# VT Downing Small & Mid-Cap Income Fund
## Quarterly Commentary – June 2026

Much as we have become accustomed to, markets remained volatile and largely driven by macro events. The most significant of these was the de-escalation of the tensions between Iran and the US. The resulting "war premium" was quickly erased in equity markets, particularly in the US, where the S&P 500 and NASDAQ posted their best quarterly returns since 2020. This pattern was largely repeated elsewhere as risk assets were reappraised. Brent Crude fell rapidly to c.$70 from over $100, and markets began pricing in the likelihood of interest rate cuts rather than hikes as inflation concerns eased. It is worth noting, however, this trend has partially reversed post quarter end. The US/Iran ceasefire has shown signs of faltering, with both nations carrying out retaliatory strikes. While markets still appear to be pricing in an eventual resolution, some uncertainty premium has been priced back into markets.

From a UK specific perspective, the biggest news is yet another change of Prime Minister. Andy Burnham will almost certainly be the UK's next PM after Keir Starmer voluntarily resigned, triggered by an insurmountable loss of party confidence. Guidance suggests Andy Burnham won't stray far from the existing Labour manifesto pledges, however, speculation is rife on exactly what the new PM will implement. With no certainty expected over the summer, and unlikely until we get the next Chancellor's Budget (we still don't even know who the Chancellor will be) in October/November, then the UK will be overshadowed by uncertainty again. Markets have a strong distaste for uncertainty, and we expect this to be reflected in volatile and fragile UK markets over the months ahead.

Fund performance was robust during the quarter but disappointing on a relative basis, with the fund delivering +5.48% compared to the IA UK Smaller Companies TR sector return of +10.75%. We believe the fund's relative underperformance was largely due to its lack of exposure to companies that were linked to the AI or space sectors as hype around these areas escalated through the quarter with the SpaceX IPO and potential future IPOs from leading large language model (LLM) providers. Given the fund's holdings are all income generating companies, this tends to mean less direct exposure to industries in their infancy. Despite the short-term underperformance, the fund's long-term fund performance remains materially ahead of the wider IA UK Smaller Companies sector.

As a side note, the fund is now the least volatile fund in the sector across all 1 year, 3 years and 5 years' time periods, demonstrating the different return profile of the fund.

### The winners

The top contributor to performance in the period was Luceco, a manufacturer and distributor of lighting, wiring and electrical accessories. The company issued multiple upgrades over the period as strong trading continued to accelerate from the end of FY25 and into H1 2026. Consensus guidance for FY26 was £33.3m adjusted operating profit. At their FY25 results, this was upgraded to at least £37m, followed with a further upgrade in excess of £40m at their Q1 2026 update, with potential for further upgrades as the year progresses. The position is a relatively new addition to the portfolio, initiated in March 2026, and we will touch on it further in the stock spotlight section.

Advanced Medical Solutions (AMS) engages in the design, development and distribution of specialist surgical and wound care products. The Board recommended an all-cash offer from US-listed adhesives company, H.B. Fuller.

The offer was at 285p, representing a 39% premium to the undisturbed volume-weighted average share price of 205p per AMS share for the three-month period ended on the undisturbed date. The valuation implied the offer is c.13x EV/EBITDA which is the top end of the company's five-year historic average and represents a premium to the medical devices peer group. Whilst we think the offer leaves some value on the table, particularly once from the benefits of the Peter's Surgical acquisition it completed in 2024, are fully realized, the take-out multiple is closer to 10x pre any synergies H.B. Fuller will achieve. We believe the offer is reasonably fair given the company has already been subject to three private equity houses looking to make an offer but subsequently walking away. This suggests buyers aren't willing to pay today for this future potential. The offer represents a good return on the fund's 210p book cost over a relatively short period, given the position was only initiated in November 2025.

## The losers

Telecom Plus is a multi-utility company focused on consolidating multiple utilities into one bill for customers. The company guided that FY 2025 adjusted profit before tax would be at the low end of the previously guided range of £132m-£138m. This represents c.5% annual growth. However, the company announced a new 5-year strategic plan to double the number of multiservice customers by 2031. This plan requires significant front-loaded cost investment, which was guided at £55m per annum with the guidance of generating c.£175m of adjusted profit before tax of £175m by 2031 or just c.6% CAGR from the 2025 results. We don't understand the rationale behind this decision or the merits of the outcome 5 years away. This leaves us to surmise that the company was either previously underinvesting in the business or the industry competitive dynamics were heating up. We believe this erases the previous attraction of the company as a capital light play on utilities and one that is operating in a much more attractive market following the removal of many competitors in the energy market, and we exited the position.

Greencore engages in the manufacture and supply of convenience foods, such as sandwiches, salads, sushi and chilled ready meals. During the period, the company issued interim results, the first results to include the recently completed merger with Bakkavor, albeit they only included 10 weeks of Bakkavor trading. The results were robust with leverage lower than expected and management guided to FY results in line with expectations. However, we suspect the market was spooked by Bakkavor posting -1.3% revenue growth, along with no upgrade to the guided cost synergies outlined at the time of the merger. We still believe there is upside risk to the £80m cost synergy number but the company is only at the foothills of the combination process. As for Bakkavor revenue, the -1.3% was due to previously exited business pre-merger and the sale of Bakkavor's Wigan site in order for the deal to pass the Competition Markets Authority. The company laps these issues in H2, along with 100bps of additional revenue already secured as part of the combined company's offering.

## Portfolio activity

During the quarter, the fund initiated one new position and exited five positions. We took a small position in Young & Co Brewery as the shares have materially derated over the last few years given heightened headwinds have supressed earnings growth. We believe these have somewhat subsided and acquired the shares at greater than 40% discount to value of the underlying freehold property value. The fund exited Telecom Plus as outlined above, Microlise following poor results, and Alfa Financial Software to reduce perceived AI risk in the fund. Spire Healthcare was exited following a proposed bid from its largest shareholder, and Rathbones following the surprise announcement of a Skilled Person Review from the Financial Conduct Authority. These reviews tend to hang over companies for some time.

### Stock spotlight

As referenced earlier, the fund recently initiated a position in Luceco. We have followed the company for several years and while the valuation was attractive, it lacked a true catalyst to drive a meaningful re-rating beyond a recovery in the UK repair, maintenance and improvement (RMI) market. Moving into this year, we identified two clear catalysts to potentially materially increase both earnings the company's valuation. Firstly, two of the company's largest competitors in wiring and accessories, both large European electrical companies, decided to exit the UK market between late 2024 and 2025. While this has been a gradual process, as customers inventories and products already within the supply chain needed to be sold, we now believe this has largely completed. This leaves Luceco well-positioned to gain significant market share without relying on a broader market recovery. Secondly, the company launched its own app linked to the EV chargers it sells through its Sync EV brand. This was a major milestone enabling the company to generate demand side response revenue. There has been momentum in the expansion of the group's installed base of eligible EV chargers, with more than 18,000 chargers now participating in Demand Flexibility. Given that the company owns the whole value chain, from charger manufacturing through to ownership of the installed-base data, we believe Luceco has a clear competitive advantage in this market, with each extra charger installed adding incremental Demand Side Response (DSR) revenue with very little additional cost. Not only is this helping to drive earnings growth, but we believe at scale would be valued much more highly than the core business. Despite this opportunity, the shares continue to trade in-line with its 10-year average valuation multiple, without fully reflecting the potential of future earnings upgrades.

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