

SVS Dowgate Wealth UK Small Cap Growth Fund Monthly Commentary: 30 September 2022

PERFORMANCE

UK equities continued to fall throughout September as bond yields continued their historic rise. We saw disorder and intervention in developed market currencies, and sovereign bonds as Japan implemented its first currency intervention in two decades, while the British Pound had its biggest single-day fall in history in response to its mini-budget. The Bank of England resumed purchases of long-duration UK sovereign bonds, despite high inflation to temporarily rescue pension funds and restore financial stability. The fund fell -9.50% during the month.

Our best contributors were **Wandisco**, who enjoyed another contract win and upgrade, **Big Technologies** and **AB Dynamics**.

The worst contributors were **Belluscura**, after a disappointing update regarding their ability to supply, **Darktrace**, whose bid from Thoma Bravo fell out of bed, and **ITM Power**.

PORTFOLIO ACTIVITY

During the month, we sold our holdings in **Inspecs** following a profit warning, and **OSB** following a marked deterioration in UK credit conditions and the outlook for the UK housing market. We initiated a position in **Gamma Communications**, which we believe is a likely takeover target and **TP ICAP**, which we believe is a beneficiary of the volatility in the bond market and is inexpensive particularly on a sum of the parts basis.

INVESTMENT OUTLOOK

For some, the Bank of England's response to the 'mini-budget' seemed to spell the beginning of the end to this rate hiking cycle. We're not so convinced the Federal Reserve will want to take their foot off the world's financial windpipe until they must. Given that commodity markets are reportedly tight, and the news of China potentially opening up, the drivers of inflation appear to be out of Central Banks' reach.

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UK consensus GDP expectations continue to decline, and the mortgage market stress is likely to feed into a worsening outlook for the already stretched UK consumer. While headlines are bad, valuations are reaching attractive territory; the UK's valuation in comparison to the rest of the world's nears an all-time low. In light of this, we are confident we will start to see some very good opportunities over the coming weeks and months and continue to keep some powder dry to act upon them.



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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 30 September 2022

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

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