



## Liontrust UK Smaller Companies Fund

### June 2023 review

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**The Liontrust UK Smaller Companies Fund returned -2.3%\* in June. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 0.4% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.3%.**

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 13<sup>th</sup> 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.

Although the Fund is unavoidably affected by shifts in sentiment towards small caps, we believe many of our companies can already be considered genuinely global businesses, with all the benefits of geographic diversification and growth runway which that entails. Data from Factset estimates the portfolio's overseas sales exposure to be over 50%, which compares with 35% for the FTSE Small Cap ex-investment trust benchmark and 77% for the large-cap dominated FTSE All Share benchmark.

One of the themes we consistently highlight in our investment commentaries for the Economic Advantage funds is the frequency with which its holdings – and the intangible barriers to competition the Economic Advantage process seeks out – have proven attractive to acquirers. **Alfa Financial Software** (+21%) was the latest holding to draw out bid interest; the company responded to press speculation by confirming it had received several offer proposals from Swedish private equity investor EQT, the latest pitched at 208p a share.

Specialist sustainable investment manager **Impax Asset Management** (-19%) reported an increase in assets under management to £40.1bn after £1.1bn of net inflows in the six months to 31 March and a £3.3bn positive impact from market movements and investment performance. While revenues of £88.0m were up compared with the prior six months, they were a little below the level achieved in the equivalent period a year earlier. Combined with increased costs from investments in people and systems, adjusted operating profit dropped by 20% year-on-year to £27.3m. Impax expects market volatility to persist while inflation is elevated and the interest rate outlook uncertain, but it believes companies with structural growth drivers relating to sustainability will continue to present attractive investment opportunities.

Having issued a very positive full-year trading update in January which raised revenue guidance, shares in **Learning Technologies Group** (-16%) have since struggled for momentum. Subsequent full-year results in April

noted a more challenging macro environment and forecast high single-digit growth in operating profit, below the pace some investors expected. In June, the workplace digital learning and talent management group issued a short AGM statement which reiterated its assessment of a difficult macroeconomic backdrop and referred to “moderate business development”.

While the company’s short-term outlook has been underwhelming for some, we think its longer-term prospects remain attractive. Learning Technologies provides a turnkey solution for clients in the creation, implementation, maintenance and measurement of their learning and talent management strategies. Having listed on AIM in 2013, the company has a long and successful history of acquiring and integrating smaller businesses into its global offering. In May 2020, the company raised around £80 million to take advantage of further acquisition opportunities from the pandemic and has since completed several acquisitions, including the £370m deal for GP Strategies in 2021.

**Positive contributors included:**

Alfa Financial Software (+21%), Kitwave Group (+16%), Brooks Macdonald Group (+16%), FRP Advisory (+14%) and EKF Diagnostics (+12%).

**Negative contributors included:**

Impax Asset Management (-19%), Mortgage Advice Bureau (-16%), Learning Technologies Group (-16%), Bango (-16%) and Smart Metering Systems (-13%).

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

***Past performance does not predict future return***

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust UK Smaller Companies I Inc	-5.3%	-18.4%	46.7%	1.9%	2.3%
FTSE Small Cap ex ITs	-0.3%	-14.6%	65.2%	-12.3%	-8.6%
IA UK Smaller Companies	-5.5%	-22.1%	53.1%	-6.5%	-6.2%
Quartile	2	2	3	1	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>

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**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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