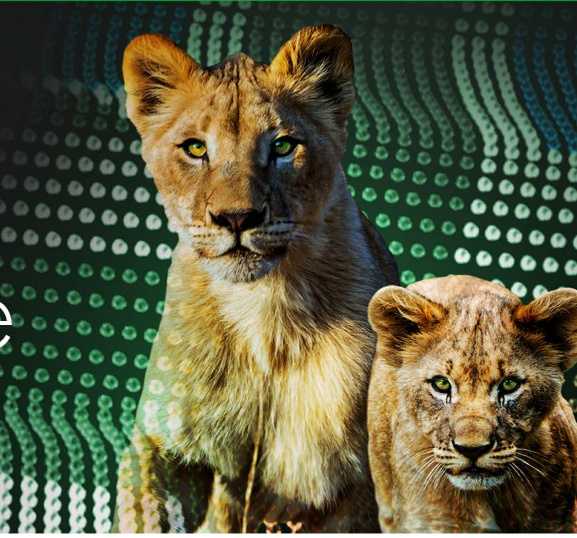

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Economic Advantage

June 2024 review

Liontrust UK Smaller Companies Fund

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The Liontrust UK Smaller Companies Fund returned -2.8%* in June. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned -1.5% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -1.7%.

Having set another all-time high in May, the FTSE All-Share index gave back some ground during June, with materials (-4.5%), health care (-2.9%) and consumer discretionary (-2.7%) sectors among the weak spots.

However, index returns remain positive over Q2 (+3.7%) and year-to-date (+6.7%), reflective of improving sentiment towards UK equities as inflation returns to target while economic growth remains positive; we think July's removal of election uncertainty should also allow investors to look towards the likelihood of upcoming policy catalysts for the UK stockmarket.

Most of our fund commentaries see a spread of short-term 'winners' and 'losers' as portfolio holdings experience the inevitable short-term successes or headwinds in their pursuit of the longer-term capital growth potential for which we hold them.

While June saw the balance of share price moves tip into negative territory for the Fund, the managers continue to believe the broader picture for the portfolio is one of trading resilience, amid subdued macroeconomic conditions. While there have been signs in 2024 of an improvement in sentiment towards UK smaller companies, there is still a lot of pessimism reflected in share prices, particularly for AIM-listed shares.

Shares of **YouGov** (-59%) were punished after the company issued an unscheduled profit warning. When reporting interim results in March, the research data and analytics group had noted Q1 was slower than expected with sales cycles remaining long, but that momentum had accelerated in Q2, giving it confidence in meetings its prior full-year sales guidance. Since then, YouGov has experienced weaker performance than anticipated, with a slowdown in the Data Products division affecting revenue and having an outsized impact on profits given the higher margin profile of the business. Fast turnaround research services also declined, while – although the recently-acquired Consumer Panel Services business is said to be performing well – some revenues have shifted into next year due to alignment of revenue recognition policies. Notwithstanding the broader attractions of YouGov's business (an extensive and high-quality global panel and proprietary datasets), it will take time to rebuild market confidence.

Next 15 Group (-22%) also slid in the wake of a trading update, although this one maintained full-year financial guidance. The data-driven marketing and digital transformation consultancy commented that the macro environment remains tough, with political uncertainty leading to some delays on government contracts. It also flagged that spending across large US technology clients remains soft. However, Next 15 has reiterated guidance as it approaches the second half of its financial year (running to 31 January) – a period which historically captures a larger proportion of business each year.

There was a much more positive investor response to updates from RWS Holdings (+9.3%), Eckoh (+15%) and Tatton Asset Management (+9.0%).

RWS Holdings built on the upbeat tone of its April trading statement within its interim results. As already flagged, the revenue trend improved to a 4% year-on-year contraction, better than the -5% and -7% respectively in the first and second half of its prior financial year. The intellectual property support services provider has been experiencing macro-related delays in decision-making among some customers. Its shares also suffered from market concerns about the impact of generative AI models. However, RWS itself has been much more confident in its ability to integrate AI into its portfolio of services. More than a quarter of revenues in the first half of 2024 were AI-related: either through AI products such as Language Weaver and TrainAI or from localisation services which were machine-trained initially.

It was a similar story at Eckoh (+15%), the provider of secure payment products and customer contact solutions. A May trading update outlined how its transition to cloud-based delivery of products is tempering growth in the short term but having a positive impact on recurring revenues, raising the visibility of its earnings. The full-year results (to 31 March), released during the month, showed the expected 4% decline in revenue to £37.2m, while adjusted operating profit – as flagged in the trading update – was marginally ahead of forecasts at £8.3 million. Its outlook statement was incrementally more positive: it has seen over £8m of contracted business signed so far, and it expects new business from existing clients to grow significantly due to an enhanced product set and the increase in interest for contact centre AI bots.

Tatton Asset Management (+9.0%) recorded 14% revenue growth in the year to 31 March as assets under management increased by 27% to £17.6bn. While rising market values added £1.5bn to the assets total, the majority of growth came from £2.3bn of organic net inflows – a record for Tatton. Since financial year end, assets have risen further to £18.6bn and Tatton has set itself a new growth target of £30bn by the end of 2029.

Positive contributors included:

Eckoh (+15%), RWS Holdings (+9.3%), Tatton Asset Management (+9.0%), Tristel (+9.0%) and Netcall (+7.6%).

Negative contributors included:

YouGov (-59%), Next 15 Group (-22%), Team 17 (-12%), Impax Asset Management (-12%) and Judges Scientific (-10%).

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust UK Smaller Companies I Inc	11.0%	-5.3%	-18.4%	46.7%	1.9%
FTSE Small Cap ex ITs	18.5%	-0.3%	-14.6%	65.2%	-12.3%
IA UK Smaller Companies	14.1%	-5.5%	-22.1%	53.1%	-6.5%
Quartile	4	2	2	3	1

*Source: Financial Express, as at 30.06.24, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 30.06.24, 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/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

Disclaimer