

WS Gresham House UK Multi Cap Income 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 350 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 and sustainable income qualities 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 to grow earnings, generate cash, and pay growing and well-covered dividends 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.

Performance¹

Performance in the WS Gresham House UK Multi Cap Income Fund decreased by 0.45% during the month, underperforming the IA UK Equity Income sector which increased by 1.41% and the FTSE All-Share Index which increased by 1.67%.²

Key positive contributions came from **XPS Pensions Group** (+8%) on no specific newsflow; **Ten Entertainment** (+13%), following strong interim results which highlighted ongoing positive momentum post-COVID; and **GSK** (+7%), following approval by the US Food and Drug Administration (FDA) for a new drug.

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

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

The largest detractors to performance were **Gresham House Energy Storage Fund** (-20%) following a reduction in forward revenue projections due to falling forward gas and power prices, which led to a 10% reduction in NAV; and **Brooks Macdonald** (-12%), on the back of broader market concerns around potential sector-wide outflows, despite the release of FY23 results slightly ahead of consensus expectations.

Portfolio activity

We made one new investment during the period, into **Integratin**, the UK leader in the adviser platform market. The manager believes that this business trades at an attractive valuation, operates in a structurally attractive market, and possesses high-quality financial characteristics aligned with our sustainable income criteria.

We also made several, selective follow-on investments during the period, upweighting in **Alpha FMC**, a challenger consultancy firm primarily focused on financial services, which continues to execute on its growth strategy and demonstrate resilience, despite broader market headwinds. We also added to our position in **Ricardo**, a global strategic, environmental, and engineering consultancy, which is currently going through a strategic transition to refocus on the higher growth, higher margin and lower capital intensity parts of the business, with growth underpinned by environmental structural tailwinds.

There were no full exits during the period.

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 and sustainable income 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.

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