

# LF Gresham House UK Multi Cap Income Fund

Factsheet commentary - January 2022

## Overview

January continued recent themes, with an increasing level of market volatility-driven negative sentiment surrounding inflationary pressures, expectations of ongoing rate rises, geopolitical tensions over the Ukraine, and an impending cost of living squeeze in the UK. Weaker markets were exacerbated by a sharp rotation from growth to value stocks and as a result a major sell-off in global technology stocks. We have been anticipating increasing market and stock level volatility for some time and believe our portfolio is well set up to deliver resilient relative performance due to its focus on high-quality and reasonably valued stocks with robust income streams and secular capital growth opportunities that have more limited cyclical exposure than the wider equity market.

Despite the increased volatility and weaker sentiment, we continue to believe that the longer-term opportunity across the market cap spectrum of UK equities - which is underpinned by the continuing discounted valuations applied both to the UK and to the smaller companies segment - remains material, providing some downside protection in more challenging market conditions.

We believe current market conditions are supportive of finding attractive investment opportunities for those prepared to take a longer-term view. We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable income and capital growth characteristics at sensible valuations.

## Performance

The LF Gresham House UK Multi Cap Income Fund's (the Fund) performance decreased by 3.7% during the month, compared to the IA UK Equity Income sector which decreased by 0.4% and the FTSE All-Share index which decreased by 0.3%.

Key positive contributions to performance came from **Sabre Insurance** (+23%), after announcing a new five-year contract with Freeway Insurance Services; **Bloomsbury** (+4%), after releasing a positive trading update with earnings materially ahead of expectations; and **Vianet Group** (+12%), after signing a three-year contract with coffee leaders, Lavazza.

The key detractors were **Moneysupermarket** (-13%), on no specific news; **B&M** (-11%) on no specific news despite releasing a positive trading update and **Domino's Pizza** (-15%) on no specific news.

## Portfolio activity

The Fund made a number of follow-on investments into existing portfolio holdings, including **Brewin Dolphin** and **EMIS**.

## Outlook

Our medium-term view remains that the economic recovery in the UK should continue to support earnings growth and share prices. However, we continue to expect volatility in the short term driven by an inherently uncertain environment for market estimates.

We are still seeing aftershocks from the pandemic, such as the currently elevated level of inflation across a number of areas and both global and domestic supply chain disruption impacting at the company level. We also anticipate a rising number of profit warnings in coming months. This in turn is likely to exacerbate share price volatility for individual stocks.

We believe stock-level volatility across the market, while creating some challenges, will provide an attractive environment for long-term investors to back quality companies with attractive, sustainable income streams and long-term structural capital growth at reasonable valuations across the market cap spectrum. Across the UK equity income sector, we believe that there are likely to be compelling, diversified, robust and resilient, income-generating opportunities, that we are well positioned to uncover, appraise and deploy capital into. The economic environment and lingering Covid-19 discontinuity will provide agile smaller businesses with strong management teams the opportunity to take market share and build strong long-term franchises.

We continue to believe that over the long term our fundamentals-focused investment style has the potential to outperform. The Fund will maintain its focus on building a high-conviction portfolio of less cyclical, high-quality businesses with stable and growing earnings streams, good cash flows and dividends. We believe these businesses can deliver strong returns through the market cycle regardless of the performance of the wider economy.

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