LIONTRUST

ECONOMIC ADVANTAGE PROCESS

This is a marketing communication

Liontrust GF UK Growth Fund

March 2023 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust GF UK Growth Fund returned -2.3%* in March. The Fund's comparator benchmark, the FTSE All-Share, returned -2.8%.

The month began with strong economic data which lifted expectations for the number of central bank hikes still to come. As news of Silicon Valley Bank's (SVB) demise fed through, the market narrative quickly shifted to one of financial sector resilience, which in turn seemed to reduce the chances of substantial further monetary tightening.

With investors fretting over banks' exposure to a combination of a negative yield curve (meaning more expensive short-term deposit finance and mark-to-market losses on long-term assets) and the risk of deposit flight, the sector took a broad-based hit. Credit Suisse was the highest profile casualty, forced into a government-brokered sale to UBS that wiped out bondholders and the majority of its share price.

Unsurprisingly, the financials sector was the weakest in the FTSE All-Share Index in March, losing 7.5% with the banks sub-segment down by 12%. The Fund has low exposure to the financials sector and no bank holdings, so avoided some of March's market weakness.

Although based in the US, SVB had strong ties with the technology sector globally, including companies in the UK. As its balance sheet unravelled and regulators stepped in, many companies – particularly small caps – chose to issue stockmarket updates in order to reassure over their exposure to SVB and liquidity position. A few portfolio stocks were among this number. The common theme was that where SVB exposure existed via deposits or borrowing facilities, it was an insignificant proportion of overall liquidity.

For example, among those companies that updated the market, **Future** (-17%) stated that cash deposits with SVB accounted for less that 3% of its cash on hand (of £26m), while it had £438m of undrawn committed debt facilities excluding c.£25m of undrawn facilities with SVB. Future is a global multi-platform media company which owns publishing brands in specialist consumer and B2B sectors including technology, gaming and entertainment, music, creative and home interest. Shares in the company have been weak since a February trading update which stated that adjusted operating profit would be in line with expectations for the year to 30 September but noted that revenues would be a touch light of forecasts. Its consumer technology brands in particular have seen a slowdown in audience numbers and consumer spending.

RWS Holdings (-16%) has had a similar experience, sliding since a February update maintained full-year guidance but noted higher growth would be need in the second six-months of the year in order to achieve it. It also updated on SVB exposure, detailing a $220m revolving credit facility of which SVB had committed 10%, a small cash deposit which it thinks is fully protected, and a portion of forward currency contracts. The latter looks to be the most significant, although RWS states that it thinks its overall exposure to SVB is limited and remains on track to meet consensus for profits in the year to 30 September 2023.

In better news, **Reckitt Benckiser** (+6.9%) recorded 6.2% constant currency like-for-like net sales growth in the fourth quarter of 2022, taking its total for the year to £14.5bn, up 7.6%. The consumer goods group grew operating profit by 9.2% to £3.4bn in constant currency terms as operating margin expanded by 90 basis points to 23.8%. The majority of the improvement in profitability came from its US nutrition business, where it benefited from temporary supply issues for its competitors.

Elsewhere among the portfolio's positive contributors, a risk-off environment ensured a strong showing from some typically defensive names. Aerospace and defence group **BAE Systems** (+9.4%), was the top riser without issuing any significant investor update, while contract caterer **Compass Group** (+5.9%) also moved higher without a newsflow catalyst.

Returning to the detractors, **EMIS Group** (-20%) tumbled after a negative intervention by the UK Competition and Markets Authority (CMA) threatened to derail its acquisition by UnitedHealth Group, a deal announced in June 2022. On 17 March, the CMA announced that it would be referring the acquisition to a Phase 2 investigation. EMIS and UnitedHealth responded by proposing the sale of a UK business owned by the latter, but the CMA stated that this did not remedy its competition concerns, meaning the Phase 2 referral will continue. With all parties now considering their options, EMIS has lost almost all the of the share price gain it notched up on receipt of the bid last year.

Synthomer (-24%) had a tough 2022, issuing a profit warning due to a worse-than-expected deterioration in macroeconomic conditions and post-pandemic medical glove destocking hitting demand at its nitrile butadiene rubber division. Events in March showed that the slowdown is impacting cash flow and liquidity, with the company moving to secure a new $480m revolving credit facility with longer duration and greater covenant headroom. Full-year results for 2022 showed revenue rising 9.7% to £2.38bn in constant currency terms but EBITDA halving to £249m, and the company has prioritised cost savings and a rationalisation of non-core business units as it looks to boost free cash flow and reduce net debt.

Positive contributors included:
BAE Systems (+9.4%), Reckitt Benckiser Group (+6.9%), Compass Group (+5.9%), RELX (+4.6%) and Spectris (+4.0%).

Negative contributors included:
Synthomer (-24%), EMIS Group (-20%), Next Fifteen Communications (-19%), Future (-17%) and RWS Holdings (-16%).

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust GF UK Growth C3 Inst Acc GBP	3.3%	13.1%	23.5%	-13.5%	6.4%
FTSE All Share	2.9%	13.0%	26.7%	-18.5%	6.4%
	Mar-18	**Mar-17**	**Mar-16**		
Liontrust GF UK Growth C3 Inst Acc GBP	2.0%	21.9%	1.9%		
FTSE All Share	1.2%	22.0%	-3.9%		

*Source: Financial Express, as at 31.03.2023, total return (net of fees and income reinvested), sterling terms, C3 institutional class. Non fund-related return data sourced from Bloomberg.
**Source: Financial Express, as at 31.03.2023, total return (net of fees and income reinvested), primary class. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (03.09.14). Investment decisions should not be based on short-term performance.

Key Features of the Liontrust GF UK Growth Fund

Investment objective & policy[1]	The investment objective of the Fund is to provide long term capital growth by investing predominantly in UK equities. The Fund invests at least 80% in securities of companies traded on the UK and Irish stock exchanges. The Fund invests predominantly in UK large and mid-cap stocks.
Recommended investment horizon	5 years or more
Risk profile (SRRI)[2]	5
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the FTSE All Share Index (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.

Notes: 1. As specified in the KIID of the fund; 2. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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.