

Liontrust Economic Advantage

# LIONTRUST UK SMALLER COMPANIES FUND



MARKETING COMMUNICATION

**LIONTRUST**  
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The award-winning UK Smaller Companies Fund has been managed by Anthony Cross since launch in 1998, and he was joined by his co-managers Julian Fosh in 2008, Victoria Stevens and Matt Tonge in 2015, Alex Wedge in 2020, and Natalie Bell in 2024.

The process seeks to identify companies with a durable competitive advantage that allows them to defy industry competition and sustain a higher than average level of profitability for longer than expected. The Fund invests at least 90% of the portfolio in companies incorporated, domiciled or which conduct significant

business in the United Kingdom (UK). All smaller companies in the Fund must have a minimum 3% equity ownership by senior management, which the fund managers believe motivates key employees, helps to secure a company's competitive edge and leads to better corporate performance.

## Reasons to invest in the Fund

**Long-term performance:** The Fund has returned 1,591.9% from fund manager inception on 08.01.98 to 31.03.24 against 703.4% by the IA UK Smaller Companies sector and 372.0% by the FTSE Small Cap ex ITs index

**Annualised returns:** Since launch in 1998, the Fund has generated an annualised return of 11.4% against 8.3% by the IA UK Smaller Companies sector and 6.1% by the FTSE Small Cap ex ITs sector

**Ranking:** The Fund is ranked 1st out of 18 funds in the IA UK Smaller Companies sector since launch in 1998

**Proven investment process:** The Fund is managed using the Economic Advantage investment process. This process has been applied to the management of funds at Liontrust for more than 26 years

**Active management:** The Fund can have zero weighting to certain sectors, such as banks and miners, where the intangible assets the managers seek are scarce. By contrast, the portfolio has high exposure to manufacturing and engineering companies that are rich in intellectual property (IP)

**Stockpicking:** The managers apply a bottom-up, stock-picking process, without ties to index sector weightings. The active share of the portfolio, comprising 59 stocks, versus the FTSE All-Share Index is 96%

**Attractive valuations:** Analysis suggests the UK stock market as a whole trades at a 20% discount to intrinsic value, and this rises to 32% for small caps. This compares to 42% above intrinsic value for the US market, a 4% discount for the European ex UK market and a 6% discount for the Asia-Pacific market (Source: Liontrust, Canaccord Genuity Quest, 09.04.24)

**International exposure:** Stocks in the portfolio generate 49% of their sales outside of the UK

**High-quality portfolio:** A portfolio of high-quality compounders – cash generative, resilient businesses with globally diversified customer bases and strong balance sheets

**Management ownership:** The average management equity ownership in the Fund is 20.9% and the average skin in the game is £103 million

**Made in Britain:** Stocks in the Fund generate revenue of £16 billion, employ more than 70,000 people and provide corporation tax of more than £300 million

## Fund facts

# Economic Advantage investment process



The process seeks to identify companies that possess intangible assets which produce barriers to competition and provide a durable competitive advantage that allows the companies to defy industry competition and sustain a higher than average level of profitability for longer than expected.



These intangible assets produce barriers to competition, protect margins and are capable, in the opinion of the fund managers, of reaping a financial advantage in the form of cash flow returns in excess of the cost of capital. A company that consistently generates excess cash flow returns will benefit from compounding as it reinvests this excess return into the business.



In the fund managers' experience, the hardest characteristics for competitors to replicate are three classes of intangible asset: intellectual property, strong distribution channels and significant recurring business.



The Fund has hallmarks of a 'quality' style of investing – companies generating high, consistent returns with strong solvency or balance sheets. Quality companies will often outperform in difficult economic conditions.



Other less powerful but nonetheless important intangible strengths include franchises and licenses; good customer databases and relationships; effective procedures and formats; strong brands and company culture.



Every smaller company held in the Fund has at least 3% of its equity held by senior management and main board directors. Companies are also assessed for employee ownership below the senior management and board and changes in equity ownership are monitored.

