Gresham House
Specialist asset management

WS Gresham House UK Micro Cap Fund

Factsheet commentary – October 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. Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview

Market conditions were challenging in October; the FTSE 350 fell 2.9% whilst the AIM All Share Index declined 5.3%. Despite further evidence of UK disinflation and the Fed pausing US rate hikes, the geopolitical backdrop in the Middle East has intensified global uncertainty and dampened equity performance. We note, however, another strong month of M&A activity which has further exposed how UK stocks across various sectors are trading at discounted valuations relative to precedent transactions.

We are confident in the fundamentals of our portfolio despite volatile markets and global uncertainty. We believe our holdings possess high-quality financial characteristics, offer differentiated propositions within structurally growing markets, and are led by high-quality management teams. These factors underpin the ability of our companies to grow earnings and generate cash throughout the cycle.

Newsflow across the portfolio was mainly positive in October as several companies announced strong trading updates and financial results. During the year-to-date, c.89% of company updates in the fund have been in-line or positive versus market expectations.

Our pipeline remained robust in October as we continue to see opportunities to invest in companies with high-quality fundamentals at attractive entry points.

Performance[1]

Performance in the WS Gresham House UK Micro Cap Fund decreased by 8.30% during the month, underperforming the IA UK Smaller Companies sector which decreased by 5.89%.[2]

Key contributions came from **SysGroup** (+27%) on no specific news; **Windward** (+11%) following a positive trading update which outlined a strong start to H2 characterised by new contract wins and renewals; and **Everyman Media Group** (+14%), following news that the CEO had bought c.57k shares on-market, alongside the announcement that Blue Coast Private Equity, a longstanding investor in Everyman, bought a further 2.5m shares, with a resultant shareholding of 22.9%.

The largest detractors to performance were **Randall & Quilter** (-78%) following the proposed sale of the company's Program Management business at a valuation below market expectations; and **Elixirr** (-17%) on no specific news.

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

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

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Portfolio activity

The fund made no new investments during the period.

The fund made three full exits during the period; from **Rosslyn Data**; **Tortilla Mexican;** and **Oxford Metrics** – all 3 exits were primarily driven by a change in our view on the long-term investment theses.

Outlook

Additional disinflationary datapoints give us some confidence in the consistency of the trend for the remainder of 2023. However, the evolving geopolitical situation in the Middle East has contributed to another iteration of short-term volatility in the UK equity market. While this creates mispricing and investment opportunities, we see clear correlation between subdued sentiment and broader macroeconomic and geopolitical uncertainty.

Nevertheless, we retain high conviction in the resilient fundamentals of our portfolio companies and their ability to grow throughout the cycle. Our private equity approach to public markets, conducting due diligence through an extensive and variegated specialist network, helps us to stay ahead of the curve in our monitoring of new risks and opportunities.

We expect M&A activity to continue at elevated levels for the remainder of the year as private equity buyers look to compensate for higher interest costs by capitalising on steep discounts across UK public markets. Eventually, we think investors must consider the growing evidence of valuation asymmetry between public and private markets and start to bridge the arbitrage.

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.

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