

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary – January 2023

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

2023 started with a positive resurgence in market sentiment and performance across UK equities following a flatter end to 2022, as activity and trading volumes returned to the market. Despite this perceived renewed optimism, we are cautious in our expectations around its longevity.

We believe the wider economic backdrop remains highly uncertain and longer-term challenges persist. Concerns around high inflation, rising interest rates and a pervasive cost of living crisis linger. With the reality of a softening economic environment continuing to weigh on sentiment, we view pockets of market optimism as being short-lived. Broadly, market conditions remain fragile and global geopolitical tensions are an additional ongoing risk.

Performance¹

The LF Gresham House UK Multi Cap Income Fund increased by 4.67% during the month, outperforming the IA UK Equity Income sector which increased by 4.29% and outperforming the FTSE All-Share Index which increased by 4.43%.²

Key positive contributions came from **Moneysupermarket** (+22%) alongside an analyst upgrade to earnings; **3i** (+17%) following a positive trading update announcing +25% total return to NAV partially due to strong growth in Action ; and **XPS Pensions Group** (+24%) on no specific news.

The key detractors were **Telecom Plus** (-8%) on no specific news; and **FRP Advisory Group** (-7%) on no specific news.

Portfolio activity

We made no new investments during the period.

The fund did make selective follow-on investments into existing portfolio holdings, including **RWS Holdings**, **Sabre Insurance** and **Smart Metering Systems**, amongst others.

We made one full exit during the period from **Currys**, due to a profit warning in December and a negative outlook for the Nordics business which impacted our investment thesis.

Outlook

It feels prudent to expect that market conditions will continue to be volatile throughout 2023, particularly

as recessionary pressures could weigh on corporate earnings.

However, the fund remains well positioned despite the macro backdrop, with a portfolio of relatively resilient businesses, exposed to structural growth trends and with strong fundamental characteristics, that we believe should perform well through the cycle.

The longer-term opportunity within UK equities, underpinned by the persistent discounted valuations applied both to the UK but more accentuated within the smaller companies segment, remains material. Currency movements during 2022 enhanced this valuation anomaly from the perspective of overseas buyers which has the potential to support a resurgence in takeover activity amongst listed UK companies as 2023 progresses.

Other factors that provide a supportive landscape for ongoing elevated corporate activity include significant levels of capital yet to be deployed by private equity firms, ongoing dislocation between company fundamentals and listed valuations, and a general prudent re-basing of market expectations.

While we view the outlook with suitable caution, we expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing. We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth and sustainable income characteristics at sensible valuations.

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