12.4%

average cash flow return on capital<sup>1</sup>

68.4%

holdings with net cash

86.4%

of holdings paying a dividend

23.0%

average earnings growth rate

15.1x

average price/earnings ratio

100%

UK headquartered

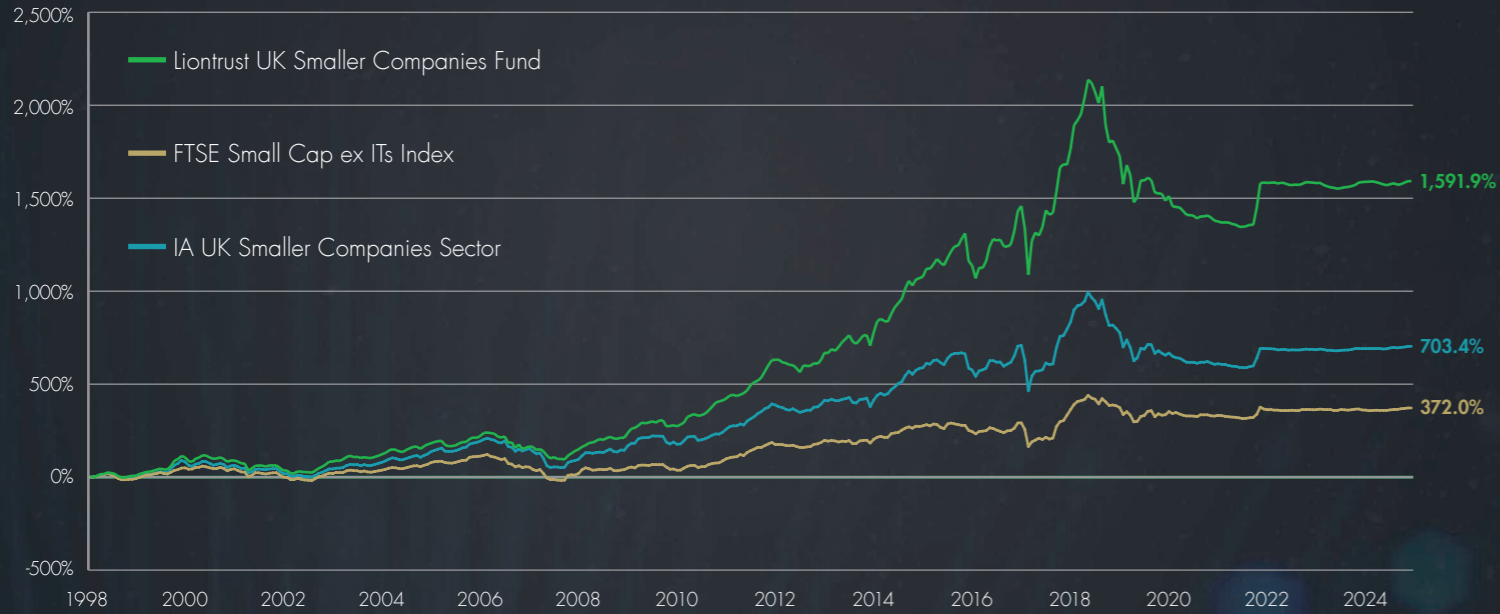
Source: FE Analytics, 31.03.24, primary share class, bid-to-bid, net of fees, income reinvested basis, total return. Percentage returns from manager inception (08.01.98), versus comparator benchmarks FTSE Small Cap ex ITs (Investment Trusts) Index and the IA UK Smaller Companies Sector. Note: there are only 18 funds in the sector since launch of the UK Smaller Companies Fund. Quartile performance correct as at 31.03.24, generated 10.04.24. 1. As at 16.02.24.

Past performance does not predict future returns. You may get back less than you originally invested. Please refer to the Key Risks for more information.



