Liontrust UK Smaller Companies Fund

July 2022 review

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The Liontrust UK Smaller Companies Fund returned 6.2%* in July. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned 3.5% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was 4.8%.

Following the worst monthly return of 2022 in June, the UK market bounced back with its best showing so far this year. With little change to the main macroeconomic narrative of monetary policy tightening in the face of inflationary pressures, it's hard to pinpoint a reason for the shift. Many of last month's key trends reversed: the FTSE 250 (+8.3%) significantly outperformed the FTSE 100 (+4.4%) and industrials (+11.2%) moved from one of the heaviest fallers to July's best-performing sector.

This year so far has seen a de-rating of stocks with high expected growth profiles and commensurate 'expensive' conventional share valuations. Much of this trend, which has impacted the Fund, has been driven by shifts in investor sentiment in response to macroeconomic conditions rather than stock-specific newsflow. We have previously commented that, while many of our holdings acknowledge strengthening economic headwinds (such as cost inflation and falling consumer confidence), most have so far proven resilient in their underlying trading. There were lots of company updates for us to digest in July, many of which were trading statements covering the first half of 2022. On the whole, these were supportive of our assessment that Fund holdings are showing good trading resilience amid a deteriorating economic environment.

Dotdigital (+41%) was the Fund's largest riser. Shares in the company had fallen heavily in March as it warned of a post-lockdown unwinding of customer buying behaviour as well as tight labour market conditions in the US. In July, the omnichannel marketing automation specialist announced that revenue for the year to 30 June grew 8% to £62.8m, while adjusted earnings are expected to be ahead of market expectations. Dotdigital says it continued to see an acceleration in the shift towards digital marketing across industries, with the company experiencing an particularly strong performance in the final quarter of the year which, so far, has carried over to the new year. The company also commented it has now addressed the challenges from earlier in the year; specifically, it has now hired a senior management team to execute its North American expansion plans.

YouGov (+27%) also made strong gains after a trading update for the year to 31 July reassured that results will be in line with the company's expectations, with underlying growth across all divisions and geographies. The market research and analytics group commented that it is yet to see any significant adverse impact on client behaviour, but is very aware of the impact that macroeconomic uncertainties could have on business.

In the first half of 2022, **JTC** (+26%) delivered net organic growth revenue growth within its target range of 8% to 10%, driven by a record level of new business wins of £12.8m (up 22% year-on-year). JTC provides a range of services to the financial industry, including fund administration. Its trading update also stated that JTC had a new business pipeline of £53m at the end of the year, and commented that it entered the new financial year enjoying momentum from a particularly strong trading performance in June.

Learning Technologies (+19%) moved higher as its interim trading update gave a positive assessment of the integration of GP Strategies – a £284m acquisition last year. So far, the acquired business is integrating well, with margin improvements and organic revenue growth ahead of management's expectations. The acquisition has been transformative, accounting for the bulk of an interim revenue increase to £280m from £82.6m last year, but organic growth has also been steady at 5%.

The robust tenor of updates also extended to some of the Fund's negative performers in June. **Midwich Group** (-11%), for example, slid despite including a small upgrade to guidance within its interim trading update. The specialist on-trade audio-visual equipment distributor generated interim revenue of at least £560m, a year-on-year increase of 45%, and adjusted profit before tax of over £19m, a 50% rise. Organic revenue growth contributed 27 percentage points, with the remainder coming from its two recently acquired businesses: Nimans and DVS. The period saw a partial return of live and in-person events, a trend which, if continued, should boost gross margins from their current levels of 15%. As a result of the good momentum seen in the first half of the year, Midwich has slightly upgraded its full-year expectations.

Revenue in the first half of 2022 was in line with **Attraqt Group's** (-18%) expectations at £12.1m, with sales momentum seeing its contract win rate improve. However, its trading update also included cautious outlook comments. The ecommerce online search specialist expects the deteriorating outlook for consumer-facing businesses to delay some customer decisions and lead times on enterprise sales to lengthen.

FRP Advisory (-8.8%) issued in-line results. A 21% revenue increase to £95m was roughly equally split between acquisitive and organic growth. The company says that merger & acquisition activity in the UK mid-market remains high, helping underpin an "excellent" pipeline of demand for its corporate finance services. The removal of government economic support for businesses, as well as inflationary pressures and other macro headwinds, has also an increase in demand for its restructuring advisory services.

The position in **Medica** was sold as a consequence of its senior management equity ownership falling below the 3% threshold level required of all smaller companies held under the Economic Advantage process.

Positive contributors included:
Dotdigital (+41%), YouGov (+27%), JTC (+26%), Kainos Group (+23%) and Learning Technologies (+19%).

Negative contributors included:
On The Beach (-22%), Attraqt Group (-18%), Midwich Group (-11%), Keystone Law (-9.1%) and FRP Advisory (-8.8%).

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 31.07.22, 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.

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