Gresham House
Specialist asset management

LF Gresham House UK Smaller Companies 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 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 Fund delivered a return of 2.0% 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 positive contributions came from **Coats Group** (+39%), after reporting good 2021 full year results; **TP ICAP** (+28%) after a US activist hedge fund took an economic interest in the Company; and **Kape Technologies** (+20%), after announcing strong full year results with profits ahead of expectations. The largest detractors to performance were **Alpha FMC** (-14%), which de-rated on no specific news; **Reach** (-56%), after releasing disappointing FY21 results; and **Devolver Digital** (- 9%), on no specific news.

Portfolio activity

We made a number of follow-on investments into existing portfolio holdings, including **Peel Hunt, Devolver Digital, and Restore** amongst others. We also made two full exits, **DFS** (-19% return), a UK leading furniture retailer, on concerns over the medium-term market environment and Volution Group (4.2% return), a provider of residential and commercial ventilation solutions, where our investment case had played out.

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 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, enduring franchises. A good example of this can be found with the Fund's investment in Coats group, which provided a very pleasing update in early March.

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.

Important information

The information contained in this document (the "Document)") is being communicated in the United Kingdom for the purposes of section 21 of Financial Services and Markets Act 2000 and has been issued by Gresham House Asset Management Limited ("GHAM" or the "Manager"). GHAM whose registered office is at 5 New Street, London, EC4A 3TW is a company authorised and regulated by the Financial Conduct Authority (FCA).

The information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares, or securities or to form the basis of a contract to be relied on in any way. GHAM provides no guarantees, representations, or warranties regarding the accuracy of this information. No third-party liability is accepted by GHAM, its members and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act 2000.

Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investing in the securities and legal, regulatory, credit, tax, and accounting aspects in relation to their particular circumstances. The recipient should consult its tax, legal, and accounting or other advisers about the issues discussed herein and shall be solely responsible for evaluating the risks and merits involved in the 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.

Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this presentation. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery. www.greshamhouse.com |(0)20 7382 0999