LF Gresham House UK Smaller Companies Fund

Factsheet commentary – December 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

Following November's upward correction in sterling and UK equity markets, December saw a flatter profile in terms of performance. Whilst the recent turbulence in the UK political backdrop appears to have found some stability, the economic implications and wider challenges for UK businesses and consumers, such as elevated taxes and reduced spending, remains unchanged in our view.

We believe wider economic backdrop and longer-term challenges remain. Concerns around high inflation, rising interest rates and a pervasive cost of living crisis linger. With the reality of a softening economic environment continuing to weigh on sentiment, we view pockets of market optimism as being short-lived. Broadly, market conditions remain fragile and global geopolitical tensions are an additional ongoing risk.

It feels prudent to expect that market conditions will continue to be volatile as we enter 2023, particularly as recessionary behaviour could weigh on corporate earnings. Despite the seemingly bleak 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. Valuations are undemanding for this set of quality fundamentals.

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

Currency movements during 2022 have enhanced this valuation anomaly from the perspective of overseas buyers which has the potential to support a resurgence in takeover activity amongst listed UK companies.

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

Performance[1]

The LF Gresham House UK Smaller Companies Fund increased by 0.07% during the month, outperforming the IA UK Smaller Companies sector which decreased by 0.55%.[2]

Key positive contributions came from **Kape Technologies** (+12%) on no specific news; **Halfords Group** (+8%) off the back of interim results indicating resilient performance despite a softening in discretionary

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.

demand, and a continued mix shift towards service-related sales; and **Redde Northgate** (+10%) following interim results announcing strong financial performance and double-digit revenue growth.

The largest detractors to performance were **Tribal Group** (-19%) following negative news relating to an onerous existing contract; **Telecom Plus** (-12%) following the Non-Executive Chairman selling c. 50% of his shareholding; and **Medica Group** (-8%) following interim results which pointed to a downgrade due to short term higher costs.

Portfolio activity

We made two new investments during the period, into **Wilmington Group**, a portfolio of B2B brands providing Governance, Risk, and Compliance solutions; and **Moonpig Group**, an online leader within the card and gifting market**.**

We also made selective follow-on investments into existing portfolio holdings, including **Team 17 Group**, **Medica** and **Moneysupermarket** during the month**.**

We made one full exit during the period, from **Redde Northgate**. We also made one partial exit during the month, taking profits from our holding in **Alpha FMC.**

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 playing out.

We expect this uncertainty will continue to drive periods of sentiment-driven volatility in equity markets well into next year. Looking forward we believe it is prudent to expect a tightening environment as businesses and consumers are likely to remain cautious about discretionary costs and spending. We reiterate our continuing focus on resilient companies with business-critical propositions and robust operating and financial models that can deliver through taking advantage of structural tailwinds that are more insulated from the external environment.

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 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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