WS Gresham House UK Multi Cap Income 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 93% 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 Multi Cap Income Fund decreased by **8.8%** during the quarter, underperforming the IA UK Equity Income sector which decreased by **0.8%**. The FTSE All Share rose by **2.4%** this quarter, driven predominantly by large cap stocks which account for 84% of the index by weight compared to approximately 10% in the Fund. Large cap constituents contributed +3.5% to index returns while small and mid cap stocks detracted -1.0%. Within the FTSE All Share the Oil & Gas and Mining sectors outperformed, contributing +2.9% and +1.1% respectively - sectors in which the Fund does not invest.

Key positive contributions over the period came from: **Schroders (+1.3% Contribution to Total Return (“CTR”)),** following the announcement of a recommended takeover by Nuveen at a significant premium to the undisturbed share price, which drove a sharp re-rating in the shares as the market priced in the offer terms, with the position subsequently exited ahead of completion to crystallise gains and reflect limited further upside beyond the agreed bid level, alongside a preference to redeploy capital into higher-conviction opportunities with greater return potential; **Bloomsbury (+0.5% CTR),** following a positive trading update which guided to profits materially ahead of expectations driven by strong performance in its academic division and the announcement of major upcoming releases from bestselling author Sarah J. Maas; and **GSK (+0.4% CTR),** following positive pipeline developments and strategic portfolio activity including regulatory progress for key late-stage assets and a bolt-on acquisition to strengthen its specialty medicines pipeline.

The largest detractors to performance were: **Everplay (-1.3% CTR)**, following full-year results which showed a slight shifting of 2026 revenues from H1 to H2, which weighed on investor sentiment; **Elixirr (-1.0% CTR)**, on no specific company news flow during the period; and **GlobalData (-0.9% CTR),** following full-year results which revealed weak underlying organic growth and margin compression driven by acquisition integration and continued investment, alongside a move to a net debt position.

Portfolio activity

The team made two new investments during the period, including into: **Costain Group**, a leading UK infrastructure engineering and consultancy services provider which is positioned to benefit from UK infrastructure expenditure and which the Manager believes trades on an attractive earnings multiple that does not reflect the quality of its order book and improving margin profile. We also believe the company possesses near-term share price catalysts including strong contract win momentum in structurally supported market segments as well as a new pension scheme agreement that supports enhanced shareholder returns including a planned £20m share buyback and potential dividend increase. **Rosebank**, an industrial

[3] Bloomberg data, March 2026

investment company focused on acquiring and scaling niche engineering and manufacturing businesses, which we accessed via a placing and we believe is well positioned to benefit from a disciplined buy-and-build strategy, a strong balance sheet, and a clear acquisition pipeline, which we consider as an attractive entry point with near-term catalysts from capital deployment.

The Fund made four full exits during the period, from: **JTC**, to realise liquidity as the share price traded at a tight discount to the Permira offer despite several months until cash realisation; **Telecom Plus**, following our concerns regarding the sustainability of organic profit growth given the widening disconnect between the headline organic growth rate and that of number of services, or value, per customer; **Balfour Beatty**, after a period of strong operational delivery and valuation re-rating which resulted in the shares exceeding our internal target price threshold; and **Schroders**, following an announced takeover by US peer Nuveen.

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; **Everplay**, a leading publisher of independent video games with a valuable IP base and back-book, which is well known to the Manager; and **Tatton Asset Management**, an outsourced UK discretionary fund management platform for UK independent financial advisers focused on model portfolio services (MPS), which benefits from structural growth in MPS allocation, high-quality recurring revenues, a scalable platform underpinning operating leverage, and a net cash balance sheet.

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

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