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February 2024 review

Liontrust GF UK Growth Fund

Anthony Cross
Head of Economic Advantage

Julian Fosh
Fund Manager

Matt Tonge
Fund Manager

Victoria Stevens
Fund Manager

The Liontrust GF UK Growth Fund returned 0.5%* in February. The Fund's comparator benchmark, the FTSE All-Share, returned 0.2%.

The UK market's lack of impetus in February coincided with the official confirmation that the UK entered a technical recession at the end of 2023 – a fate that is yet to befall the US despite being expected to arrive for most of the last year. However, investors and therefore share prices are famously forward looking, and none of this year's lack of stock market direction is attributable to last year's economic contraction, which is both minimal in scale (-0.3% in Q3 and -0.1% in Q4) and very much in the rear-view mirror.

Instead, expectations regarding the future direction of interest rates once again seem largely responsible, with the late-2023 confidence in imminent rate cuts starting to ebb away under pressure from stubbornly high inflation readings.

It was a quieter month for portfolio news flow than January, but there were still plenty of company updates for us to stay abreast of.

Indivior's (+23%) remarkable five-year share price run was dented late last year as a downgrade in guidance for *Perseris*, one of its smaller treatments, took the shine off the ongoing rapid growth of its *Sublocade* treatment for opioid addiction. However, the February release of 2023 full-year results helped the shares regain this lost ground. The pharma group recorded 21% net revenue growth to $1.09 billion over the year, led by 54% growth in *Sublocade* sales to $630 million, the top end of Indivior's guidance range. For 2024, Indivior expects around 18% net revenue growth, with *Sublocade* rising 35% to a $820 million to $880 million range – within sight of the 'blockbuster' status reserved for drugs exceeding $1 billion in annual sales.

Renishaw (+23%) supplies its high-tech precision measuring and calibration equipment to a range of industrial end-markets, giving it unavoidably cyclical demand. While its interim results for the second half of 2024 showed a continuation of weak demand from key areas such as the semiconductor sector, a more upbeat outlook resulted in a number of broker upgrades to estimates and gave the shares some impetus. In the six months to 31

December, Renishaw saw revenues decline 5% to £331 million and adjusted profit before tax fall 23% to £57 million. It expects market conditions to improve in the first half of 2024, allowing it to target a full-year revenue range of £675 million to £715 million and adjusted profit before tax of between £122 million and £147 million.

GSK (+7.2%) released 2023 full-year results on the last day of January, which drove share price gains in the early part of February. The pharma group recorded 5% sales growth in 2023 in constant currency terms and a 10% increase in operating profit, but it was outlook comments which lifted investor spirits. For the 2021 to 2026 period, GSK has upgraded its annual sales growth target from 5% to more than 7% and its adjusted operating profit forecast from over 10% to over 11%. It now expects sales to hit £38 billion by 2031, £5 billion more than it forecast back in 2021. This upbeat outlook is underpinned by the recent strength of its vaccines division; vaccine sales rose 25% in 2023, including 29% in the final quarter. The standout drug was *Arexvy*, a treatment for respiratory syncytial virus which notched £1.2 billion despite so far only being available in the US from part-way through the year.

Reckitt Benckiser (-12%) shares fell due to a surprise decline in Q4 sales. The consumer goods group released 2023 results showing 3.5% like-for-like revenue growth to £14.6 billion but a 1.2% fall in the final quarter. Its nutrition unit experienced a 15% decline in the final quarter, partly due to the voluntary recall of its Nutramigen baby formula, while health division sales slid 2%, which the company cited on the timing of the cold and flu season. Additionally, there was a £55 million hit to net revenues from accounting irregularities in two of its Middle Eastern markets. While the company has maintained its 2024 growth targets (+2% to 4%), it starts the year from a lower sales base due to the Q4 shortfall, meaning that analysts have trimmed their 2024 forecasts.

Future (-14%) shares lost some ground after commenting that trading in the four months to 31 January had been only "broadly" in-line with its targets, with a slow start to its year in affiliate products and digital advertising offset by a better performance from price comparison and B2B.

Meanwhile, RELX (+6.1%) shares continued their steady march higher as a full-year 2023 results release showed more evidence of strong growth. In recent years, RELX has executed a transformative business shift from publishing to information and analytics. This led it to state last year that its long-term growth trajectory for revenue and profits had seen a step-change to exceed their historical averages. Underlying revenue growth in 2023 was 8% to a total of £8.6 billion, with adjusted operating profit growing 13% to £3.0 billion.

RELX shares have been boosted over the past year by investor enthusiasm about its ability to tap into the AI opportunity, both via ownership of valuable proprietary datasets and via product innovation. An example of the latter in action has been the company's 'Lexis+ AI' generative AI product for the legal sector, which is already gaining commercial traction and aims to vastly improve efficiency and productivity for law firm customers by automating drafting, summarising, research and analysis.

Shares in Sage (+5.7%) have likewise been buoyed by excitement around AI. In February, the accounting software provider to small and medium sized businesses (SMBs) announced a strategic collaboration with Amazon Web Services. The partnership will see Sage offering AI-backed solutions like the Sage Co-Pilot (a digital productivity assistant) and Sage Earth (a carbon footprint and emissions reduction tool).

Enthusiasm for perceived large-cap AI 'winners' such as RELX and Sage has contrasted sharply with investor attitudes towards companies at the smaller end of the market cap scale, where the focus has been firmly on the risk of possible future disintermediation rather than the reward of tapping into the opportunity.

Intellectual property support services provider RWS Holdings (-13%) suffered in 2023 due to macro-related delays to decision-making among some customers – contributing to cuts to financial forecasts – and wider market concerns about the impact of generative AI models. Its shares slid further in February despite a short AGM statement which was reassuring in tone. While acknowledging that macroeconomic challenges remain, RWS has maintained its 2024 outlook, with client retention remaining high and the company seeing some early contract wins at enterprise-level clients for its recently developed Evolve linguistic AI solution.

Positive contributors included:

Indivior (+23%), Renishaw (+23%), GSK (+7.2%), RELX (+6.1%) and Sage Group (+5.7%).

Negative contributors included:

Future (-14%), RWS Holdings (-13%), Reckitt Benckiser (-12%), Savills (-8.9%) and John Wood Group (-6.4%).

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust GF UK Growth C3 Inst Acc GBP	4.5%	-0.4%	21.5%	-8.1%	19.5%
FTSE All Share	7.9%	0.3%	18.3%	-9.8%	19.2%

	Dec-18	Dec-17	Dec-16	Dec-15
Liontrust GF UK Growth C3 Inst Acc GBP	-6.4%	13.2%	17.0%	9.0%
FTSE All Share	-9.5%	13.1%	16.8%	1.0%

*Source: Financial Express, as at 29.02.2024, total return (net of fees and income reinvested), sterling terms, C3 institutional class. Non fund-related return data sourced from Bloomberg. **Source: Financial Express, as at 31.12.2023, total return (net of fees and income reinvested), primary class. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (03.09.14). Investment decisions should not be based on short-term performance.

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

Disclaimer