Liontrust UK Ethical Fund: Q1 2023 review

Fund managers: Peter Michaelis and Martyn Jones

The Fund returned -0.2% over the quarter, underperforming the IA UK All Companies sector average of 2.6% and the MSCI UK Index's 3.2% (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 which 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.

Within the Fund, Mortgage Advice Bureau was a notable positive 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 Derivatives 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.

Softcat performed strongly into the close of the quarter following a half-year update which announced operating profit was ahead of initial expectations, with full-year profits also on track to be slightly ahead of previous estimates. Exposed to our *Enhancing digital security* theme, Softcat is the UK's leading value-added reseller of IT software and equipment serving the fragmented SME market. The company's competitive advantage is based on its unique culture, which emphasises professionalism, meritocracy, competition and fun. This employee satisfaction drives best-in-class customer experience, high recurring revenues and rapidly increasing market share.

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.

Furniture retailer DFS was also among the detractors after lowering its annual profit forecast in its interim results announcement. Exposed to our *Leading ESG management* theme, DFS is the UK's largest sofa retailer with around 36% market share; it is the biggest in both online and in-store sales with an omni-channel experience. The company explained that profits are expected to be impacted due to a reduction in orders for its made-to-order sofas and arm chairs in recent weeks as customers spend less on discretionary items amid a cost-of-living crisis.

In terms of its sustainability credentials, DFS has become the industry leader in environmental and social performance – the company is beginning to use its scale advantage to push for higher standards in raw material procurement, supply chain labour standards and customer experience. We believe this should support market share gains.

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 UK Ethical 2 Acc	-14.5%	-7.7%	45.2%	-7.6%	6.6%
MSCI UK Index	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	1	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:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

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