Gresham House

Specialist investment

Q1 2026 Equities commentary & outlook

For professional investors only

Introduction

We believe valuations and share price movements have become increasingly detached from corporate and economic fundamentals, creating what we believe to be a once-in-a-generation opportunity in UK equities.

The first quarter of 2026 was difficult in absolute terms, with our portfolios down between 7.5% and 11.9% and underperforming a broad small-cap benchmark by between 0.9 and 5.3 percentage points. Yet the dominant feature of the quarter was not weakening fundamentals but a growing divergence between operating performance and share price behaviour. A broad AI disruption narrative, compounded by geopolitical stress and renewed inflation concerns, drove indiscriminate de-rating across a number of high-quality holdings. In our view that has materially improved the medium-term opportunity set.

Post-period end, markets and our portfolios have recovered much of the lost ground from calendar Q1 although markets remain volatile and are being driven by geopolitical and macroeconomic newsflow that is shifting constantly.

Market context

We entered 2026 with measured optimism. UK assets had started to come back into favour through 2025, the FTSE 100 had outperformed a number of other developed markets, and smaller companies began this year with encouraging momentum. That backdrop changed quickly. Events in Venezuela and subsequently in Iran pushed energy prices higher, revived inflation concerns and raised fresh questions about the trajectory of interest rates and the cost of capital. At the same time, an increasingly broad AI disruption narrative weighed on a range of sectors, including software, platforms, data, professional services and wealth management, all areas where we have significant holdings.

The result was a quarter in which market pricing became more narrative-led and less fundamentally anchored. While this created near-term headwinds for the portfolio, it also broadened the set of mispriced opportunities. In our view, investors are increasingly extrapolating thematic risks while underappreciating the resilience, adaptability and strategic value of many UK-listed businesses.

Performance review

Our Gresham House Equity Funds portfolios had a challenging quarter falling between 7.5% and 11.9% and underperforming a broad small-cap benchmark by between 0.9 and 5.3 percentage points. However, the attribution matters.

