Gresham House
Specialist asset management

LF Gresham House UK Multi Cap Income Fund

Factsheet commentary – April 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. Not to be construed as investment advice or recommendation.

Overview

Global equity markets remained unsettled in April over fears of widespread banking sector contagion, and whilst our portfolio contains no direct exposure to banking institutions, in line with our investment strategy, we were not wholly immune to the global softening of risk appetite.

Despite the challenging environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth trends or self-help opportunities and therefore able to perform well despite the wider macroeconomic uncertainty.

News flow across our portfolio companies has on the whole been positive and well received by the market, with a number of trading updates demonstrating better than expected financial performance. In the year to date, c. 85% of portfolio company updates have been in-line or positive relative to market expectations.

The longer-term discounted valuations applied to UK equities, and in particular the smaller companies segment, remains material. Building on the strong momentum in UK plc takeover announcements so far this year, an elevated level of takeover developments continued into April, including the Recommended Cash Offer for one of our core holdings across other Gresham House funds, Medica Group plc.

Performance[1]

The LF Gresham House UK Multi Cap Income Fund increased by 2.96% during the month, outperforming the IA UK Equity Income sector which increased by 2.32%, whilst underperforming the FTSE All-Share Index which increased by 3.02%.[2]

Key positive contributions came from **Sabre Insurance** (+13%) following full-year results that illustrated Sabre's strong positioning ahead of a likely turn in the UK motor market, having already implemented the necessary pricing actions to catch up with claims inflation; **Property Franchise Group (**+22%) following a strong set of full-year results despite market headwinds, with both revenue and profit ahead of broker forecasts and evidence to support the Group's strategy to double the size of the business both financially and operationally; and **Halfords Group** (+18%) following a Capital Markets Day which outlined a clear path to significantly increasing profitability over the medium term.

The largest detractors to performance were **RWS Holdings** (-26%) following interim results which reduced

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

2. The IA UK Equity Income sector and the FTSE All-Share Index comparator are used for illustrative purposes only.

full-year guidance towards the lower end of market expectations; and **Randall & Quilter** (-15%) following the announcement of the disposal of its 40% stake in a non-core asset, which we view positively as it helps to monetise a key balance sheet asset and leaves R&Q's capital focused on core activities of program management and legacy insurance.

Portfolio activity

We made no new investments during the period.

We made one follow-on investment during the period, into **FRP Advisory Group,** a provider of investment and insolvency advice, as the Manager capitalised on an overreaction in share price movement following the nine-month trading update which indicated full-year results would be broadly in-line with expectations.

We made no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout 2023, despite early signs of positive economic developments. However, the fund remains well positioned, 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.

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 demonstrating attractive long-term structural capital growth, alongside sustainable income underpinned by strong cash flow generation, at sensible valuations.

As already supported by announcements during the first few 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. Significant levels of capital yet to be deployed by private equity firms, combined with the easing of longer-term interest rates, could continue to provide a supportive landscape for elevated corporate activity over the short- to medium term.

Important information

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.

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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.

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