

# WS Gresham House UK Smaller Companies Fund

## Quarterly commentary – Q2 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 – Q2 2026

UK equity market performance was positive in the second quarter of 2026 particularly for smaller company stocks which generally outperformed their larger peers. The Deutsche Numis Smaller Companies plus AIM ex-Investment Trusts Index, FTSE AIM All Share, and FTSE 250 Index rose by **8.6%**, **8.3%** and **9.8%** respectively, while the FTSE 100 Index rose by **4.0%** in comparison.

During the second quarter, small caps and AIM listed stocks outperformed, staging a recovery from the relative drawdown seen in Q1. Mega cap energy companies fell as a tentative ceasefire in the Middle East was reached and crude oil prices fell back to around \$70 USD. This quarter also brought renewed political uncertainty closer to home. On 22 June, Prime Minister Sir Keir Starmer announced he would step down once the Labour Party completes a leadership contest over the summer, leaving the UK on course for its seventh prime minister in a decade. A change of leadership, and the shift in policy direction that may follow, adds to the near-term macroeconomic and political noise facing UK assets. However, our portfolios are built around high-quality UK companies with defensible market positions, high recurring revenues and resilient balance sheets - that we believe should remain resilient through this noise.

Earlier in the year, a sharp and broad-based sell-off hit software, professional services and data platform businesses, triggered by a wave of AI product launches that raised fears over the long-term viability of traditional subscription-based business models, with connected businesses also caught up as concerns over disintermediation weighed on sentiment and share prices. Having spoken to management teams of the affected companies and leveraged our proprietary expert network within software and AI, we used this indiscriminate weakness as an opportunity to add to several of our highest-conviction holdings at depressed valuations. This supported our view that their barriers to entry including strong proprietary data, deep domain expertise and trusted system-of-record status in regulated and complex markets meaningfully constrain AI-led disruption and, in many cases, position these businesses to benefit from AI tools rather than be displaced by them. For example, Trustpilot has an entrenched role in online reviews that creates network effects and counterparty trust that are difficult for new AI entrants to replicate, and the shares recovered strongly through the second quarter as that resilience reasserted itself. In March, just after the 'SaaSocalypse' sell-off, Trustpilot released excellent full year results showing adjusted EBITDA ahead of expectations up 69% year-on-year driven by click-thorough from AI search and lower costs from leveraging AI to screen fake reviews. This has led multiple brokers to upgrade their price targets for the stock. More broadly, many of the names we added to rebounded as the initial fears proved overdone and operational delivery held firm, and we continue to see selective opportunities in well-protected businesses that can thrive in an AI-powered world yet still trade on undemanding valuations.

The widening gap between UK large cap and small cap valuations was another key feature of the second

quarter, with companies below £500 million market cap trading at a 26% median price-to-earnings discount to companies with over £4 billion market cap at period-end.<sup>1</sup> UK-based investors were risk-off to a lesser extent than previously – withdrawing £687 million 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 – 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 second quarter with a further £18.9 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 100% of trading updates or financial results across the portfolio were either positive or in-line relative to market expectations.

## Performance – Q2 2026

Performance in the WS Gresham House UK Smaller Companies Fund increased by **9.7%** during the quarter, underperforming the IA UK Smaller Companies sector which increased by **10.8%**.

Key positive contributions during the quarter came from **Halfords (+1.4% Contribution to Total Return (“CTR”))**, following a series of positive trading updates over the quarter which highlighted profit expectations towards the upper end of market forecasts, continued like-for-like sales growth across both Retail and Autocentres, and full-year results that upgraded FY2027 guidance; **Trustpilot (+1.3% CTR)**, after hosting a well-attended capital markets day and strengthening their relationship with Shopify, allowing merchants to connect their stores directly with the Trustpilot platform; and **Spire Healthcare (+0.7% CTR)**, following the announcement of a possible cash offer from Toscafund Asset Management.

The largest detractors to performance were **Trainline (-0.4% CTR)**, despite in-line full year results and the continuation of its share buyback program; **Brooks Macdonald (-0.4% CTR)**, despite reporting continued net inflows and strength in its platform MPS proposition; and **Princes Group (-0.4% CTR)**, following the unexpected departure of its UK CEO and despite full-year results which showed strong profit growth driven by self-help levers, more than offsetting industry cost pressures and global supply-chain disruption.

## Portfolio activity

The Fund made one new investment during the period, into: **Oxford Biomedica**, a cell and gene therapy contract development and manufacturing organisation (CDMO), which we believe is well positioned to benefit from growing demand for outsourced manufacturing, with recent strategic execution delivering a return to EBITDA profitability, a strengthened balance sheet, expanded US manufacturing capabilities and increasing commercial momentum, supporting confidence in sustained earnings growth.

<sup>1</sup> Bloomberg data, June 2026

<sup>2</sup> Calastone Fund Flow Data, June 2026

<sup>3</sup> Bloomberg data, June 2026

The Fund made two full exits during the period, including from: **Premier Foods**, following a period of strong trading momentum and upgraded profit guidance after robust Christmas sales, alongside continued strategic activity including potential M&A discussions, which supported an increase in the share price; and **Spire Healthcare** following our waning conviction in the consistency of medium-term earnings growth due to a challenging and volatile government policy towards independents carrying out NHS work. This review was completed simultaneously to the positive share price reaction to the announced Toscafund takeover offer, which we viewed as an attractive opportunity to realise value and re-deploy into higher-conviction opportunities.

We made several selective follow-on investments during the period, including into: **Craneware**, a provider of software solutions to the US healthcare market focused on revenue integrity and value cycle management, which we believe is well positioned to benefit from increasing complexity in healthcare billing and reimbursement, with high levels of recurring revenue, strong client retention and continued platform expansion supporting long-term earnings visibility and growth; and **Mortgage Advice Bureau**, a leading network of UK mortgage and protection advisory firms which we believe has a scalable and highly cash generative business model, compelling market opportunities in all key product areas, and is successfully implementing various AI initiatives to grow advisor productivity and profit margins independently of wider market trends.

## Outlook – Q3 2026

Despite the large amount of geopolitical noise year-to-date, we believe the fund is well positioned to benefit from a small and mid-cap recovery. The fund's performance reversed sharply over the first half, falling 11.9% in Q1 before rebounding 9.7% in Q2. 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 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 in the medium term, 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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