



Liontrust UK Growth Fund

June 2023 review

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

The Liontrust UK Growth Fund returned 0.5%* in June. The FTSE All-Share Index comparator benchmark returned 1.0% and the average return in the IA UK All Companies sector, also a comparator benchmark, was -0.4%.

The direction of interest rates was once again the primary market narrative in June. The US Federal Reserve's decision to hold rates steady at a 5.0% to 5.25% target range after 10 consecutive hikes was communicated as merely a pause in the pace of tightening, and a hawkish one at that, with its rate-setting committee forecasting 50 basis points (bps) of additional increases by the end of the year.

There was no let up in the tightening cycle in Europe, where the European Central Bank increased rates by 25bps to 3.5%, or the UK, where the Bank of England surprised with a 50 basis point hike – its 13th consecutive increase - to 5.0% after headline consumer price inflation remained stubbornly high at 8.7% in May, the same level as April and defying forecasts of an easing to 8.4%. By the end of May, futures prices were suggesting the Bank of England base rate will continue to rise to a peak of 6.25% early in 2024.

The emergence of country-specific factors – such as Brexit-related labour shortages – which have driven expectations of UK inflation and interest rates higher than many other developed markets has coincided with a period of relative strength for the typically more internationally diversified FTSE 100 large-cap index. The FTSE 100 returned 1.4% in June, outperforming the FTSE 250 mid-cap index's -1.3% return. Since the start of 2022, the FTSE 100 has now outperformed the FTSE 250 by 23 percentage points.

Around two thirds of the Fund is invested in large-caps, leaving it underweight versus the FTSE All-Share's 83% exposure to FTSE 100 stocks. The majority of the remainder of the portfolio (around 20%) is invested in mid cap stocks, with the small cap component capped at a maximum of 10% (currently around 6%). We believe many of our mid and small caps can already be considered genuinely global businesses, with all the benefits of geographic diversification and growth runway which that entails. In fact, data from Factset estimates the portfolio's overseas sales exposure to be around 83%, in excess of the FTSE All Share benchmark's 77%, despite its modestly greater weighting further down the market cap scale.

Amid a fairly light month for portfolio newsflow, **Paypoint** (+25%) and **Indivior** (+25%) registered strong gains on the back of short updates.

A trading update from **Paypoint** (+25%) confirmed its prior estimate of £125m revenue in the year to 31 March and upgraded profits guidance to the top end of market expectations. Shares in the convenience store payments and e-commerce specialist have de-rated somewhat since announcing the acquisition of gift card group Appreciate late last year, but regained some impetus from June's statement. Paypoint commented that the integration of Appreciate has progressed well, and has accelerated its ability to create enterprise-level product packages.

Indivior (+25%) rallied as some legacy risks around its marketing of products in the US crystallised. *Suboxone*, formerly the company's leading product, has been the subject of multi-state litigation in the US for several years, but it has now reached a settlement to pay \$103m. The payment will be recorded against a \$290m balance sheet provision which Indivior had previously set aside.

While legal risks have represented an overhang for Indivior shares for some time, its prospects are increasingly linked to the growth of its next generation *Sublocade* opioid addiction treatment, which has consistently exceeded sales expectations and now exceeds *Suboxone* sales.

Although it delivered 21% growth in sales to £1.8bn in the year to 31 March 2023, **Halma** (-5.5%) saw some compression in margins which restricted adjusted profit before tax growth to 14% (to £361m). Some of its divisions experienced supply chain disruption in the second half of the year, but these are expected to ease in the new financial year.

Positive contributors included:

Indivior (+25%), Paypoint (+25%), Brooks Macdonald Group (+16%), TI Fluid Systems (+12%) and Sage Group (+7.0%).

Negative contributors included:

Synthomer (-19%), Next 15 (-8.7%), PageGroup (-7.7%), Savills (-6.5%) and Halma (-5.5%).

Discrete years' performance (%) , to previous quarter-end:**

Past performance does not predict future returns

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust UK Growth I Inc	5.4%	1.7%	18.0%	-10.2%	2.9%
FTSE All Share	7.9%	1.6%	21.5%	-13.0%	0.6%
IA UK All Companies	6.2%	-8.5%	27.7%	-11.0%	-2.2%
Quartile	3	1	4	2	1

*Source: Financial Express, as at 30.06.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.06.23, 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.

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