

WS Gresham House UK Smaller Companies 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.¹ While UK-based investors remained risk-off domestic equities – withdrawing £2.6 billion from UK-focused equity funds over the period – ² 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.³ 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 97% of trading updates or financial results across the portfolio were either

¹ Bloomberg data, December 2025

² Calastone Fund Flow Data, 6 January 2026

³ Bloomberg data, December 2025

positive or in-line relative to market expectations.

Performance – Q4 2025

Performance in the WS Gresham House UK Smaller Companies Fund decreased by **4.1%** during the quarter, underperforming the IA UK Smaller Companies sector which decreased by **0.3%**.

Key positive contributions during the quarter came from **Capita (+0.7% CTR)**, following a supportive trading update confirming performance in line with full-year expectations, alongside the announcement of a £33 million contract extension with Samsung UK for its contact-centre services business, which together improved revenue visibility and reinforced confidence in the Group's turnaround strategy; **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; and **Idox (+0.4% CTR)**, following the announcement of a recommended takeover by US investor Long Path Partners.

The largest detractors to performance were **Spire Healthcare (-1.0% CTR)** following a downgrade to 2026 profit expectations on the back of heightened uncertainty around the volume of NHS commissioning and below-inflation tariff increases proposed by NHS England; **Trustpilot (-0.7% CTR)**, driven by a sharp deterioration in investor sentiment following the publication of a short-seller report in early December that raised concerns around aspects of the Group's business practices and commercial model. We saw concerns as overblown, re-weighted our position post period-end, and the shares now trade above the pre-drawdown share price following the company's strong refutation of the short-seller claims and recently upgraded financial guidance, driven by global bookings and ARR growth momentum; and **Craneware (-0.6% CTR)**, due to the absence of fresh positive trading updates during the quarter, leaving the shares exposed to profit-taking following earlier strong performance, alongside broader investor caution toward healthcare software stocks in the absence of near-term catalysts.

Portfolio activity

We made two new investments during the period, into; **AdvancedAdvT**, an international B2B software-solutions provider well known to the team, whose capabilities span compliance, benchmarking, and resource- and workforce-management across both public and private sector organisations. Key investment features include a strong M&A pipeline and alignment with secular digital and AI trends, a scalable digital platform, a high proportion of recurring revenues underpinned by structural themes, strong operational momentum, and a high-quality founder Executive Chairwoman driving value creation; and **Princes Group**, a European foods manufacturer with leading market positions across its defensive, primarily staple food categories, with capabilities spanning customer own-brand and branded products and leveraging strategic retail customer relationships to drive wallet share expansion over the short-to-medium term. We believe the market is yet to reflect the various organic and, more importantly, inorganic growth opportunities to materially enhance group profitability over the medium term.

The Fund made one full exit during the period, from **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.

We made several selective follow-on investments during the period, including into **GlobalData**, a global data analytics provider with a leading position across key verticals, high-quality financial characteristics, and a clear organic growth strategy underpinned by self-help levers, led by a highly driven entrepreneur, and trading at a discount versus precedent transactions in the sector; **Niox**, a specialist medical technology company focused on asthma diagnosis and management, where a consumables-led revenue model, increasing clinical adoption, favourable reimbursement dynamics and a strong net cash balance sheet support durable growth

and defensiveness; 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 – 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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