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LF Gresham House UK Smaller Companies Fund

Factsheet commentary - June 2022

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.

Overview

Equity markets continued to be weak and volatile in June, with ongoing uncertainty from macroeconomic and geopolitical pressures. Domestic political instability and a worsening economic outlook for the UK also weighed on sentiment and risk appetite. Calastone data showed continued material outflows from UK equity funds adding to the pressure on share prices.

As previously stated, we believe our investment process is well set to deliver long-term, resilient capital growth opportunities even through periods of heightened market volatility. We believe our portfolio is focused on businesses with greater earnings resilience in line with our core investment strategy, which we expect to support relative performance in comparison with the wider market and deliver absolute performance over the long term.

We believe the portfolio offers attractive quality aggregate financial metrics (higher growth rates, higher margins, higher returns, lower capital intensity and lower financial leverage) at a reasonable valuation relative to the wider market.

Despite the increased volatility, we continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied to the UK but accentuated within the smaller companies segment, remains material.

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 Smaller Companies Fund decreased by 3.1% during the month, compared to the IA UK Smaller Companies sector which decreased by 8.8% and the NSCI + AIM (ex IC) Index which decreased by 9.4%. The fund continues to perform very strongly on a relative basis versus its peers and the comparator index, though absolute performance remains tough in the current environment.

The largest detractors to performance were **Devolver Digital** (-56%) and **Halfords Group** (-33%) following negative trading updates and **Ten Entertainment** (- 20%), on no specific news.

Key positive contributions came from **EMIS Group** (+42%), on the back of a proposed takeover offer; **Telecom Plus** (+18%), following a positive trading update; and **Euromoney** (+25%), on the back of a proposed takeover offer.

Portfolio activity

We made a one new investment during the month, **Brooks Macdonald**, an investment management services provider. We also made a number of follow-on investments into existing portfolio holdings, including **Next Fifteen**, **Tribal Group**, and **Sabre Insurance** amongst others.

We made one full exit, **GXO Logistics**, a US listed company where we had received part equity consideration as part of the takeover of **Clipper Logistics**.

Outlook

Our core planning assumption is that continued political and economic uncertainty will drive market volatility throughout the remainder of the year and well into next. Markets have not had to deal with rising interest rates and elevated inflation for a considerable period and the medium-to-long term ramifications of this for share prices is uncertain.

We do not seek to make major macroeconomic predictions or to tilt our portfolio construction materially in any direction to mitigate or benefit from macro trends. Rather we stick to our core focus of building a portfolio bottom up by investing in high-quality, resilient companies exposed to structural growth, key competitive advantages or self-help opportunities and maintain valuation discipline such that that they can drive attractive investment returns over the medium to long term regardless of the economic environment.

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.

The elevated levels of corporate activity within the UK equity space continue to play out. We believe our investment process and private equity lens across public markets position us well to identify investment opportunities with potential strategic value that could be attractive acquisitions for both corporate and financial buyers.

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.

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