

WS Gresham House UK Smaller Companies Fund

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

Overview

Weaker market performance during August was followed by a mixed September; the AIM All Share Index fell whilst the FTSE Small Cap (excl. IT) Index rose modestly. While macroeconomic uncertainty continues to weigh on UK equities, surprise disinflation and base rates holding steady were relatively positive signals. It was also encouraging to see several M&A deals announced across the UK market as financial buyers continue to capitalise on the asymmetry between depressed stock market valuations and underlying company fundamentals.

Amidst subdued sentiment, we remain confident in the fundamentals of our portfolio, with many holdings benefitting from structural growth tailwinds or self-help initiatives. Our portfolio businesses operate within specialist market niches and are protected by high barriers to entry, offering the potential for long-term capital growth throughout the cycle.

Newsflow across the portfolio was broadly positive in September, with many companies announcing strong interim results and reiterating full-year guidance. During the year-to-date, 84.2% of company updates in the fund have been in-line or positive versus market expectations.

Our pipeline remained robust in September, and we continue to undertake latter-stage due diligence where we believe there is an opportunity to invest in companies with high-quality fundamentals at attractive entry points.

Performance¹

Performance in the WS Gresham House UK Smaller Companies Fund decreased by 0.27% during the month, outperforming the IA UK Smaller Companies sector which decreased by 1.27%.²

Key positive contributions came from **Elixirr** (+12%) following interim results which showed strong revenue growth, alongside the announced acquisition of Responsum, a generative AI acceleration platform; **Tribal Group** (+19%) on no specific news; and **XPS Pensions Group** (+8%), on no specific news.

The largest detractors to performance were **Team 17 Group** (-15%) following the release of interim results which showed strong topline performance, indicating resilience versus the broader sector, albeit with lower-than-expected profit margins; and **Brooks Macdonald** (-12%), on the back of broader market concerns

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.

around potential sector-wide outflows, despite the release of broadly in-line full year results.

Portfolio activity

We made two new investments during the period. **Keyword Studios**, the leading player in the global video game outsourcing market. Led by an experienced management team, Keyword has built a strong track-record of growing earnings and cash consistently since IPO through execution on its clear organic and inorganic growth strategy. **Trustpilot**, a technology business offering free and paid services to companies across its unique consumer-review platform. The business has built a dominant European market position, with attractive unit economics and significant future growth potential across its scalable SaaS model.

We upweighted our position in **Ricardo**, a global strategic, environmental, and engineering consultancy, which is currently going through a strategic transition to refocus on the higher growth, higher margin, and lower capital intensity parts of the business, with growth underpinned by environmental structural tailwinds. We also increased our stake in **Alpha FMC**, a challenger consultancy firm primarily focused on financial services, which continues to execute on its growth strategy and demonstrate resilience, despite broader market headwinds.

We made no full exits during the period.

Outlook

While UK equity markets remain depressed on the back of persistent macroeconomic uncertainty, we retain high conviction in the fundamental quality and resilience of our portfolio businesses. We believe the growth trajectories of our portfolio companies are, in the main, insulated from cyclical pressures due to their exposure to structural growth themes.

Our unique and repeatable investment process, driven by a strong focus on company fundamentals, optimally positions our fund to capitalise on the elevated frequency of mispricing we are seeing across UK equity markets. We continue to locate high-quality companies with long-term capital growth potential at attractive valuations.

Moreover, we expect sustained M&A activity to characterise the remainder of 2023 as private equity looks to deploy excess capital. At present valuations, companies in our investible universe are becoming increasingly attractive to leveraged buyers despite higher interest costs, and we think M&A will play an important role in reminding investors of the value creation potential offered by UK public markets.

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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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