

# WS Gresham House UK Micro Cap Fund

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## 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<sup>1</sup>

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%.<sup>2</sup>

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.

## 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.

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