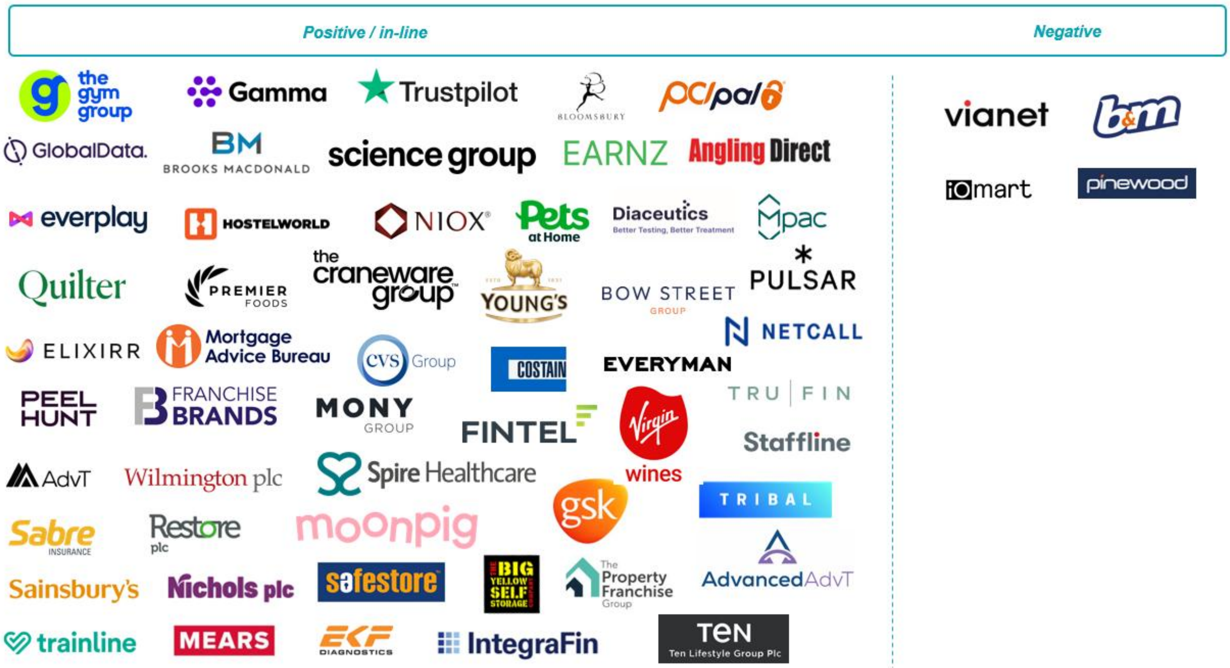
Gresham House Equity Funds Year to Date

Source: FE fundinfo 31 December 2025 to 22 April 2026.
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.

A meaningful portion of the gap versus the broader market reflected a lack of exposure to energy, materials and in the case of our UK Multi Cap Income fund no holdings in the mega-cap constituents that benefited from the quarter's macro backdrop. That is a style and positioning effect rather than evidence that the underlying businesses we own are deteriorating.

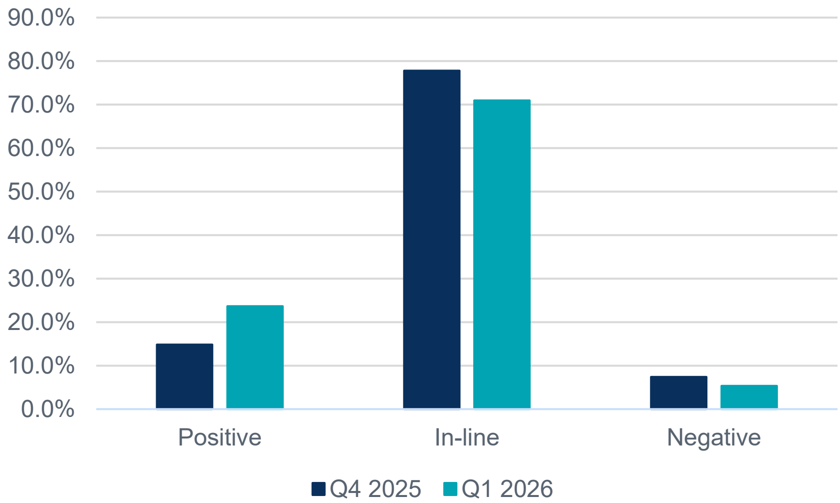
The more important point is that several of our holdings saw significant share price weakness despite reporting trading that was broadly in line with, or ahead of, expectations.

Company updates year-to-date versus expectations



Source: Gresham House as at 31 March 2026. Data covers WS Gresham House UK Multi Cap Income Fund, WS Gresham House Smaller Companies Fund, WS Gresham House UK Micro Cap Fund and Strategic Equity Capital plc. **Investments selected for illustrative purposes only to demonstrate investment strategy and are not investment recommendations. 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.**

Gresham House Equity Funds Q1 2026 versus Q4 2025



Source: Gresham House Equity team 31 March 2026. Data covers WS Gresham House UK Multi Cap Income Fund, WS Gresham House Smaller Companies Fund, WS Gresham House UK Micro Cap Fund and Strategic Equity Capital plc. **Past performance is not necessarily a guide to future performance. Capital at risk.**

March, in particular, offered a reminder that sentiment-driven dislocations can reverse quickly, with our portfolios recovering somewhat towards the end of the month as some of the most heavily derated areas stabilised. This trend continued into April with all portfolios up materially relative to their March lows and recovering much of their Q1 losses.

During Q1 in aggregate positive market returns of 2.5% for the FTSE All Share were almost entirely driven by the Energy and Materials sectors with all other sectors combined delivering an aggregate negative performance. These are sectors explicitly excluded from Gresham House strategies and hence represented a material relative performance headwind. The FTSE All Share returns were dominated by mega-cap oil & gas and mining companies where our UK Multi Cap Income fund has no exposure.

In the smaller companies space, best reflected by the broad Deutsche Numis Smaller Companies Index + AIM (excluding investment companies), a negative return of 6.6% for the quarter reflected material positive returns for the Energy sector (+21%) with almost all other sectors delivering material negative returns.