# Performance of the Liontrust UK Smaller Companies Fund

Cumulative returns (since launch)



Source: FE Analytics, 31.03.24, primary share class, bid-to-bid, net of fees, income reinvested basis, total return. Percentage returns from manager inception (08.01.98), versus comparator benchmarks FTSE Small Cap ex ITs (Investment Trusts) Index and the IA UK Smaller Companies Sector. Note: there are only 18 funds in the sector since launch of the Liontrust UK Smaller Companies Fund.

## Discrete years' performance (%)\*

To previous quarter, 12 months ending:	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust UK Smaller Companies I Inc	3.8	-14.7	2.6	56.7	-5.8
FTSE Small Cap ex ITs Index	11.0	-12.9	5.5	74.9	-24.4
IA UK Smaller Companies	5.0	-16.6	-1.7	65.7	-17.9
Quartile	3	2	1	3	1

Source: FE Analytics as at 31.03.24 total return, (net of fees, income reinvested), bid-to-bid, primary share class. Funds versus comparator benchmarks. Quartile performance and sector rankings correct as at 31.03.24, generated 09.04.24.

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# Meet the experienced Economic Advantage team

The award-winning Economic Advantage team has an average industry experience of 20 years.

Anthony Cross, Julian Fosh, Victoria Stevens, Matt Tonge, Alex Wedge, Natalie Bell and Alex Game manage the Liontrust Economic Advantage Process. Anthony, who was previously at Schroders, has applied the investment process to funds since 1998 and he started working with Julian at Liontrust in 2008. Julian has previously managed money at Scottish Amicable Investment Managers, Britannic Investment Managers, Scottish Friendly Assurance Society and Saracen Fund Managers.

Victoria Stevens and Matt Tonge joined the team in 2015 to research and analyse investment opportunities primarily across the small cap universe. In Victoria's previous role as deputy head of corporate broking at FinnCap, she built up an extensive knowledge of the smaller company investment universe. Matt added trading and analytical expertise to the team, having spent the previous nine years on the Liontrust dealing desk, latterly winning an industry award for his work in mid and small cap stocks.

Alex Wedge joined the team in March 2020 from N+1 Singer, one of the largest dedicated small cap brokers in London. Alex spent over seven years at N+1 Singer, latterly as a senior member of the equity sales team. His role included developing and communicating investment ideas to buy-side clients, as well as advising corporate clients on shaping their investment case and raising equity capital.

Natalie Bell joined the team in August 2022, having previously been a member of the Liontrust Responsible Capitalism team where she led engagement with investee companies.

Alex Game joined the team as a Fund Manager in 2024, having previously co-managed a range of funds, including two UK equity funds and an AIM portfolio service at Unicorn Asset Management, where he spent nearly 10 years.



Anthony Cross



Julian Fosh



Victoria Stevens



Matt Tonge



Alex Wedge



Natalie Bell



Alex Game

## Awards and ratings



Source: Rayner Spencer Mills Rated Fund, Morningstar Rating, Morningstar Analyst Rating, Square Mile, Fund Calibre Elite Rated, Adviser Centre – Established.

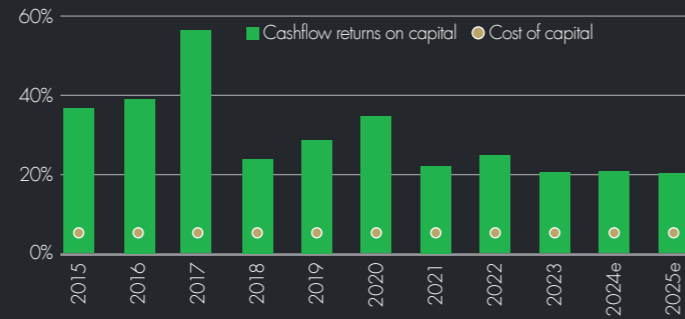


# Stock examples

## Tatton Asset Management PLC

- On-platform only discretionary investment management business represents c80% of revenue and substantially all of the group's profit. Majority of assets managed through model portfolio service (MPS)
- Smaller Paradigm division provides compliance consulting and support services to IFAs, as well as mortgage services
- Core Tatton IM division has been a significant disruptor in the space, leading for many years with a low cost (15bps) offering which was ahead of the curve. Many other providers' fees have been trending down towards this level over time
- Tatton has grown AUM rapidly (£14.8bn as at September 2023), with strong organic net flows having been a consistent highlight of performance
- Recurring income: Ad valorem fee-based revenue model
- High, stable cash flow returns on invested capital (current: 20.3%)
- Founder Paul Hogarth still runs the business as CEO and retains a 16% shareholding

