

LF Gresham House UK Smaller Companies Fund

Factsheet commentary - July 2022

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

Market volatility was lower in July compared with previous months, despite ongoing concerns around inflationary pressures, interest rate rises and the cost-of-living squeeze which all continued to be exacerbated by the ongoing conflict in Ukraine. Central banks pushing through rate rises of unprecedented size relative to recent history and predictions of a protracted recession in the UK and elsewhere reinforce the concerns around macroeconomic headwinds. In that context we do not view the market rally during July as a reason to become more optimistic about the market outlook but more as a temporary respite from what we expect to be ongoing market and stock level volatility.

During 2022 we have focused on undertaking an in-depth, bottom-up risk review of the portfolio in the context of the economic headwinds in the market. This has driven some changes to portfolio weightings but largely has confirmed our view that the Fund is well positioned with a portfolio of relatively resilient businesses exposed to structural growth trends and with robust financials and low financial leverage. Whilst mindful of the shifting economic paradigm and the risks that all companies face, we are confident in how robust the business fundamentals are in the majority of our portfolio companies, as well as the margin of safety on valuation relative to our view of long-term fundamental value.

Despite the uncertain environment, we continue to believe that the longer-term opportunity within small cap UK equities, underpinned by the persistent discounted valuations applied both to the UK but more accentuated within the smaller companies segment, remains material.

We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term sustainable capital growth characteristics at sensible valuations.

Performance¹

The LF Gresham House UK Smaller Companies Fund increased by 2.0% during the month, compared to the IA UK Smaller Companies sector which increased by 4.8%.

The largest detractors to performance were **Sabre Insurance** (-27%) following a profit downgrade due to inflationary pressures on the cost of claims – we have subsequently increased our position on weakness **Inspired** (-14%) on no specific news and **Moneysupermarket** (-8%), on ongoing negative sentiment around energy markets.

Key positive contributions came from **Telecom Plus** (+18%), due to their strong market position in the context of current energy market disruption; **Smart Metering Systems** (+14%), following a positive trading update; and **Halfords Group** (+25%), recovering from recent share price weakness.

Portfolio activity

We made two new investments during the month, **Franchise Brands**, a collection of market-leading franchise businesses and **Moneysupermarket** a price comparison website, both companies we know well and where we have had longstanding investments in other Gresham House UK Equity funds but which now meet the criteria for this Fund. We also made a number of follow-on investments into existing portfolio holdings, including **Sabre Insurance**, **Kape Technologies**, and **Tribal Group** amongst others.

We made one full exit, specialist financial services group **Speedy Hire** (~25% return) driven by the announced retirement of the CEO and increasing market headwinds facing some parts of its business.

Outlook

The macroeconomic and equity market outlook continue to exhibit elevated levels of uncertainty as we appear to be at a generational paradigm shift from low to higher inflation and low interest rates to a sustained period of increasing rates and unwinding of government stimulus as well as an equity rotation from growth to value that is well underway.

We anticipate this uncertainty will continue to drive periods of sentiment driven volatility in equity markets well into next year. While we view this outlook with suitable caution, we also expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing.

We believe our portfolio of high-quality businesses with resilient growth fundamentals is well positioned to deliver long-term returns. In this period of higher uncertainty, we continue to apply our disciplined investment process and selectively seek out structurally attractive long-term investment opportunities that we believe have the ability to outperform through different and evolving market cycles.

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