

Liontrust UK Smaller Companies Fund

December 2022 review

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The Liontrust UK Smaller Companies Fund returned -0.2%* in December. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 1.3% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -0.6%.

The FTSE All-Share Index's December decline took it close to a flat return for 2022 as a whole, registering a small 0.3% total return. In capital terms, stripping out the benefit of dividend income, the index fell 3.2%. As we observed a few times during the year, there was a large divergence in returns to different size segments of the market: the FTSE 100 total return for 2022 was 4.7%, but the mid-cap FTSE 250 lost 17.4% and the Small Cap (ex-IT) index dropped 17.3%.

A slowing in the pace of US consumer price inflation in November to 7.1% – the lowest level in a year and below the 7.3% forecast – raised hopes of a US Federal Reserve pivot to less hawkish policy in 2023. However, as it lifted interest rates by 50 basis points to 4.25% - 4.5%, the US central bank issued forecasts of rates peaking at 5.1%, with no cuts projected until 2024.

The Fund's best performer was **On The Beach** (+34%), as full-year results detailed the extent to which activity has recovered since Covid-19 travel restrictions were lifted. In the year to 30 September 2022, adjusted revenue rose to £144m from £31m a year earlier. While the prior year's trading was severely impacted by lockdowns and travel restrictions, these constraints only affected the first four months of the 2022 financial year. Revenue is now back to a similar level to the 2019 financial year – the last before Covid-19 emerged. Although the first quarter of its new financial year (calendar year Q4) is historically its quietest trading period, On The Beach has still seen encouraging trends. There has been a continuation of growth in premium, long-haul and B2B areas, and the group has a better forward order book than the equivalent period three years ago (pre-Covid).

Infrastructure and private equity manager **Foresight Group** (+29%) reported a 41% increase in assets under management to £12.5bn in the six months to 30 September. The majority of the increase came from acquisitions such as the technology ventures division of Downing. Foresight completed an initial public offering to the UK stockmarket in 2021 and is targeting 20% - 25% annual growth in AUM. The stock is held in the Fund on the strength of its management fee recurring revenues, which the fund managers believe represent a significant intangible asset. In the six months to 30 September, its revenues rose 28% year-on-year to £50.7m, with recurring revenue forming 89% of the total.

Cohort (+23%) announced a 29% year-on-year increase in revenues to £77.5m in the six months to 31 October, with adjusted operating profit tripling to £5.0m. The sales increase for the defence and security technology mini-conglomerate was driven by demand from the UK Ministry of Defence and export revenues for its Chess division. Order intake (£88.6m) exceeded revenues, pushing its order book up to a record level of £304m. The outlook for the second half of the year is robust: over £80m of the order book is deliverable during the period, meaning that it has visibility on over 95% of the consensus analyst forecast for full-year revenues.

Tribal Group (-16%) was one of the portfolio's weaker positions after issuing a profit warning on the first day of the month. The software provider to the education sector announced that the underperforming Nanyang Technology University contract is now on track to have a worse-than-expected negative EBITDA impact of £9m this financial year and register a £12m loss over the life of the contract.

A solid AGM statement from **Netcall** (+15%) indicated that trading in the second half of 2022 was in line with expectations, with good trading momentum carrying over from the prior period. The provider of customer engagement software has seen increasing demand for its cloud solutions and a significant increase in new customer wins.

Attraqt left the portfolio following its takeover. Shares in the provider of merchandising, search and personalisation software to online retailers had been under pressure due to its exposure to a softening retail outlook. In September, it accepted an offer from US Digital Experience Platform software provider Crownpeak Technology which was at a 71% premium to Attraqt's prior closing price, albeit below the levels it had traded at a several months earlier.

Attraqt became the sixth position to exit the Fund in 2022 due to a takeover, following **CareTech, Charles Stanley, Clipper Logistics, Ideagen** and **Sumo Group**. One of the features of the Economic Advantage investment process is the frequency with which its holdings have proven attractive to acquirers.

Positive contributors included:

On The Beach Group (+34%), Foresight Group (+29%), Cohort (+23%), EKF Diagnostics (+19%) and Netcall (+15%).

Negative contributors included:

Microlise Group (-21%), Alpha Group International (-20%), Craneware (-16%), Tribal Group (-16%) and Frontier Developments (-16%).

Discrete years' performance (%), to previous quarter-end:
Past performance does not predict future return**

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust UK Smaller Companies I Inc	-23.0%	24.7%	15.2%	31.0%	-6.0%
FTSE Small Cap ex ITs	-17.3%	31.3%	1.7%	17.7%	-13.8%
IA UK Smaller Companies	-25.2%	22.9%	6.5%	25.3%	-11.7%
Quartile	2	2	1	2	1

*Source: Financial Express, as at 31.12.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 31.12.22, 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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