Liontrust UK Smaller Companies Fund

May 2023 review

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

The Liontrust UK Smaller Companies Fund returned -0.1%* in May. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned -1.7% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.8%.

The UK market's negative monthly return followed a sharp drop over the final week as negotiations on extending the US debt limit came very close to the wire, before ultimately being resolved at the start of June, avoiding a painful default process.

Interest rate uncertainty remained a feature of markets, with expectations at the start of the month tempered by the contractionary impact of this year's banking crisis, before more strong economic data and evidence of inflation persistence led to additional rate hikes being priced back in for later this year. UK, European and US base rates were all raised by a 25 basis point margin in May, with the US Federal Reserve indicating that rates would now pause at the 5.0 – 5.25% level.

Newsflow from Fund holdings was largely typical of the year-to-date experience outlined in last month's review: very encouraging on the whole but also including one or two inevitable instances of companies disappointing on short-term earnings.

To coincide with a day of investor presentations, **YouGov** (+17%) unveiled its third long-term growth plan which includes medium term targets of £500m revenue and an adjusted operating profit margin of 25%.While no time frame is specified, investors welcomed the ambitious goals, which represent a near doubling of the c.£265m revenue expected this financial year (to 31 July) and an eight percentage point improvement in profit margins from its recent half-year results.

A trading update from **Cohort** (+13%) announced that performance in the year to 30 April was slightly ahead of expectations, with revenues boosted by strong demand from the UK Ministry of Defence. Order intake over the year was 1.2x revenues, growing the order book out further; over 80% of next year's consensus revenue forecast is now covered by the order book. The defence and security technology mini-conglomerate expects further demand strength next year as the conflict in Ukraine and tensions around Taiwan drive increased investment in defence.

On The Beach (-26%) weakened as interim results showed softer-than-expected trading in the six months to 31 March and flagged an uncertain second-half outlook. Although revenues rose 38% year-on-year to £73m, the company recorded a loss before tax. Holiday booking volumes in its value segment have yet to recover to pre-pandemic levels due to the cost-of-living crisis. On The Beach invested heavily in the brand during the first half, a strategy which it hopes this will pay dividends during the second half of the year, which typically accounts for the majority of full-year volumes.

The slide in **Pebble Group's** (-12%) share price from a one-year high in March has come through a contraction in its rating rather than reduced earnings expectations. An AGM update in May detailed further solid trading, with good trends in both its Facilisgroup digital commerce platform and its Brand Addition promotional products division.

K3 Business Technology left the Fund during May after its senior management equity ownership level fell below the 3% threshold required of all smaller companies in the Economic Advantage investment process. The fund managers believe that high senior manager equity ownership gives them 'skin in the game' and helps encourage good alignment of incentives between shareholders and company management. Another small portfolio change saw **Quixant** changed its name to **Nexteq**, to reflect the growth of its software and hardware solutions into industries outside of its initial core gaming market.

Positive contributors included:
YouGov (+17%), AB Dynamics (+17%), Alfa Financial Software (+15%), Cohort (+13%) and Netcall (+12%).

Negative contributors included:
On The Beach (-26%), Eckoh (-22%), JTC (-12%), Next 15 Group (-12%) and Pebble Group (-12%).

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 31.05.23, 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

not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.

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