Liontrust UK Smaller Companies Fund

April 2023 review

Fund managers: Matthew Tonge, Anthony Cross, Julian Fosh, Victoria Stevens and Alex Wedge

The Liontrust UK Smaller Companies Fund returned -0.3%* in April. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 3.7% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 1.9%.

Stockmarkets continued their recovery from March's banking crisis, despite signs that confidence in US-based First Republic Bank had plummeted to levels that led to its collapse. Investors seemed content that systemic problems had been side-stepped through the swift action of regulators in the US and Europe. There was also increasing consensus around the view that the resulting tightening of lending conditions could stymy economic activity sufficiently to remove the need for many more central bank rate hikes.

Three portfolio holdings notched up gains of 20%+ against this benign backdrop. Firstly, **James Cropper** (+27%) – a global leader in advanced materials, luxury packaging and paper products – rallied on the back of an upgrade to profit guidance and a strategic shift to better align the business with a low carbon economy. It also announced an ambitious new growth strategy which will emphasise advanced materials such as those used in fuel cells, carbon capture, batteries and wind. Its historic paper production business will be reorganised, with the number of paper machines in operation reduced from four to three, with the company likely to shed around 10% of its workforce.

Eckoh (+27%), the provider of secure payment products and customer contact solutions, rose sharply after announcing adjusted operating profit of £7.6m in the year to 31 March, up 50% year-on-year and slightly ahead of market expectations. Revenues rose 23% to £39m, driven by growth in North America where it saw strong renewals, more cross-selling and large contract wins.

Shares in cloud computing provider **iomart** (+23%) had previously dropped heavily at the end of last year as an interim trading update warned that profit margins were no longer expected to recover sufficiently to hit its prior full-year profit guidance. April's full-year update was much better received; the company now expects to report revenue of £115m in the year to 31 March – at the upper end of revised analyst forecasts – and profit before tax of £14.6m. The improvement in pipeline opportunities observed in the first half of the year converted to stronger order booking levels at the end of the year. Iomart also commented that it has seen stable customer renewal rates across the business.

Unfortunately, the Fund also had one 20%+ detractor: **Focusrite** (-25%). Updates from the company in February and March noted some weakening in demand but maintained full-year profit expectations, with large contributions expected from product launches in the second half of the year. April's interims showed revenues down 7% year-on-year to £86m in the six months to 28 February. Its sales continue to be affected by soft demand as well as some surplus channel inventory. Focusrite develops hardware and software for the high-quality production of recorded and live sound. It yet again reaffirmed its belief that second-half revenue growth will meet market expectations as it launches new products, although flagged that costs may be elevated due to existing product promotions.

RWS Holdings (-15%) had already weakened in February after an AGM update warned that higher growth would be needed in the second six-months of the year in order to achieve full-year forecasts. It then downgraded this guidance within an interim trading statement after reduced levels of activity persisted. Compared with consensus analyst expectations of £133m, it now expects full-year profit before tax of closer to £128m. The intellectual property support services provider commented that certain clients have displayed slower decision making and softer activity levels. It is cutting some cost in reflection of these trends, but is also on the look-out for acquisitions that could accelerate its growth plans.

Following on from a very positive full-year trading update in January which prompted a sharp share price rally, **Learning Technologies'** (-13%) full-year results release didn't give investors enough to maintain the momentum. The company reported £597m in revenues in 2022, more than double the 2021 level due primarily to the acquisition of GP Strategies, which it says it has now successfully integrated. Its outlook notes a "more challenging macro environment" and guides towards high single-digit growth in operating profit – a pace which may have disappointed against some loftier investor expectations.

Kainos (-10%) is an outsourced provider of IT design and support services primarily to the public sector and healthcare industry. Its shares slid despite confirming that results for the year to 31 March 2023 are expected to be in line with consensus and providing upbeat outlook comments.

While there have inevitably been individual instances of stocks disappointing on short term earnings, the fund managers have been very encouraged overall by the trading resilience of the companies in the Fund, despite the wider macro economic challenges. By the end of April, over 80% of the Fund's holdings have reported either an 'in line' set of numbers or delivered upgrades during the year to date.

Positive contributors included:
James Cropper (+27%), Eckoh (+27%), Iomart Group (+23%), Judges Scientific (+17%) and Animalcare (+16%).

Negative contributors included:
Focusrite (-25%), Microlise Group (-19%), RWS Holdings (-15%), Learning Technologies (-13%) and Kainos Group (-10%).

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust UK Smaller Companies I Inc	-14.7%	2.6%	56.7%	-5.8%	1.9%
FTSE Small Cap ex ITs	-12.9%	5.5%	74.9%	-24.4%	-3.1%
IA UK Smaller Companies	-16.6%	-1.7%	65.7%	-17.9%	-2.6%
Quartile	2	1	3	1	1

*Source: Financial Express, as at 30.04.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.03.23, 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.

Disclaimer

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