



Liontrust SF UK Growth Fund: Q1 2023 review

Fund managers: Peter Michaelis and Martyn Jones

The Fund returned -0.1% over the quarter, underperforming the IA UK All Companies sector average of 2.6% and the 3.2% return from the MSCI UK Index (both of which are comparator benchmarks)*†.

Global equities started 2023 on a strong footing as signs of easing inflation in most major economies and China's re-opening supported positive market sentiment. However, sentiment turned in February as resilient economic data suggested that any pause in interest rate rises may still be some way off, with the Federal Reserve, European Central Bank and Bank of England all continuing with rate rises. The collapse of Silicon Valley Bank (SVB) in March led to a major sell-off in the US and European financial sectors, though this market turbulence was short-lived and did not prevent investor optimism leading equities higher towards the end of the quarter.

As we have stated previously, we do not attempt to forecast or anticipate the macroeconomic developments we have experienced in the last two years. Our focus is resolutely on our 20 sustainability themes that over the long-term should provide strong and stable growth, relatively independent of economic cycles, and on finding those rare companies that harness this positive growth and generate persistently high returns on capital. In the more muted economic years we expect to have ahead of us, we believe the strength of our sustainable themes and the quality of the businesses we invest in will allow for strong performance over the long-term.

3i Group was among the notable contributors to the Fund after posting a positive Q3 performance update. The private equity company, exposed to our *Increasing financial resilience* theme, invests predominantly in retail, infrastructure, healthcare, technology and industrial companies. It announced a 26.8% total return for the nine months to 31 December 2022. Discount retailer Action was again one of the company's top performing holdings, more than doubling its earnings before interest, tax, depreciation and amortisation over the three years since the start of the Covid-19 pandemic. In addition, the company also noted strong performance from AES, following high demand in the global seal market, and from Royal Sanders, which continued to generate strong sales from existing customers.

Mortgage Advice Bureau was another strong performer over the quarter following the release of full-year results showing a 22% increase in revenue to £231m, alongside a 24% rise in gross profit to £62.9m. Exposed to our *Saving for the future* theme, MAB had been on track for a record year of growth prior to the UK's mini-budget announcement in September, which subsequently caused a significant fall in the company's share price. As expected, adviser numbers fell in Q1 to 2,129, though the company expects this figure to stabilise in Q2 and it commented that current trading in its new financial year has been in line with expectations.

While there was no significant investor news related to the stock's performance, First Derivates (FD) Technologies was also among the top performers over the quarter. Exposed to our theme of *Improving the resource efficiency of industrial and agricultural processes*, FD is a leading provider of products and consulting services to some of the world's largest finance, technology and energy institutions.

The online world and the proliferation of sensors in all areas of economic and social activity is driving an explosion in data generation, but this data is only useful if it is captured and managed so that it can be analysed effectively. First Derivates has the leading database software for time-series databases: information where the time of the event is critical. FD's architecture can deliver a 10-20x reduction in the number of servers needed for a task and 100x improvement in speed and commensurate reductions in energy consumption.

Learning Technology Group also performed strongly through the quarter following the release of a full-year trading update in January. Held under our theme of *Providing education*, LTG is a software and consulting business operating in the professional education market. Its e-learning products operate via the software-as-a-service model, serving a broad range of industries including the public sector, finance, media, and manufacturing. In its update, LTG attributed the strong performance to achieving target margin improvements at GP Strategies – which it acquired in October 2021. Most significantly, the company upgraded revenue guidance no less than £595m, ahead of consensus estimates.

In terms of detractors, shares in investment company Molten Ventures fell over the quarter. Molten Ventures provides early-stage capital and backing for entrepreneurial companies linked to *improving resource efficiency in industrial processes, increasing financial resilience, and innovation in healthcare*. It tends to nurture companies until initial public offer or private sale at which point it realises its investment and recycles into new ventures. It helps to channel capital to back the creation of innovative businesses which make our world cleaner, healthier and safer. It is therefore aligned with the themes of *Increasing Financial resilience*.

The Gym Group’s share price fell sharply following the release of its annual results in March which included cautious 2023 outlook comments. Exposed to our *Enabling healthier lifestyles* theme, the UK’s second largest gym group indicated that rising costs are likely to offset revenue improvements from new sites and yield improvements on its existing gyms. The company has experienced an uneven start to 2023 compared to its expectations, with membership at the end of February of 890,000, up 8.4% from the end of 2022. In addition, the company believes that it will take longer to return to pre Covid-19 levels as a result of both the changes to consumers’ everyday lifestyles and current macroeconomic headwinds. As a result, it is reducing the number of new gyms its plans to open this year.

Also among the detractors was life sciences company Abcam after a 2022 trading update outlined revenue of around £360m, missing average analyst consensus. The company cited Covid-19 restrictions in China as well as disruption from its implementation of a new enterprise resource planning system in Q4.

Held under our *Enabling innovation in healthcare* theme, Abcam provides high quality research tools to enable the progression of life science research. By continually refining its product portfolio to be the highest quality, Abcam ensures scientists get the best out of their research work. It also provides supporting documentation and guidance to ensure it is used and interpreted correctly. This ensures that the original researcher and others then know they and others can trust the validity of the insights gained.

In terms of portfolio activity, we initiated a position in medical products and technologies company Convatec. Held under our *Enabling innovation in healthcare* theme, Convatec manufactures medical devices for people living with and managing chronic disease. Its mission is to pioneer trusted medical solutions to improve lives.

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Sustainable Future UK Growth 2 Acc	-12.7%	-8.0%	42.6%	-9.2%	6.9%
MSCI UK	5.6%	19.1%	20.0%	-19.1%	7.6%
IA UK All Companies	-1.9%	5.4%	38.0%	-19.2%	2.9%
Quartile	4	4	2	1	1

*Source: FE Analytics, as at 31.03.23, primary share class, total return, net of fees and income reinvested.

For a comprehensive list of common financial words and terms, see our glossary at:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks and Disclaimer

†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. Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. Issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business. **This is a marketing communication.** This document should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. It contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. While care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust. Always research your own investments and if you are not a professional investor, please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. [23/256]