Since 1857
Gresham House
Specialist asset management

LF Gresham House UK Smaller Companies Fund

Factsheet commentary – February 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

Although the UK looks likely to continue to underperform other major advanced economies in 2023, the balance of data since the start of the year has turned out a little better than expected, and sentiment seems to have shifted somewhat from musings of a deep, prolonged recession to a relatively mild recession. Uncertainty has long been the overarching theme driving UK underperformance. With more confidence in the UK political situation, alongside reduced uncertainty surrounding the longer-term impact of Brexit, the UK's resilient fundamentals of well capitalised banks, cash-flush households and firms (relatively speaking), and well-regulated markets may lead to improving sentiment.

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. News flow across companies held in our equity funds has on the whole been positive and well received by the market, with almost 60% of all updates leading to a positive intraday share price reaction. Interestingly, there have been some instances where a trading update has led to downgrades, but where the shares have in fact responded positively, illustrating the amplified negative sentiment weighing on shares towards the end of last year. More recent news around the failure of Silicon Valley Bank has once again revealed the fragile nature of market sentiment. This supports our expectation that 2023 will be populated by periodic market volatility creating challenges but also potential opportunities for equity investors.

Despite some short-term uplift in performance, the longer-term discounted valuations applied to the UK, and in particular the smaller companies segment, remains material. The relative undervaluation is illustrated by the elevated level of corporate activity already seen this year, with several UK-listed businesses announcing takeover approaches from a combination of trade and private equity buyers, including: Digital7, AdEPT, Dignity, Hyve, Seraphine, Devro (increased offer), Kape Technologies, and Wood Group.

Performance[1]

The LF Gresham House UK Smaller Companies Fund decreased by 0.50% during the month, underperforming the IA UK Smaller Companies sector which decreased by 0.21%.[2]

Key contributions came from **Kape Technologies** (+19%) following a takeover proposal from the controlling shareholder; **Devro** (+6%) due to an increased bid following the previously announced takeover approach;

1. Please refer to the factsheet for full UCITS-compliant performance figures.

2. The IA UK Smaller Companies sector comparator is used for illustrative purposes only.

and **Restore** (+7%) following a trading update with a positive FY23 outlook.

The largest detractors to performance were **FRP Advisory Group** (-13%) following a trading update which suggested some short-term uncertainty around the timing of earnings delivery; **Telecom Plus** (-12%) on no specific news; and **Watkin Jones** (-10%) on no specific news.

Portfolio activity

We made no new investments during the period**.**

We made selective follow-on investments into **Loungers**, a leading all-day-dining proposition which continues to deliver strong like-for-like trading - the Manager believes that it stands to benefit from falling inflation and wholesale energy prices; **DWF Group**, a leading global provider of integrated legal and business services which recently got reappointed to a major defence panel (downsized from 6 to 3 firms) - the manager saw an opportunity to further deploy at an attractive yield; and **Ricardo,** a global strategic, environmental and engineering consultancy which is currently going through a strategic transition to focus the business towards higher growth, higher margin and lower capital intensity parts of the business, with growth underpinned by environmental structural tailwinds - reaffirming the Manager's investment thesis.

There was one full exit during the period, from **Kape Technologies** (realising a negative overall return of -9%), a privacy focused digital security software provider. We were able to exit our position at a greater value than the takeover proposal that had been tabled by the controlling shareholder of Kape.

Outlook

It feels prudent to expect that market conditions will continue to be volatile throughout 2023, despite some green shoots. 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.

As already supported by announcements during the first couple of months of the year, we expect to see a resurgence of takeover activity amongst listed UK companies as 2023 progresses, as corporate and private equity buyers seek to benefit from ongoing dislocation between strong company fundamentals and UK equity valuations. Currency movements towards the end of 2022, alongside significant levels of capital yet to be deployed by private equity firms, could continue to provide a supportive landscape for elevated corporate activity over the short-medium term.

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 characteristics at sensible valuations.

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) (no.682776). 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