Gresham House
Specialist asset management

WS Gresham House UK Micro Cap Fund

Factsheet commentary – September 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. Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview

Weaker market performance during August was followed by a mixed September; the AIM All Share Index fell whilst the FTSE Small Cap (excl. IT) Index rose modestly. While macroeconomic uncertainty continues to weigh on UK equities, surprise disinflation and base rates holding steady were relatively positive signals. It was also encouraging to see several M&A deals announced across the UK market as financial buyers continue to capitalise on the asymmetry between depressed stock market valuations and underlying company fundamentals.

Amidst subdued sentiment, we remain confident in the fundamentals of our portfolio, with many holdings benefitting from structural growth tailwinds or self-help initiatives. Our portfolio businesses operate within specialist market niches and are protected by high barriers to entry, offering the potential for long-term capital growth throughout the cycle.

Newsflow across the portfolio was broadly positive in September, with many companies announcing strong interim results and reiterating full-year guidance. During the year-to-date, 87.4% of company updates in the fund have been in-line or positive versus market expectations.

Our pipeline remained robust in September, and we continue to undertake latter-stage due diligence where we believe there is an opportunity to invest in companies with high-quality fundamentals at attractive entry points.

Performance[1]

Performance in the WS Gresham House UK Micro Cap Fund decreased by 0.76% during the month, outperforming the IA UK Smaller Companies sector which decreased by 1.27%.[2]

Key contributions came from **Elixirr** (+12%) following interim results which showed strong revenue growth, alongside the announced acquisition of Responsum, a generative AI acceleration platform; **Netcall** (+13%) on no specific news; and **Windward** (+28%), on no specific news.

The largest detractors to performance were **Inspired** (-19%), despite the release of in-line interim results; and **Fintel** (-10%) which also released in-line interim results, indicating continued growth in core revenues.

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

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

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Portfolio activity

The fund made one new investment during the period, into **Iomart**, an integrated datacentre and cloud services provider that is already well known to the Manager, which is viewed as fundamentally undervalued despite significant organic growth potential.

The fund made one full exit during the period, from **AssetCo**, following a change in the Manager's view on the investment thesis; whilst the business remains undervalued on a sum-of-the parts basis, there are limited near-term catalysts to unlock value given the difficult market backdrop.

Outlook

While UK equity markets remain depressed on the back of persistent macroeconomic uncertainty, we retain high conviction in the fundamental quality and resilience of our portfolio businesses. We believe the growth trajectories of our portfolio companies are, in the main, insulated from cyclical pressures due to their exposure to structural growth themes.

Our unique and repeatable investment process, driven by a strong focus on company fundamentals, optimally positions our fund to capitalise on the elevated frequency of mispricing we are seeing across UK equity markets. We continue to locate high-quality companies with long-term capital growth potential at attractive valuations.

Moreover, we expect sustained M&A activity to characterise the remainder of 2023 as private equity looks to deploy excess capital. At present valuations, companies in our investible universe are becoming increasingly attractive to leveraged buyers despite higher interest costs, and we think M&A will play an important role in reminding investors of the value creation potential offered by UK public markets.

Important information

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.

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