

LF Gresham House UK Micro Cap Fund

Factsheet commentary - March 2022

Overview

The recent market themes, highlighted in last month's commentary, persisted in March. Volatility-driven negative sentiment surrounding inflationary pressures, interest rate rises, and an impending cost of living squeeze in the UK continued to weigh on UK equities. Russia's invasion of Ukraine has resulted in an ongoing broader correction across global equity markets, being particularly pronounced in UK and European equities. There have also been sharply rising commodity prices, notably across key Russian and Ukrainian exports such as oil, natural gas and wheat as well as a rush to safe haven assets.

We have been anticipating increasing market and stock level volatility for some time and believe our portfolio is set up to deliver long-term resilient income streams and capital growth opportunities.

Despite the increased volatility and weaker sentiment, we continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied both to the UK but more accentuated within the smaller companies segment, remains material. Notwithstanding the fast-moving geopolitical situation, we believe market conditions are increasingly 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 capital growth characteristics at sensible valuations.

Performance

The LF Gresham House UK Micro Cap Fund decreased by 3.5% during the month, compared to the IA UK Smaller Companies sector which increased by 0.3% and the NSCI + AIM (ex IC) Index which increased by 0.6%.

Key contributions came from **Franchise Brands** (+19%), after receiving over 90% of Offer acceptances for the acquisition of Filta Group; **Kape Technologies** (+20%), after announcing strong full year results with profits ahead of expectations; and **Staffline** (+26%) on the back of positive full year results.

The largest detractors to performance were **Music Magpie** (-68%), after announcing a profit warning on the back of weaker consumer demand; **Knights Group** (-55%), after issuing a profit warning driven by seasonality and lawyer absences; and **Alpha FMC** (-14%), which re-rated on no specific news.

Portfolio activity

We made one follow-on investment into **Netcall**, a provider of customer experience software.

Outlook

Aftershocks from the pandemic that emerged during the start of this year, such as elevated inflation across a number of areas and global and domestic supply chain disruption, have been exacerbated by the Russia / Ukraine crisis. This has caused acute dislocations in asset classes globally and deteriorating market sentiment towards the end of March.

However, we believe our portfolio of high-quality businesses with resilient growth fundamentals and robust income streams is well positioned to deliver good 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.

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 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 long-term structural capital growth at reasonable valuations across the market cap spectrum. The economic environment and market 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, and good cash flows. We believe these businesses can deliver strong returns through the market cycle regardless of the performance of the wider economy.

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.

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