Liontrust UK Smaller Companies Fund

June 2022 review

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

The Liontrust UK Smaller Companies Fund returned -8.2%* in June. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned -8.0% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -8.8%.

The UK market suffered its worst monthly fall of 2022 so far as investors increasingly viewed aggressive central bank action on inflation as likely to tip the economy into recession.

While the FTSE All-Share Index's total return is -4.6% year-to-date (and -6.4% in price terms), several other global equity indices – including the S&P500 – are close to, or below, the 20% drop which is often used to arbitrarily define a bear market.

In this risk-off environment, the more defensive areas of the UK market such as healthcare (+2.0%), telecoms (+0.1%) and consumer staples (-2.0%) were the most resilient. This year's trend of large-cap outperformance was also extended: the FTSE 100's -5.5% return takes its year-to-date performance to -1.0%, but the FTSE 250 returned -8.3%, taking it to -19.4% for 2022, with its price drop of 20.5% sitting the wrong side of that bear market line. The FTSE Small Cap ex-IT and FTSE AIM Index stats year-to-date returns are -16.4% and -27.4% respectively.

We've previously commented that the volatile macro backdrop has created an environment in which companies have been de-rated without any newsflow catalyst, while earnings 'misses' and other corporate disappointments have often been met by quite an exaggerated share price reaction. This was the case again in June. **YouGov** (-37%), **OnTheBeach Group** (-30%), **Alpha FX** (-25%) were among those to suffer a heavy de-rating without issuing any significant corporate news.

IntegraFin Holdings (-25%) shares continued to slide following last month's interims, which had flagged the impact of cost increases in diluting earnings growth. Sentiment was further dented by the notification that one of its divisions has been deemed liable for backdated VAT of almost £10m.

Despite reporting a 64% increase in adjusted operating profit and £2.5bn net inflow (to £38.0bn) over the six months to 31 March, **Impax Asset Management** (-25%) fell victim to softening sentiment towards sustainable investment strategies following a period of underperformance against value-oriented strategies in 2022.

In more positive news**, Netcall** (+27%) announced that a recent contract win has put it on track to exceed expectations for earnings in the year to June 2023. The customer engagement software group's Liberty platform will be used by a S&P500 constituent over an initial three-year contract. The contract value of $19m is very significant in the context of Netcall's annual sales, which for the year to June 2022 are estimated to be around £30m.

Bango (+8.0%) also moved higher on contract news. It has signed an unnamed partner up to its carrier billing and bundling services platform for app store payments and subscriptions – which by a process of elimination was widely thought to be Apple, given they were the one large "leading, multinational technology company" who had not previously appeared on Bango's customer list. While Bango says this won't have a significant effect on 2022 revenues and profits, it is reviewing the impact on future years to see if guidance should be upgraded.

A trading update from videogame developer **Frontier Developments** (+11%) detailed 26% revenue growth to £114m in the year to 31 May. Following initial slower-than-expected sales of its *Jurassic World Evolution 2* game due to a crowded Christmas 2021 release window, the game has gone on to exceed 1.3 million units sold. This success has compensated for disappointing releases such as *Elite Dangerous: Odyssey*, allowing Frontier to state its confidence in hitting analyst consensus forecasts for the next financial year.

Infrastructure and private equity manager **Foresight Group** (+7.0%) announced the acquisition of the technology ventures division of Downing for a consideration of up to £17.8m. The deal includes venture capital trusts and enterprise investment schemes with assets of around £275m, pushing Foresight's total assets under management to over £9bn. Foresight completed its initial public offering to the UK stockmarket last year and is targeting 20% - 25% annual growth in AUM; acquisitions will be a core part of this growth. The stock is held in the Fund on the strength of its management fee recurring revenues, which the fund managers believe represent a significant intangible asset.

The position in **Ideagen** was sold as the £1bn+ acquisition by HgCapital neared completion, having been agreed in May**.**

A new position was added in **Ergomed**, a global contract research organisation employing over 1400 staff across 140 countries. An expert in providing fully outsourced drug trials to speciality pharma and biotech clients, with specialisms in oncology and rare diseases, it also boasts one of the largest qualified teams of pharmacovigilance professionals globally, helping clients manage the risks around portfolios of approved drugs. The fund managers believe its key intangible asset rests in its distribution network, which is large enough to provide it with global scale but small enough for it to forge close customer partnerships, particularly in the niches of the market in which it operates.

Positive contributors included:
Craneware (+31%), Netcall (+27%), Frontier Developments (+11%), Bango (+8.0%) and Foresight Group (+7.0%).

Negative contributors included:
YouGov (-37%), OnTheBeach Group (-30%), Integrafin Holdings (-25%), Alpha FX (-25%) and Impax Asset Management (-25%).

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust UK Smaller Companies I Inc	-18.4%	46.7%	1.9%	2.3%	18.7%
FTSE Small Cap ex ITs	-14.6%	65.2%	-12.3%	-8.6%	6.4%
IA UK Smaller Companies	-22.1%	53.1%	-6.5%	-6.2%	17.2%
Quartile	2	3	1	1	2

*Source: Financial Express, as at 30.06.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 30.06.22, 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