Liontrust UK Growth Fund

October 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust UK Growth Fund returned 3.7%* in October. The FTSE All-Share Index comparator benchmark returned 3.1% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 3.1%.

The UK equity market recovered from mid-month to post a solid gain in October, with the mid-cap FTSE 250 index (+4.5%) arresting its heavy year-to-date underperformance of large-caps. The market rally was a global phenomenon, which was helped along in the UK by a conclusion to the latest episode of political turmoil with the resignation of Chancellor Kwasi Kwarteng, the reversal of his mini-budget measures by his successor Jeremy Hunt and the subsequent departure of Liz Truss as prime minister.

Coats Group (+20%) moved higher as investors reacted positively to a Capital Markets Day focused on the company's footwear division. Coats has expanded the scale of its footwear unit significantly recently with the acquisitions of US businesses Texon and Rhenoflex. It has now issued medium-term sales growth guidance of 7% to 8% per annum for footwear, with an operating profit margin target of over 20%. This higher forecast for the division has shifted up the overall group's medium-term targets (inclusive of its apparel and performance materials divisions) from 5% to 6% sales growth per annum, with an operating margin target of 17%.

Coats also reiterated the message, already conveyed within interim results, that it has been able to offset cost inflation through price increases and internal efficiency measures.

Pricing power has long been one of the most valued characteristics we look for in the Economic Advantage investment process, stemming in our view from the barriers to competition provided by companies' intangible and difficult-to-replicate assets.

Indivior (+17%) upgraded full-year financial guidance as strong growth in its *Sublocade* opioid addiction treatment continued to compensate for the decline of its generic-threatened *Suboxone* film. In Q3, *Sublocade* sales rose 66% to $108m, pushing group revenues 24% higher to $232m. The strength of this drug's uptake is the key reason behind Indivior's move to upgrade its full-year group revenue guidance range from $840m - $900m to $890m - $915m. Adjusted operating profit is now expected to be "modestly higher" than 2021 rather than previous guidance of "broadly similar".

There were no upgrades to this year's guidance from precision measurement specialist **Spectris** (+11%), but the strength of its Q3 trading leaves it in a strong position to hit full-year targets. Q3 sales rose 10% like-for-like sales, meaning that it has also achieved 10% through the first nine months of the year. Spectris confirmed its full-year target of high single-digit percentage growth and also announced new medium term targets, including 6% - 7% through-the-cycle organic sales growth.

Next Fifteen Communications (+13%) share price gain appears to reflect some relief at the conclusion of the takeover saga involving advertising agency M&C Saatchi. Having lost the support of M&C Saatchi's Board and seen the implied value of its cash-and-shares offer slide, Next Fifteen received the news that M&C Saatchi's shareholders had not voted in favour of the deal. Many investors in Next Fifteen will now be keen for focus to return to underlying trading, which prior to the last six months had been exceptionally strong, driving the shares to an all-time high in March.

Hargreaves Lansdown's (-12%) was among the portfolio detractors. Given market weakness this year, a number of asset managers have reported that negative moves in asset values have outweighed any inflows; Hargreaves notched up £0.7bn in net new business in the quarter to 30 September but saw a negative £1.8bn effect from market movements. Its assets under administration closed the quarter at just under £123bn. Sentiment towards the shares was dented by the announcement of its CEO's departure. Chris Hill has been in the post since 2017 and as recently as February 2022 launched a new company strategy; he will leave Hargreaves by November 2023.

An AGM trading update from drinks group **Diageo** (-5.3%) was fairly innocuous, briefly confirming more steady progress with organic net sales growing across all its regions at the start of its year (ending June 2023), in keeping with its 2023 – 25 goal of organic net sales growth of 5% to 7% and organic operating profit growth between 6% and 9%. A slightly soft share price in October suggests that some investors may have been looking for guidance upgrades.

Intellectual property services provider **RWS Holdings** (-4.3%) also lost some ground despite confirming full-year guidance. In the year to 30 September, revenue growth was in line with market expectations at around 8%, while margins are expected to improve strongly.

Positive contributors included:
Coats Group (+20%), Indivior (+17%), Next Fifteen Communications (+13%), Spectris (+11%) and BP (+11%).

Negative contributors included:
Moonpig Group (-14%), Hargreaves Lansdown (-12%), Future (-7.7%), Diageo (-5.3%) and RWS Holdings (-4.3%).

Discrete years' performance (%), to previous quarter-end:**

Past performance does not predict future returns

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust UK Growth I Inc	-5.5%	26.1%	-11.0%	3.0%	9.4%
FTSE All Share	-4.0%	27.9%	-16.6%	2.7%	5.9%
IA UK All Companies	-15.3%	32.4%	-12.8%	0.0%	5.5%
Quartile	1	3	2	2	1

*Source: Financial Express, as at 31.10.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.09.22, total return (net of fees and income reinvested), bid-to-bid, primary class.

For a comprehensive list of common financial words and terms, see our glossary at: https://www.liontrust.co.uk/glossary

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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