LF Gresham House UK Micro Cap Fund

Factsheet commentary – December 2022

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.

Overview

Following November's upward correction in sterling and UK equity markets, December saw a flatter profile in terms of performance. Whilst the recent turbulence in the UK political backdrop appears to have found some stability, the economic implications and wider challenges for UK businesses and consumers, such as elevated taxes and reduced spending, remains unchanged in our view.

We believe wider economic backdrop and longer-term challenges remain. Concerns around high inflation, rising interest rates and a pervasive cost of living crisis linger. With the reality of a softening economic environment continuing to weigh on sentiment, we view pockets of market optimism as being short-lived. Broadly, market conditions remain fragile and global geopolitical tensions are an additional ongoing risk.

It feels prudent to expect that market conditions will continue to be volatile as we enter 2023, particularly as recessionary behaviour could weigh on corporate earnings. Despite the seemingly bleak environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth trends or self-help opportunities and therefore able to perform well despite the wider macroeconomic uncertainty. Valuations are undemanding for this set of quality fundamentals.

We continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied to the UK, but more accentuated within the smaller companies segment, remains material.

Currency movements during 2022 have enhanced this valuation anomaly from the perspective of overseas buyers which has the potential to support a resurgence in takeover activity amongst listed UK companies.

We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth characteristics at sensible valuations.

Performance[1]

The LF Gresham House UK Micro Cap Fund increased by 0.08% during the month, outperforming the IA UK Smaller Companies sector which decreased by 0.55%.[2]

Key contributions came from **Netcall** (+14%) announcing full year results which were in line with expectations and showed ongoing strong trading with good demand for cloud services; **Fintel** (+17%) on no company-specific news; and **Argentex** (+9%) following a positive trading update announcing continued

1. Please refer to the factsheet for full UCITS-compliant performance figures.

2. The IA UK Smaller Companies sector comparator is used for illustrative purposes only.

performance improvement throughout the year and upgrading FY expectations for revenue and earnings.

The largest detractors to performance were **Access Intelligence** (-20%) following a profit downgrade due to softer demand in the US market; and **Medica Group** (-8%) following interim results which pointed to a downgrade due to short term higher costs.

Portfolio activity

We made one new investment in the period into **Hostelworld,** a leading online travel agent focused on the hostel market. We also made selective follow-on investments into **Windward**, a software and analytics provider to the maritime industry, **Begbies Traynor,** a UK focused professional services business focusing on the insolvency market, and **Gym Group,** a low-cost gym operator across the UK.

There were no full exits during the period.

Outlook

The macroeconomic and equity market outlook continue to exhibit elevated levels of uncertainty as we appear to be at a generational paradigm shift from low to higher inflation and low interest rates to a sustained period of increasing rates and unwinding of government stimulus, as well as an equity rotation from growth to value that is playing out.

We expect this uncertainty will continue to drive periods of sentiment-driven volatility in equity markets well into next year. Looking forward we believe it is prudent to expect a tightening environment as businesses and consumers are likely to remain cautious about discretionary costs and spending. We reiterate our continuing focus on resilient companies with business-critical propositions and robust operating and financial models that can deliver through taking advantage of structural tailwinds that are more insulated from the external environment.

While we view the outlook with suitable caution, we expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing.

We believe our portfolio of high-quality businesses with resilient growth fundamentals is well positioned to deliver long-term returns. In this period of higher uncertainty, we continue to apply our disciplined investment process and selectively seek out structurally attractive long-term investment opportunities that we believe have the ability to outperform through different and evolving market cycles.

Important information

The information contained in this document (the Document) is being communicated in the United Kingdom for the purposes of section 21 of Financial Services and Markets Act 2000 and has been issued by Gresham House Asset Management Limited (GHAM or the Manager). GHAM whose registered office is at 5 New Street, London, EC4A 3TW is a company authorised and regulated by the Financial Conduct Authority (FCA) (no.682776). The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares, or securities or to form the basis of a contract to be relied on in any way. GHAM provides no guarantees, representations, or warranties regarding the accuracy of this information. No third-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 Link Fund Solutions, 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