



## Liontrust UK Growth Fund

### January 2023 review

Fund managers: Anthony Cross and Julian Fosh

**The Liontrust UK Growth Fund returned 1.2%\* in January. The FTSE All-Share Index comparator benchmark returned 4.5% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 4.5%.**

Equity markets started 2023 strongly, helped by expectations for a softer landing and fewer interest rate rises.

Although rhetoric from central bankers remained hawkish, futures pricing suggests investors expected – in the US at least – a slightly lower rates peak, followed by rate cuts later this year. Expectations for a June 2023 peak rate began to move below 5%, while the implied rate in a year's time fell towards 4.25%.

The IMF's latest economic forecasts for 2023 global economic growth were revised up from 2.7% (in October last year) to 3.2%, although it expects the UK to slide into recession after cutting its forecast from 0.2% growth to a 0.5% contraction. The IMF observed that global growth has proven "surprisingly resilient".

On the UK stockmarket, rejuvenated risk appetite saw cyclical sectors lead the market higher. Consumer discretionary (+11%) was the FTSE All-Share's best-performing sector, followed by financials (+9.2%). Real estate (+8%) was another area of strength.

Within this environment, the Fund's top riser was global multi-platform media company **Future** (+19%), which did not itself release any investor updates in January. **Savills** (+18%) was one of the top contributors that did update the market. Alongside other real estate-related businesses, Savills' share price in 2022 reflected the mounting headwinds facing the property market, most notably the rapid move higher in interest rates. It was no surprise then that the shares moved higher in January as it commented it had performed ahead of its expectations for the year and well ahead of the 2019 pre-Covid comparable. Commercial transaction volumes have been hit by the large rise in cost of debt finance, but this was mitigated by unexpected strength in the prime residential market. Outside of London, Savills expects volumes to normalise in 2023 from the abnormally high post-lockdown levels it has seen but expects the London prime market to benefit from its international nature and lower dependence on mortgage finance. **Rightmove** (+15%) also rose amid the improved sentiment towards property stocks.

Other Fund risers included **IMI** (+12%) and **Coats Group** (+10%) but the Fund ultimately had too little cyclical exposure to keep pace with the UK market's sharp bounce. In particular, its low weight to financials was a source of negative attribution, with the banks (+15%) sub-sector rising very strongly.

We believe that the Fund is invested in companies which are dependable, consistent businesses in possession of barriers to competition which give them pricing power. The Fund can sometimes lag the market during periods of sharp recovery when investors re-rate more cyclical businesses, as it did this month. But we expect it to outperform over the course of the cycle, and particularly in more normalised, 'steady state' market conditions where companies are rewarded by investors for delivery of expectations.

The Fund's weakest position in January was **TI Fluid Systems** (-11%). Between its Q3 trading update and full-year 2022 update, expectations for constant currency revenue growth slipped from "consistent with, or slightly below" global light vehicle production growth (of 6.2%) to 100 basis points below. Some of the deterioration is attributable to a negative sales impact from unexpected production shutdowns in China due to its Covid policies.

Other detractors included more defensive names like **British American Tobacco** (-5.7%), **AstraZeneca** (-5.6%), **Diageo** (-3.6%) and **Unilever** (-1.8%). Of these, Diageo is the only one to have given investors any cause for disappointment. Its interims showed a 18% sales increase to £9.4bn in the six months to 31 December, including organic growth of 9.4%. Organic volume growth was 2%, while price/mix contributed 7.6 percentage points. Although all its operating regions delivered net sales growth (+3%), investors were concerned that North America only did so through price increases; it saw a 4% contraction in organic sales. Diageo also commented that it expected the normalisation in organic sales growth – compared with last year’s double-digit levels – to continue through the second half of its financial year.

**Positive contributors included:**

Future (+19%), Savills (+18%), Rightmove (+15%), IMI (+12%) and Coats Group (+10%).

**Negative contributors included:**

TI Fluid Systems (-11%), British American Tobacco (-5.7%), AstraZeneca (-5.6%), Diageo (-3.6%) and Unilever (-1.8%).

**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 31.01.23, 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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