

SVS Dowgate Wealth UK Small Cap Growth Fund Monthly Commentary: 31 July 2022

PERFORMANCE

Equities experienced a summer rally in July as bonds yields fell as investor sentiment shifted from inflation to a recession. The critical question becomes how deep, and how long? The fund returned 6.7% during the month, paring some of last month's losses.

The best contributors for the month were our holdings in North Sea gas producers **Serica Energy**, and **Kistos**, who each proposed a combination of the businesses to create a leading independent North Sea champion, we think the combination makes clear sense to the shareholders of both companies. **JTC**, the fund administration business, was also a standout performer, as it had a strong trading update reaffirming its medium term guidance.

The worst performers for the month were our consumer exposed names **S4 Capital**, **Hotel Chocolat** and **Revolution Beauty**, all of which had profit warnings following increasing costs and worsening demand pictures. While we expect some of these to be timing issues in their ability to pass on costs through the supply chain, we will continue to manage risk where appropriate.

PORTFOLIO ACTIVITY

We spent the month investing the cash into defensive businesses, whom we feel confident will deliver their forecasts. We brought the cash position down to 6%, and notable new positions include **Wilmington**, the data and training services business, veterinary pharmaceutical business **Dechra**, Education Software provider **Triabal Group** and **Kainos** the digital change consultancy business.

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We also added to **Circassia**, **Drax** and **NCC**.

INVESTMENT OUTLOOK

We have started to see signs of stress in consumer facing smaller companies, being unable to pass on price increases quickly enough through the chain, and with the demand picture worsening, there have been a select group of companies going 'ugly early' with their year ahead forecasts. With energy prices set to increase again in October, we expect this pattern to continue across the rest of the market as the consumer comes under further pressure. As real yields have fallen dramatically throughout the curve, we have felt more confident in investing in more defensive businesses that aren't exposed to the consumer, and who have strong balance sheets and pricing power. We feel strongly that sensible, well managed equities are likely to remain among the best asset classes to protect for inflation over the medium to long term.



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We believe the information provided here is reliable but should not be assumed to be accurate or complete.

All information accurate as at 31 July 2022

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<https://dowgatewealth.co.uk/fund-management/>

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