment Trusts Index, FTSE 100 Index, and FTSE 250 Index rose by **1.6%**, **6.8%** and **2.9%** respectively, while the FTSE AIM All Share fell by **1.7%** in comparison.

During the fourth quarter, the FTSE 100 continued to outperform, largely driven by ‘mega cap’ banks, pharma, and energy stocks. We view this dynamic as further evidence of shifting tides in global asset allocation. The ‘US diversification trade’ has diverted global money flow into the top-end of the UK and other international equity markets, particularly over the second half of 2025, as fears of US stock market concentration and an AI valuation ‘bubble’ become increasingly salient. Combined with the uncertain direction of US economic and foreign policy under the Trump administration, we believe overweight US allocations will continue to unwind and that the backdrop for marginal buying of UK equities looks more supportive than at any point over the last three years.

The widening jaw between UK large cap and small cap valuations was another key feature of the fourth quarter, with companies below £500 million market cap trading at a 23% median price-to-earnings discount to companies with over £4 billion market cap at period-end.<sup>1</sup> While UK-based investors remained risk-off domestic equities – withdrawing £2.6 billion from UK-focused equity funds over the period – <sup>2</sup> the large-to-small relative value trade provides an attractive incentive for money to trickle down into the UK smaller companies space. Historically, when investors have capitalised on this opportunity, they have been rewarded handsomely – over each peak-to-trough and trough-to-peak UK equity market cycle since 1998, UK small caps have rebounded over 70% higher than the FTSE All Share on average, with that recovery often coming within a six-month window.<sup>3</sup> Moreover, private equity and strategic buyers have materially capitalised on this relative value dynamic over the last two years and public-to-private transaction activity continued apace during the fourth quarter with £2.6 billion-worth of takeovers of UK-listed companies.

We believe our high-conviction stock selection and portfolio management style provides investors with a source of potential outperformance driven by earnings growth, cash generation and organic re-rating. Our focus is on businesses with high-quality fundamentals such as structural market drivers, solid and defensible market positions, high-quality earnings streams such as recurring revenues, high margins, resilient balance sheets, and capable and aligned management teams. These fundamentals translated into resilient operational delivery during the period, whereby 94% of trading updates or financial results across the portfolio were either

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<sup>1</sup> Bloomberg data, December 2025

<sup>2</sup> Calastone Fund Flow Data, 6 January 2026

<sup>3</sup> Bloomberg data, December 2025

positive or in-line relative to market expectations.

## Performance – Q4 2025

Performance in the WS Gresham House UK Micro Cap Fund increased by **0.8%** during the quarter, outperforming the IA UK Smaller Companies sector which decreased by **0.3%**.

Key positive contributions came from **ActiveOps (+1.3% CTR)**, following strong FY25 results that demonstrated double-digit revenue growth, expanding annual recurring revenue and a healthy sales pipeline which underpinned confidence in continued momentum into FY26; **Ten Lifestyle (+0.7% CTR)**, on the back of a full-year trading update for the year ended 31 August 2025 showing record revenue, EBITDA growth and net cash strengthening that beat market expectations and accelerated 'active' membership penetration, a leading indicator for organic growth; and **Costain (+0.6% CTR)**, following a series of strategically important contract wins and framework appointments that strengthened revenue visibility and reinforced its position in core infrastructure markets.

The largest detractors to performance were **Diaceutics (-0.8% CTR)** on no specific newsflow; **Everyman Media (-0.7% CTR)**, following a profit warning driven by weak footfall and the announcement that the CEO is stepping down with immediate effect; and **Netcall (-0.5% CTR)** also on no specific newsflow.

## Portfolio activity

The Fund made one new investment during the period, into; **Winvia**, a UK-based, technology-led entertainment company that operates prize draws, skill-games competitions, and online gaming platforms. In November, Winvia completed an initial public offering on the AIM market of the London Stock Exchange, raising approximately £40 million to support growth and strategic acquisitions.

The Fund made three full exits during the period; from **Frenkel Topping**, following the recommended takeover offer by Harwood Private Equity at a 13% premium to the undisturbed share price; **Ricardo**, following the agreed all-cash takeover by WSP Global at a 28% premium to the undisturbed share price, or approximately 70% versus the 90-day volume-weighted average price; and **Bigblu Broadband**, following the announcement that it plans to delist from the public market and the warning that it may receive no further proceeds from the contingent consideration tied to the sale of its subsidiary, SkyMesh.

## Outlook – Q1 2026

Entering 2026, the Gresham House Public Equity portfolios are well positioned for a small and mid cap recovery. We have a high-quality portfolio of companies with quality long-term fundamental characteristics: earnings growth with high visibility of revenues in less cyclical segments of the economy; high margins reflecting strong market positions; low or no financial leverage providing resilience in an uncertain macro environment; good cash generation underpinning financial returns; high quality and agile management teams aligned with creating long-term shareholder value. These are companies that should command premium ratings on the public markets. Instead, many trade at historically low valuations. If the market fails to rate these businesses appropriately then it is likely we will continue to see an elevated level of takeover approaches for businesses where private equity and strategic buyers appreciate the value on offer.

There are a number of reasons to be more cheerful about the outlook for 2026:

- The material outperformance of the FTSE 100 against not only other domestic indices but also the S&P 500, particularly in US dollar terms, during 2025 has put the UK market back on the global map after several years of underperformance
- Valuation dispersion between large and smaller companies remains historically wide, incentivising a relative value trade and a positive trickle-down effect
- Expected UK interest rate cuts should improve liquidity conditions and provide valuation support for smaller companies
- A reopening IPO market and elevated corporate activity provide tangible catalysts for re-ratings
- History suggests that although small caps typically lag in a market recovery, when they do recover they can do so rapidly and sharply, contributing substantially to their long-term outperformance over the wider market
- If 2026 is to be the year of the small- and mid-cap recovery, patient investors should avoid capitulating and missing this potential source of outsized returns

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