

LF Gresham House UK Micro Cap Fund

Factsheet commentary - July 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. Extracted portfolio performance is not necessarily indicative of the performance of the fund.

Overview

Market volatility was lower in July compared with previous months, despite ongoing concerns around inflationary pressures, interest rate rises and the cost-of-living squeeze which all continued to be exacerbated by the ongoing conflict in Ukraine. Central banks pushing through rate rises of unprecedented size relative to recent history and predictions of a protracted recession in the UK and elsewhere reinforce the concerns around macroeconomic headwinds.

In that context we do not view the market rally during July as a reason to become more optimistic about the market outlook but more as a temporary respite from what we expect to be ongoing market and stock level volatility.

During 2022 we have focused on undertaking an in-depth, bottom-up risk review of the portfolio in the context of the economic headwinds in the market. This has driven some changes to portfolio weightings but largely has confirmed our view that the Fund is well positioned with a portfolio of relatively resilient businesses exposed to structural growth trends and with robust financials and low financial leverage.

Whilst mindful of the shifting economic paradigm and the risks that all companies face, we are confident in how robust the business fundamentals are in the majority of our portfolio companies, as well as the margin of safety on valuation relative to our view of long-term fundamental value.

Despite the uncertain environment, 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.

We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth characteristics at sensible valuations.

Performance¹

The LF Gresham House UK Micro Cap Fund increased by 0.1% during the month, compared to the IA UK Smaller Companies sector which increased by 4.8%. Key contributions came from **Alpha FMC** (+27%) and **Franchise Brands** (+12%), both following strong results statements; and **XPS Pensions Group** (+10%), on positive broker coverage following strong results in June. The largest detractors to performance were **Inspired** (-14%), **Kooth** (-27%), and **Windward** (-15%), all de-rated on no specific news.

1. For complete performance, please refer to the factsheet

Portfolio activity

We made one new investment, into **Medica Group**, a provider of outsourced tele-radiology services to the healthcare sector, along with some selective follow-on investments into existing portfolio holdings including **XPS Pensions Group**, **EKF Diagnostics**, and **Frenkel Topping**, the latter as part of a placing of new equity to fund its ongoing acquisition pipeline.

There were no full exits during the period but we top sliced and took some profits from a number of the larger portfolio holdings including **Mattioli Woods**, **Franchise Brands** and **Alpha FMC**.

Outlook

The macroeconomic and equity market outlook continue to exhibit elevated levels of uncertainty as we appear to be at a generational paradigm shift from low to higher inflation and low interest rates to a sustained period of increasing rates and unwinding of government stimulus as well as an equity rotation from growth to value that is well underway.

We anticipate this uncertainty will continue to drive periods of sentiment driven volatility in equity markets well into next year. While we view this outlook with suitable caution, we also expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing.

We believe our portfolio of high-quality businesses with resilient growth fundamentals is well positioned to deliver 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.

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