WS Gresham House UK Micro Cap Fund

Quarterly commentary – Q1 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. 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 – Q1 2026

UK equity market performance was mixed in the first quarter of 2026 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 fell by **6.6%**, **6.2%** and **5.1%** respectively, while the FTSE 100 Index rose by **3.4%** in comparison.

During the first quarter, the FTSE 100 continued to outperform, largely driven by the Energy sector as war in the Middle East drove an increase in energy prices. Mega Cap mining and pharma companies also contributed positively. The 'US diversification trade' - which diverted global money flow away from the US and into international equity markets over the second half of 2025 – continued this quarter though there was a return to safe haven assets, particularly a strengthening of the US Dollar. With the uncertain direction of US economic and foreign policy under the Trump administration, we believe US equity allocations will continue to reduce and the backdrop for marginal buying of UK equities looks more supportive than at any point over the last few years.

In addition, there was a sharp and broad-based sell-off in software, professional services and data platform businesses during February, triggered by multiple AI product launches that raised fears over the long-term viability of traditional subscription-based business models as well as connected businesses where concerns about the risk of disintermediation weighted heavily on investor sentiment and share prices. Our relevant investments are well positioned within a framework of significant barriers to entry that meaningfully constrain AI-led disruption and act as a foundation from which to benefit from AI tools such as: strong proprietary data; deep domain expertise; and trusted system-of-record status in regulated and complex markets, amongst others. While the sell-off was indiscriminate across several areas of the portfolio, we see this as an opportunity to selectively invest in well-positioned and protected businesses that can thrive in an AI-powered world, yet which potentially command undemanding valuations.

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.[1] While UK-based investors remained risk-off domestic equities – withdrawing £1.8 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 – over each peak-to-trough and trough-to-peak UK equity market cycle since 1998, UK small caps have

[1] Bloomberg data, March 2026
[2] Calastone Fund Flow Data, 7 April 2026

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 first quarter with £17.6 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 95% of trading updates or financial results across the portfolio were either positive or in-line relative to market expectations.

Performance – Q1 2026

Performance in the WS Gresham House UK Micro Cap Fund decreased by **7.5%** during the quarter, slightly underperforming the IA UK Smaller Companies sector which decreased by **6.8%.**

Key positive contributions came from **Diaceutics (+0.5% Contribution to Total Return (“CTR”)),** following a trading update which reported robust revenue growth, improved profitability and a record order book; **Costain (+0.5% CTR),** following a January trading update that highlighted another strong year of trading with increased profitability, strong cash generation and substantial new contract awards across growth markets, alongside a new pension scheme agreement that supports enhanced shareholder returns including a planned £20m share buyback and potential dividend increase; and **Gym Group (+0.4% CTR),** after a pre-close 2025 full-year trading update reported revenue growth of circa 8% derived from a combination of membership and strong average revenue per member growth, driving full-year EBITDA towards the top end of consensus, which in turn, accelerates the new openings programme and supports a planned £10m share buyback.

The largest detractors were: **ActiveOps (-1.5% CTR),** despite strong revenue growth and upgraded expectations, as profitability remained constrained by integration costs following its acquisition of Enlighten, with investors focusing on near-term margin dilution and execution risk associated with scaling the enlarged business; **Tribal (-1.2% CTR**), despite a solid trading update showing improvement in revenue, EBITDA and margin while also ending the year with a large net cash position; and **Mpac (-0.6% CTR),** which released an in-line trading update, though they did highlight that clients deferred investment decisions amid macroeconomic and tariff-related uncertainty, leading to reduced visibility on near-term revenue growth.

Portfolio activity

The Fund made three new investments during the period, into: **PCI Pal**, a B2B provider of secure payment solutions, which we believe benefits from structural growth in digital payments and increasing regulatory requirements around data security, alongside a scalable business model with growing recurring revenues and attractive capital-light global distribution partnerships; **Roadside Real Estate**, a freehold-backed acquisition vehicle consolidating the fragmented UK petrol forecourt market, which we view as managed by an experienced and capable management team who have identified several operational levers to drive sustained profit growth and value creation such as fuel pricing, developing on-site convenience retail offerings, and driving supply-chain economies of scale as the number of sites grows via future M&A; and

[3] Bloomberg data, March 2026

Brooks Macdonald, a wealth management & advice business, which the Manager knows well and views as a leading player in the highly fragmented wealth management sector and as undervalued relative to its improving operational performance, supported by continued net inflows, as well as precedent M&A transactions in the space.

The Fund made two full exits during the period; from **Kooth** amid continued operational and strategic uncertainty given the vital California contract renewal decision expected over the summer; and **Silver Bullet Data Services**, following a period of subdued revenue progression amid macroeconomic headwinds and increased reliance on early-stage cost restructuring to support profitability.

Outlook – Q2 2026

Despite the large amount of geopolitical noise in Q1, we believe the fund is well positioned to benefit from a small and mid-cap recovery. We maintain we have a well-constructed portfolio of companies with strong long-term fundamental characteristics: earnings growth with high visibility of revenues in less cyclical segments of the economy; attractive margins reflecting solid market positions; low or no financial leverage providing resilience in an uncertain macro environment; good cash generation underpinning financial returns; capable and agile management teams aligned with creating long-term shareholder value. In our view 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.

Despite the uncertainty driven by geopolitical tensions and conflict in the Middle East, there are a number of reasons to be more cheerful about the outlook for 2026:

- Continued material outperformance of the FTSE 100 against not only other domestic indices but also the S&P 500, particularly in US dollar terms, leading to improved sentiment towards the UK market 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
- Should the path for further UK interest rate cuts become clearer, this would improve liquidity conditions and provide valuation support for smaller companies
- Signs of a gradual reopening of the IPO market, alongside elevated corporate activity, could 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

Important information

Gresham House
Specialist investment

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