



Liontrust UK Smaller Companies Fund

November 2022 review

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The Liontrust UK Smaller Companies Fund returned 5.9%* in November. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 6.6% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 6.9%.

Global equities recovered further in November, helped along by hopes that the pace of monetary policy tightening may be set to slow. The US Federal Reserve and Bank of England both implemented 75 basis point hikes in November, while the European Central Bank had lifted rates by the same amount at the end of October.

More important than the scale of this month's moves were the comments regarding the future direction of policy. Minutes from the Federal Reserve's rate-setting meeting and comments from its Chair, Jay Powell, noted that rates may need to peak higher than previously anticipated, but also suggested that future rate hikes may be smaller and slower, as the Fed waits to observe the cumulative impact of the policy measures already taken.

As investors weighed up whether this should be interpreted as a hawkish or dovish message, weaker-than-expected consumer price inflation tipped them towards the latter and added fuel to the recovery in risk asset prices. Inflation for October came in at 7.7% year-on-year, the lowest since January, down from June's peak of 9.1%, and below forecasts of 7.9%.

With a number of companies updating on trading on the period to 30 September, it was a busy month for portfolio newsflow, the majority of it fairly constructive.

Tatton Asset Management (+32%) confirmed that – as announced in an October trading update – assets under management rose by £1.0bn to £12.3bn as at 30 September. The rise was a combination of organic growth, with over £900m of net inflows, and acquisitive expansion, after £1.0bn was added through Tatton's purchase of a 50% stake in 8AM Global, partially offset by negative investment performance as markets fell.

Tatton also revealed that the recent recovery in market levels had helped push assets up to £12.9bn by 18 November. Tatton expects net inflows to slow in the next six months, but it is confident of progress towards its short-term target of £15.0bn in assets under management through a combination of net inflows and acquisitions.

Kainos Group (+30%) is an outsourced provider of IT design and support services primarily to the public sector and healthcare industry. Long-term customer relationships and ongoing demand from the NHS have meant that its business has proven resilient to a challenging economic backdrop. In November, it reported 26% year-on-year revenue growth to £180m in the six months to 30 September, while bookings rose 18% to £222m, taking its contracted backlog to £308m. At 53%, growth was particularly strong in its international operations, lifting its share of the group total to one-third.

Dotdigital Group (+28%) continued to recover from its heavy fall in March, which came after it warned of a post-lockdown unwinding of customer buying behaviour as well as tight labour market conditions in the US. In July, the omnichannel marketing automation specialist announced that revenues for the year to 30 June would exceed re-based expectations, and the release of full-year results in November triggered another leg up for the shares. The company commented that positive trading momentum has carried over into the new financial year,

with the prior challenges now waning and market conditions improving overall. It is on track to meet expectations for revenue growth next year, while profitability is marginally ahead of forecasts.

Videogame developer and publisher **Frontier Developments** (-14%) began the month with news of the acquisition of Complex Games, a Canadian development studio, for up to £12m. Shares in Frontier then weakened mid-month on news of share sales by certain directors. However, senior management equity ownership remains high at 34%, well in excess of the 3% threshold applied to portfolio holdings as the fund managers seek to ensure incentive alignment between shareholders and company managers.

A new Fund position was initiated in **Eagle Eye Solutions**. It provides a B2B software platform which allows large retail clients to manage customer loyalty schemes, offers and promotions. The fund managers believe it possesses all three of the key Economic Advantage intangible assets: intellectual property in the software itself, a strong data-driven distribution network because the platform sits at the very heart of the customer's marketing technology stack, and a high percentage of recurring revenues from SaaS licence fees and ongoing high-volume, low-value transaction fees. The fund was able to initiate a position as the business raised money to part fund the acquisition of Untie Nots, a French AI-powered promotion and gamification software company, which brings a strong customer list and interesting cross-sell opportunities.

The position in **Keywords Studios** was sold after its senior management equity ownership levels fell below the 3% threshold required of all smaller companies under the Economic Advantage investment process.

Positive contributors included:

Tatton Asset Management (+32%), Kainos Group (+30%), Dotdigital Group (+28%), Learning Technologies Group (+22%) and Next Fifteen Communications (+19%).

Negative contributors included:

Iomart Group (-16%), Tribal Group (-16%), Frontier Developments (-14%), Midwich Group (-13%) and Mortgage Advice Bureau -13%).

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 Smaller Companies I Inc	-28.9%	46.9%	12.8%	-5.0%	19.7%
FTSE Small Cap ex ITs	-24.4%	72.4%	-12.7%	-7.8%	0.6%
IA UK Smaller Companies	-31.9%	51.1%	-0.4%	-7.1%	10.8%
Quartile	1	3	1	2	1

*Source: Financial Express, as at 30.11.22, 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.

The portfolio is primarily invested in smaller companies and companies traded on the Alternative Investment Market. These stocks may be less liquid and the price swings greater than those in, for example, larger companies.

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