Beyond the simple size and sector headwinds our portfolios the relative underperformance of our portfolios can largely be explained by exposure to businesses on the wrong side of the AI narrative that started with the so-called “SaaSpocalypse” which then broadened out into a wider sell-off in tech-enabled and professional services sectors globally. A number of our key strategic holdings such as Everplay Group, GlobalData, Elixirr, Brooks Macdonald and XPS Group, held across our portfolios, saw significant share price draw-downs during Q1. This despite positive updates from most names during the period.

Back to basics: what we own and why

Periods like this are a useful reminder of why we focus so heavily on quality. We seek businesses with strong and aligned management teams, capital-light operating models, high returns on capital, sustainable barriers to entry, robust balance sheets and a clear capacity to generate cash through the cycle. We avoid structurally challenged sectors, excessively cyclical markets, highly binary early-stage situations and, where relevant to mandate, companies that do not have a credible path to cash returns for shareholders.

That discipline does not completely insulate the portfolio from macro volatility, but it does give us confidence in the resilience of the earnings streams we own. In a market environment where valuation is being driven by narrative and flows, quality fundamentals become more rather than less important.

We focus on building conviction across the key areas of our evaluation framework for each business we back: Management; Strategy; Market Opportunity; Market Position; Financials; and ESG. We dovetail this with assessing the valuation and returns opportunity and assess downside risk through our proprietary risk matrix framework. This process is dynamically updated in light of company developments and market context to ensure our portfolio remains high conviction set of companies we believe offer compelling risk/reward characteristics. That positive conviction is particularly elevated today.

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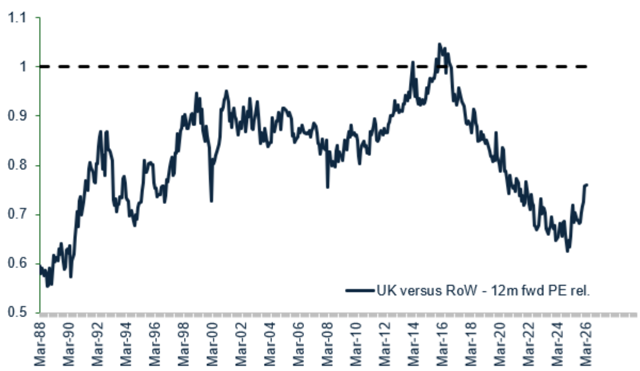
UK valuations: increasingly compelling

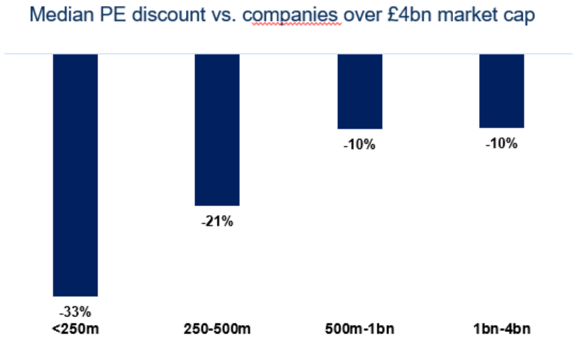
The valuation case for UK equities remains unusually powerful. Even after a period of relative outperformance from the FTSE 100, the UK continues to trade at a substantial discount to global equities on all measures. That gap is difficult to reconcile with the underlying quality of many UK-listed businesses and, in our view, says more about ownership and flows than about intrinsic value.

The compelling UK small cap opportunity

UK 12-month forward P/E relative to global equities[1]



Leading median PE of small caps vs. large caps[2]



1.Source: Berenberg, as at 31 March 2026
2.Source: Bloomberg, as at 31 March 2026
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.

Within our own portfolios, the opportunity is more pronounced still. A number of holdings now trade on ratings that sit materially below historical transaction comparables and well below what we would regard as normal through-cycle valuations. This means investors do not need heroic assumptions to generate attractive forward returns. If earnings continue to compound and valuations only partly normalise, the upside can be substantial. As an illustration our UK Multi Cap Income portfolio currently trades on a current year forecast EV/EBITDA multiple of 7.1x, the lowest level since launch in June 2017 and a c.40% discount to the median takeover multiple of 11.8x realised from portfolio exits over the past five years, a period when more than a fifth of our portfolio companies across all portfolios were subject to takeover offers.

