

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary – May 2023

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.

Overview

Global equity market uncertainty continued in May, with key macroeconomic highlights including the protracted discussions around raising the US debt ceiling and fears of a technical default, signs of weakness in China's economic recovery, confirmation that Germany has entered into recession and stickier than expected UK inflation lifting expectations of further base rate rises.

Despite the challenging 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.

News flow across our portfolio companies has on the whole been positive and well received by the market, with a number of trading updates demonstrating better than expected financial performance. In the year to date, c. 85% of portfolio company updates have been in-line or positive relative to market expectations.

The longer-term discounted valuations applied to UK equities, and in particular the smaller companies segment, remains material. Building on the strong momentum in UK plc takeover announcements so far this year, further takeover announcements followed in May.

Performance¹

The LF Gresham House UK Multi Cap Income Fund decreased by 1.79% during the month, outperforming the IA UK Equity Income sector which decreased by 3.26%, and outperforming the FTSE All-Share Index which decreased by 5.07%.²

Key positive contributions came from **Sabre Insurance** (+15%) following a well-received trading update that reaffirmed full year guidance; **3i Group** (+17%) following excellent FY23 results demonstrating a 36% total return for the year with continued strong performance from key portfolio asset, value retailer Action; and **B&M** (+8%) following well received preliminary FY23 results that were in line with full year guidance.

The largest detractors to performance were **Watkin Jones** (-28%) following disappointing half-year results and forecast cuts as robust rental demand for Purpose Built Student Accommodation (PBSA)/Build to Rent (BTR) was offset by a slow recovery in investor markets for these assets; and **Randall & Quilter** (-17%) which

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

2. The IA UK Equity Income sector and the FTSE All-Share Index comparator are used for illustrative purposes only.

de-rated on no specific news.

Portfolio activity

We made no new investments during the period.

We made several selective follow-on investments during the period; into **Ten Entertainment**, a market leading UK operator of family-friendly ten pin bowling venues with an expanding offering across leisure and entertainment, which the Manager believes has significant growth potential ahead of it; **Gresham House Energy Storage Fund**, the UK's largest fund investing in utility-scale battery energy storage systems, which completed an equity raise to fund its US expansion; and **EMIS Group** a leading healthcare information technology provider, following strong preliminary results and share price weakness as a result of its proposed takeover by UnitedHealth being referred for a CMA Phase 2 investigation.

We made no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout 2023, as further economic data are digested and market participants recalibrate their views of inflation stickiness and likely interest rate paths, inter alia. However, the Fund remains well positioned, with a portfolio of relatively resilient businesses, exposed to structural growth trends and with strong fundamental characteristics that we believe should perform well through the cycle.

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

As already supported by announcements during the first few of months of the year, we expect to see a resurgence of takeover activity amongst listed UK companies as 2023 progresses, as corporate and private equity buyers seek to benefit from ongoing dislocation between strong company fundamentals and UK equity valuations. Significant levels of capital yet to be deployed by private equity firms, combined with the easing of longer-term interest rates, could continue to provide a supportive landscape for elevated corporate activity over the short to medium term.

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