### Financial advantage



### Tatton share price (pence)

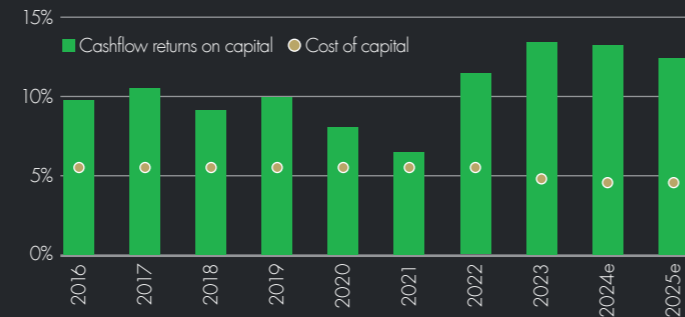


Source: 28.11.23, Canaccord Genuity Quest. Cash flow returns on capital: post-tax, real economic return on total invested capital. Cost of capital: real weighted average cost of capital. 2024 & 2025 are estimated numbers. Estimates are not a reliable indicator of actual performance. Share price source: Bloomberg, data from 30.06.17 to 31.03.24.

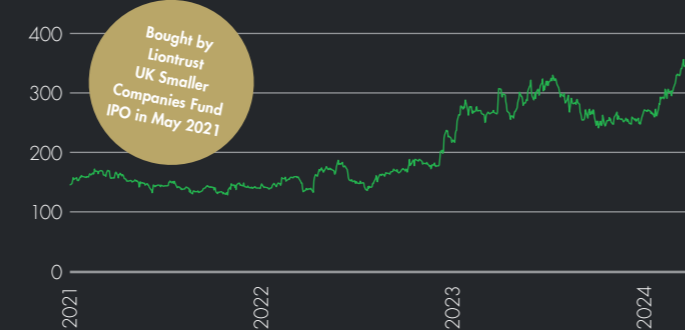
## Kitwave

- Independent wholesale delivery group, specialising in selling impulse products, groceries, frozen and chilled foods to convenience retailers and the foodservice sector
- Co-founded in 1987 by current CEO Paul Young, who retains a large equity stake in the business
- Physical distribution network: Focuses on smaller, independent customers who are typically harder to service. Can promise same or next-day delivery to 38,000 customers from 26 depots across the UK, offering up to 33,000 product stock lines and with small minimum delivery values
- High levels of regular repeat business from loyal customers
- Long-term relationships with key branded suppliers (e.g. Unilever, Walkers and Molson Coors) who see Kitwave as a "brand ambassador" and important channel partner for hard-to-reach smaller customers
- Strong and stable cash flow return on capital (CFROC) profile, driven by efficient business model, high margins and steady control of working capital

### Financial advantage



### Kitwave share price (pence)



Source: 11.04.24, Canaccord Genuity Quest. Cash flow returns on capital: post-tax, real economic return on total invested capital. Cost of capital: real weighted average cost of capital. 2024 & 2025 are estimated numbers. Estimates are not a reliable indicator of actual performance. Share price source: Bloomberg, data from 21.05.21 to 31.03.24.

Past performance does not predict future returns. You may get back less than you originally invested. Please refer to the Key Risks for more information

### Key risks

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We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

### Disclaimer

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This fund is rated by Fund Calibre, for more information go to: [www.fundcalibre.com](http://www.fundcalibre.com). 2023.06

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[www.liontrust.co.uk/funds/uk-smaller-companies-fund](http://www.liontrust.co.uk/funds/uk-smaller-companies-fund)



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