Portfolio financials

31 March 2026	UK Multi Cap Income CY2026	UK Smaller Companies CY2026	UK Micro Cap CY2026	Strategic Equity Capital CY2026
Revenue growth	4.8%	7.2%	9.1%	10.5%
EBITDA margin	28.0%	24.1%	19.9%	20.4%
EBITDA growth	6.6%	8.0%	9.2%	13.3%
EV / Sales	1.9x	1.7x	1.4x	1.5x
EV / EBITDA	7.1x	6.9x	6.8x	7.1x
PE	10.2x	11.9x	9.5x	12.6x
Leverage	0.3x	0.0x	Net Cash	Net Cash
Dividend yield	4.7%[1]	n/a	n/a	n/a
Dividend cover	2.2x	n/a	n/a	n/a

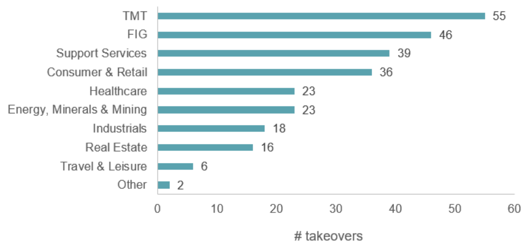
Source: Gresham House as at 31 March 2026.
Please contact Gresham House for full information on exclusions.

1. As of 31 March 2026, the forecast rolling 12-month dividend yield for the Fund is 4.7%, outperforming the FTSE All Share by 148 basis points (3.3% - sourced on Bloomberg for 31 March 2026).

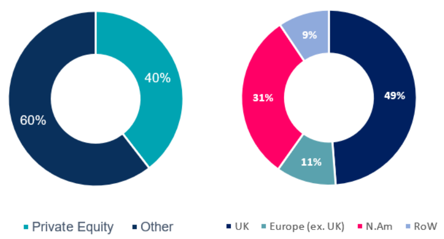
Past performance is not necessarily a guide to future performance. Portfolio investments in smaller companies typically involve a higher degree of risk. Capital at risk. CY26 are estimates only and cannot be guaranteed.

Gresham House portfolio takeovers

UK takeovers in past five years



Acquirer characteristics

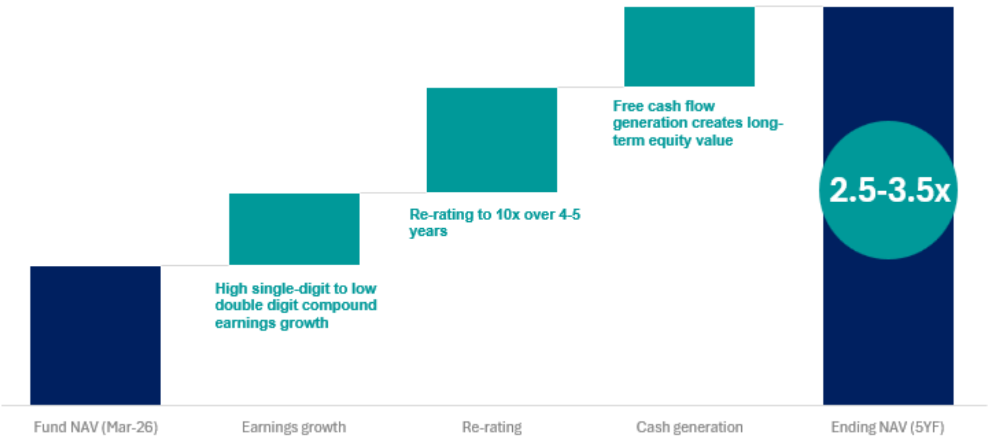


Source: Bloomberg, Factset as at 31 March 2026

Proportion of total holdings taken over[1]	20.9%
Median transaction value	£339m
Median premium to 30-day VWAP	37.6%
Median takeout multiple EV/EBITDA	11.8x

