



Liontrust UK Growth Fund

December 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust UK Growth Fund returned -1.5%* in December. The FTSE All-Share Index comparator benchmark returned -1.4% and the average return in the IA UK All Companies sector, also a comparator benchmark, was -1.2%.

The FTSE All-Share Index's December decline took it close to a flat return for 2022 as a whole, registering a small 0.3% total return. In capital terms, stripping out the benefit of dividend income, the index fell 3.2%. As we observed a few times during the year, there was a large divergence in returns to different size segments of the market: the FTSE 100 total return for 2022 was 4.7%, but the mid-cap FTSE 250 lost 17.4% and the Small Cap index dropped 13.6%.

A slowing in the pace of US consumer price inflation in November to 7.1% – the lowest level in a year and below the 7.3% forecast – raised hopes of a US Federal Reserve pivot to less hawkish policy in 2023. However, as it lifted interest rates by 50 basis points to 4.25% - 4.5%, the US central bank issued forecasts of rates peaking at 5.1%, with no cuts projected until 2024.

Unfortunately, the Fund's biggest share price move in December was a negative one, as **Moonpig** (-31%) concluded a tough year with a heavy fall. The cost-of-living crisis has weighed on its shares for much of 2022 as investors fret over its exposure to weakening consumption. Interim results will have heightened these concerns after the online cards and gifts platform reported that new customer acquisition has decreased while customers have also traded down to cheaper gifts. In the six months to 31 October, Moonpig's revenue was flat at £143m, while adjusted profit before tax dropped 22% to £18.9m. Due to a deterioration in trading conditions in October and November, the company also downgraded its 2023 revenue guidance from £350m to £320m, although it maintains its EBITDA target as it plans cutbacks to marketing spending.

Elsewhere within the portfolio, company newsflow was more constructive. Intellectual property services group **RWS Holdings** (+14%) moved higher on the back of full-year results that were slightly ahead of expectations and included robust 2023 outlook comments. In the year to 30 September the company recorded 17% growth in adjusted profit before tax to £136m. While it is mindful of a challenging global economic backdrop, it expects to meet next year's consensus expectations for revenues of around £782m and adjusted operating profit of about £134m.

Indivior (+9.3%) provided upbeat comments at a capital markets day, including upgrades to its medium-term growth targets. Growth at the pharmaceutical company is being driven by its *Sublocade* opioid addiction treatment, which is compensating for the sales decline of its generic-threatened *Suboxone* film. Recent sales strength for *Sublocade* has surprised Indivior, prompting it in October to upgrade its 2022 revenue guidance from \$840m - \$900m to \$890m - \$915m. In its latest update, it forecast that annual revenues for *Sublocade* will hit \$1bn by the end of 2025 and it has now raised its peak revenue target from \$1bn to over \$1.5bn. As a result, it expects to achieve double-digit percentage annual growth in net revenue over the medium term. It also expects operating margins to improve.

Chemicals supplier **Synthomer** (+8.3%) made progress in its strategy to narrow its product focus, announcing the proposed sale of its laminates, films and coated fabrics businesses for an enterprise value of £208m. Net proceeds of £199m will be used to deleverage its balance sheet.

Bunzl (-9.5%) shares slid at the start of the month following a broker rating downgrade. It later released a fairly robust update on trading. The company, which specialises in procurement and distribution of everyday items, grew revenues by 10% at constant exchange rates, boosted by inflation and the impact of acquisitions. It now expects adjusted operating margins to be slightly ahead of its prior guidance.

Following last month's surprise resignation of CEO Sami Iskander (who was only appointed in 2021), we reviewed our holding in **Petrofac**, ultimately concluding that the strategic risks associated with it had become too great relative to the business's positive Economic Advantage characteristics.

Positive contributors included:

Haleon (+15%), RWS Holdings (+14%), Indivior (+9.3%), Synthomer (+8.3%) and WH Smith (+5.1%).

Negative contributors included:

Moonpig Group (-31%), Savills (-13%), Bunzl (-9.5%), Halma (-8.8%) and Sage Group (-6.4%).

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

Past performance does not predict future returns

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust UK Growth I Inc	-1.1%	21.0%	-8.3%	19.9%	-6.1%
FTSE All Share	0.3%	18.3%	-9.8%	19.2%	-9.5%
IA UK All Companies	-9.1%	17.2%	-6.0%	22.2%	-11.2%
Quartile	2	1	3	3	1

*Source: Financial Express, as at 31.12.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 31.12.22, 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.

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