For discussion purposes only. Past takeover activity is not necessarily a guide to future takeover activity, capital at risk.
Source: Bloomberg, Factset as at 31 March 2026
1. Includes holdings held prior to the point of takeover

Attractive multi-year returns



Source: Gresham House as at 1 April 2026.
Please contact Gresham House for full information on methodology. Illustrative five-year return bridge showing how modest earnings growth, dividend yield and partial rerating can combine to generate attractive outcomes.
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AI narrative versus fundamental reality

The market's treatment of AI risk during the quarter was often indiscriminate. Companies with data assets, workflow software, trusted brands or advisory capabilities were in many cases sold-off on the assumption that AI would erode their relevance. We think that conclusion is frequently too simplistic. In several of our holdings, AI is much more likely to be an accelerant than a threat. The common pattern is that markets are discounting disruption while underestimating the value of proprietary data, distribution, customer trust and implementation capability.

Case studies selected for illustrative purposes only and do not constitute an investment recommendation. Past performance is not a reliable indicator of future performance.

ELIXIRR

Elixirr is a global challenger consultancy focusing on strategy, technology, digital transformation and organisational change. Elixirr is a good example of a business that has been treated as though AI is inherently negative for its model. We think the opposite is more likely. As enterprises seek to redesign workflows, procurement, customer engagement and decision-making around AI, the need for high-value strategic and implementation advice should increase rather than disappear. Elixirr's proposition is not based on commoditised junior labour; it is based on senior-led problem solving, strategic insight and trusted relationships. In that context, AI expands the opportunity set by creating more complex transformation agendas for clients to navigate.

Craneware is a Software-as-a-Service vendor focused on the healthcare sector. Craneware operates in a highly specialised part of the US healthcare ecosystem, where domain expertise, compliant data handling and workflow integration matter enormously. The market has nevertheless applied a broader software-style AI discount. We believe that misses the point. High-quality structured datasets become more valuable, not less valuable, when AI tools proliferate. Craneware's embedded position and data assets should therefore strengthen its strategic relevance as customers look to improve pricing, revenue integrity and operational decision-making.

MONY Group is a consumer-focused price comparison service focused on energy, insurance and other financial services. MONY Group has been caught in the crossfire of concerns that AI could disintermediate consumer comparison platforms. Our view is that strong brands, consumer trust, distribution reach, integration to supplier systems and proprietary data remain central to success in this category. AI can help surface better matches, improve personalisation and increase conversion, but it does not remove the need for trusted destinations that aggregate, compare and guide. If anything, more intelligent matching tools should improve the user proposition for platforms with scale and brand recognition.

Netcall is a software business providing business process automation solutions into government and corporate clients. Netcall is another holding where the market appears to be focusing on the wrong risk. The company's low-code and workflow automation capabilities are precisely the types of tools organisations need when deploying new technologies across legacy environments. The spread of AI should increase demand for orchestration, integration and process redesign. Rather than being displaced, Netcall has the potential to become more useful as enterprises seek practical ways to embed AI into day-to-day operations

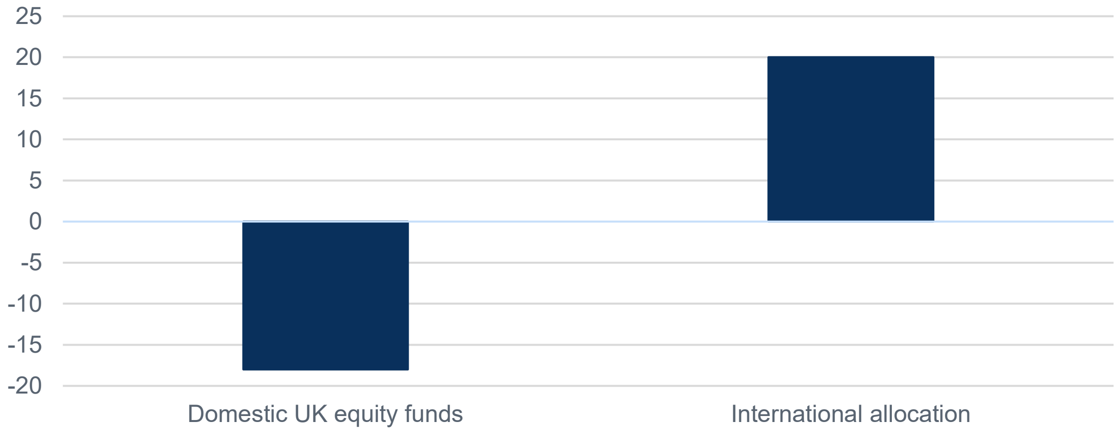
Trustpilot is the global leader in consumer reviews and insights delivered through a Software-as-a-Service platform for business customers worldwide. Trustpilot stands out as an example of a company that successfully challenged the negative AI narrative in its own recent trading update. The company beat expectations, reaffirmed its medium-term financial targets, launched a share buyback programme and, importantly, gave explicit evidence of how AI is helping the business. That matters because it moves the debate from abstract fear to observable operating benefit. By showing how AI can enhance moderation, strengthen trust signals and improve efficiency, Trustpilot provided a concrete rebuttal to the idea that platform businesses are inevitably AI losers. We think this is an important marker for the wider market: once management teams articulate the beneficiary case clearly and back it up with delivery, the scope for a positive rerating can be meaningful.

Fund flows and ownership

Persistent domestic outflows remain a headwind for UK equities. Local investors continue to reduce exposure, and that withdrawal of natural sponsorship has contributed to depressed valuations across the market. At the same time, we are seeing tentative evidence that international buyers are returning. The combination of relative macro stability, lower valuations and stronger free cash flow characteristics is making the UK harder to ignore.

We do not need domestic flows to reverse immediately for the valuation case to work. What matters is the marginal buyer, and we believe that the balance of interest is starting to improve. In prior cycles, that change in sponsorship has often been the precursor to a more sustained rerating phase.

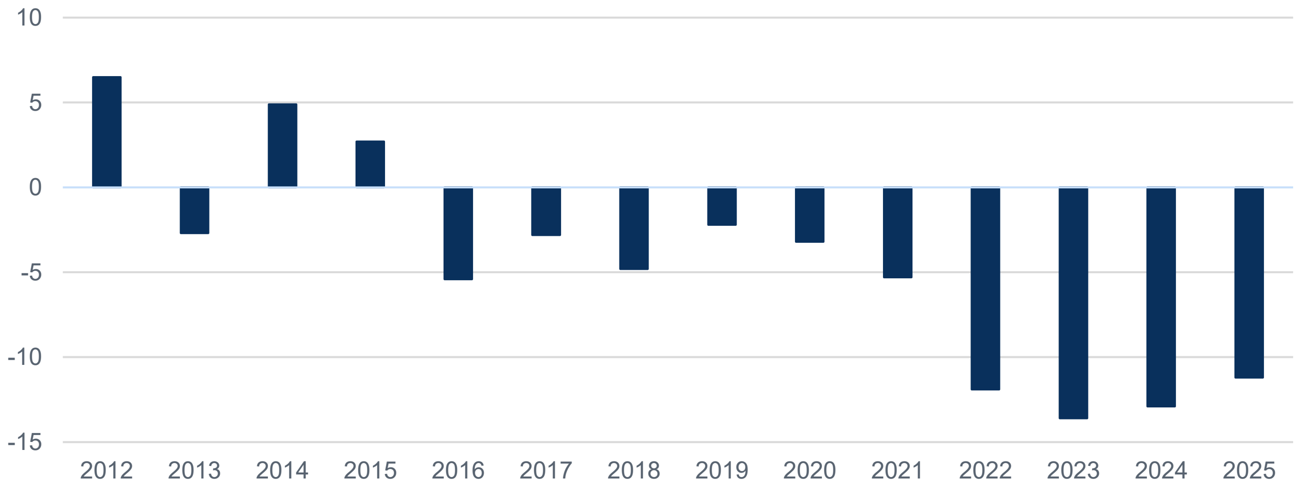
UK Equity flow dynamics (Illustrative, $bn)



Illustrative fund flow picture based on the outline: persistent domestic outflows alongside improving international allocation to UK equities.

Domestic equity funds remain in persistent outflow

UK Equity net fund flows: 2012 – 2025 (£bn)



Source: IA, Deutsche Bank – March 2026: UK Equity update

However, after a strong year for the FTSE 100 in 2025 international buyers are increasingly considering increasing allocations to the UK equity market.

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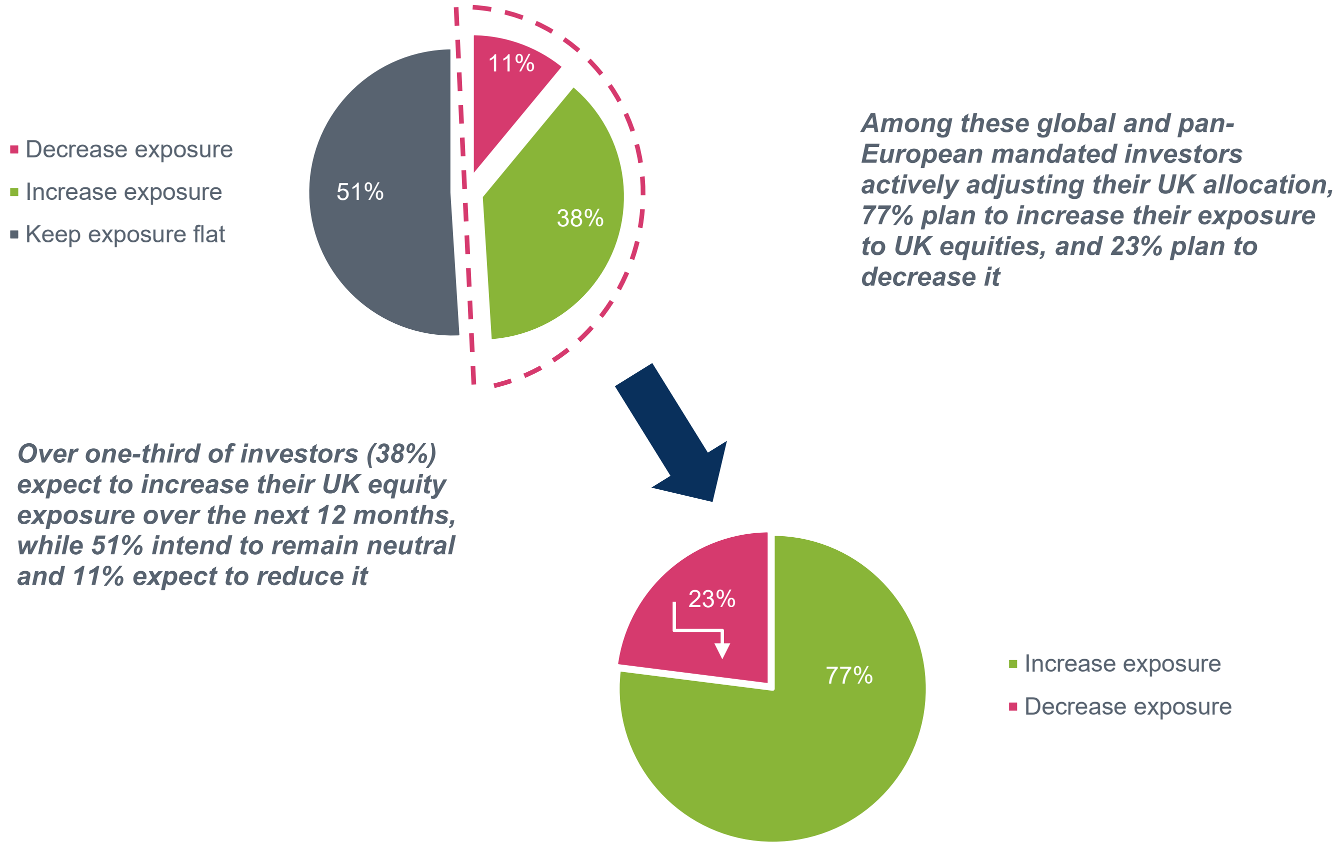
How do you expect your portfolio weightings to the UK to change over the next 12 months?



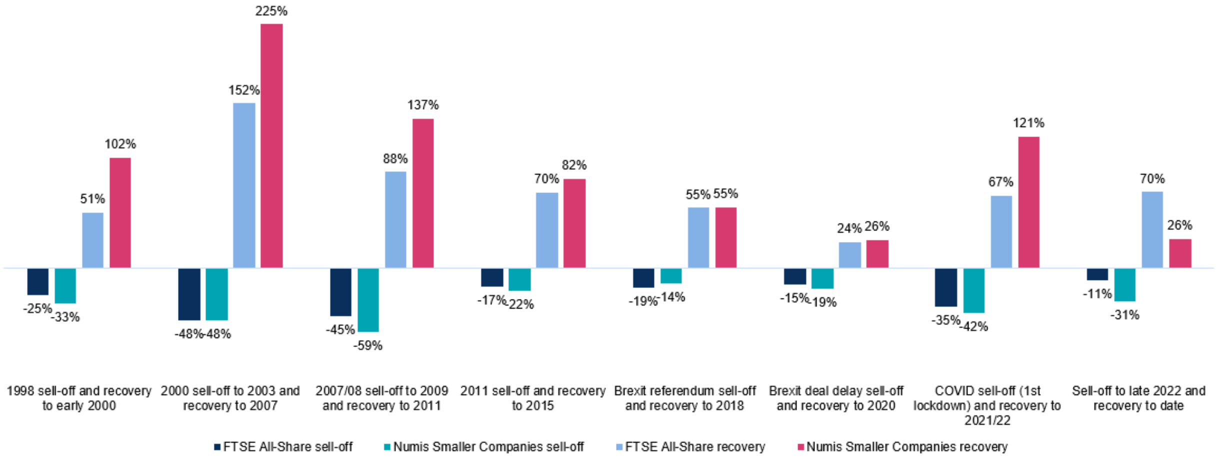
Source: Berenberg – Spring 2026 Berenberg Investor Barometer

Increasing flows into UK equities and the trickle-down effect to smaller companies seeking relative value has historically driven significant small cap outperformance.

The widening jaw between UK large cap and small cap valuations was another key feature of the first quarter, with companies below £500 million market cap trading at a 21% median price-to-earnings discount to companies with over £4 billion market cap at period-end. While UK-based investors remained risk-off domestic equities, withdrawing £1.8 billion from UK-focused equity funds over the period, 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.

Smaller Companies rebound faster

On average UK Small Caps fall in-line during sell-offs, but rebound over 70% higher than the FTSE All Share Index.



Source: Bloomberg, 31 March 2026

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Outlook

We remain acutely aware of the near-term uncertainty. Geopolitical risk is elevated, the path of inflation is not yet fully settled and markets remain highly sensitive to macro headlines. Recent underperformance is frustrating, and we do not dismiss the possibility of further volatility.

That said, we are increasingly excited about the medium-term opportunity. UK equities offer relative stability, low starting valuations and meaningful self-help potential at the company level. More importantly, we believe valuations and share price movements have become unusually detached from both corporate fundamentals and broader economic reality. That is exactly the type of environment in which active, valuation-aware stock picking can add the most value.

Conclusion

The key message from Q1 2026 is not simply that the quarter was weak in absolute terms. It is that an already attractive valuation opportunity has become more compelling because market narratives have widened the gap between price and value. In our view, this is a rare set-up. When high-quality businesses with resilient earnings, strong cash generation and strategic relevance are available at heavily discounted valuations, long-term return prospects improve materially.

We therefore continue to see UK equities - and in particular the small and mid-cap focused portfolios we manage within that opportunity set - as offering what may prove to be a once-in-a-generation investment opportunity for patient investors.

Key risks

- **Views and opinions expressed by the investment team are correct at the time of writing but are subject to change**
- **Not to be construed as investment advice**
- **Case studies selected for illustrative purposes only**
- **Not an investment recommendation**
- **Past performance is not a reliable indicator of future performance**
- **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.**

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