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Economic Advantage

December 2025 review

Liontrust UK Growth Fund

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Key highlights

- In a quiet month for corporate newsflow, adverse stylistic headwinds persisted.
- The Fund's high-Quality compounders delivered reliable underlying trading in 2025, yet valuation compression has been extreme, leaving the companies trading at significant discounts to historic averages
- We are optimistic that a change in fortunes for Quality investors is a matter of when, not if, and we look to the future excited about the opportunity.

Performance

The Liontrust UK Growth Fund returned -0.9%* in December. The FTSE All-Share Index comparator benchmark returned 2.2% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 1.4%.

Commentary

The UK equity market notched up another monthly gain as both the Bank of England and US Federal Reserve announced widely anticipated rate cuts.

In last month's review, we commented at length on the performance headwinds presented this year by the UK market's poor relative returns for small and mid-cap stocks, as well as those with Quality style characteristics, and its concentration of gains in asset intensive sectors such as banks and mining.

These adverse conditions persisted in December, concluding a tough 2025 for investors in high Quality growth stocks.

Over the last quarter, Canaccord Genuity Quest's highest-scoring quintile of Quality stocks underperformed the MSCI UK index by 9%. During the three months to end-December, the FTSE 100 large-cap index returned 6.9%, compared with the FTSE 250 mid-cap index's 2.9%, the FTSE Small Cap (ex-investment companies) return of 3.2% and the FTSE AIM All-Share performance of -1.7%.

Within this, the market was led by familiar Value areas, with Basic Resources returning 19.7% in Q4 and Banks rising 17.6%.

December is a typically a quiet month for corporate updates to investors, and proved to be again this year, with share price moves driven more by prevailing sentiment than newsflow. Of the Fund's top and bottom five contributors to monthly performance, only Moonpig (-4.0%) issued a notable update. The online retailer of greeting cards released a solid set of interim results covering the period to 31 October. Revenue growth of 6.7% was driven by 9.4% expansion in the Moonpig brand and a return to growth (+1.3%) for its Greetz division. The Experiences business continues to see falling sales, although Moonpig highlights more encouraging trends so far in the second half of the year. The company's full-year expectations remain unchanged.

Looking ahead to the coming year, we reiterate our messages from recent months. The Fund owns a portfolio of high-quality compounders, evidenced by a weighted average cash flow return on invested capital (CFROC) of 15% (well over twice that of the wider UK market at 6.8%), substantially higher operating margins (20.1%, compared to the market at 13.5%) and low leverage (average net debt: EBITDA of 0.9x compared to the market at 1.4x).

Despite often very disappointing share price performance over the past year, the Fund's companies have in general delivered the reliable underlying trading performance characteristic of the style. In spite of this, valuation compression has been extreme, leaving the companies trading at significant discounts to historic averages. Across the Fund, companies are trading on average at an eye-catching 17% discount to their long-term average forward price/earnings ratio. The weighted average free cash flow of the portfolio now stands at 7.5%, almost in line with the wider UK stock market (7.6%) despite its higher quality characteristics.

Amid such adverse dynamics, we remain resolutely focused on the application of the investment process, ensuring that we manage portfolios in a consistent way which avoids style drift and retains conviction in high-quality compounders.

Meanwhile, the case is strongly building for a rotation of market leadership back to Quality. Macro-economic conditions look increasingly supportive, with inflation largely controlled and interest rates trending lower. Sources of uncertainty abound, from geopolitical uncertainties to consumer demand pressures to historically extreme levels of stockmarket concentration and ebullience around technology and AI stocks. It is at such times that styles focusing on resilient businesses with barriers to competition, stable earnings and strong balance sheets often prove their mettle. We are optimistic that a change in fortunes for Quality investors is a matter of when, not if, and we look to the future excited about the opportunity.

Positive contributors included:

Next 15 (+7.2%), Coats Group (+4.6%), BAE Systems (+3.9%), Pearson (+5.3%) and GSK (+1.9%).

Negative contributors included:

Diageo (-7.6%), BP (-4.7%), Moonpig (-4.0%), Shell (-1.6%) and AstraZeneca (-1.3%).

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

	Dec-25	Dec-24	Dec-23	Dec-22	Dec-21
Liontrust UK Growth I Inc	1.8%	4.6%	4.7%	-1.1%	21.0%
FTSE All Share	24.0%	9.5%	7.9%	0.3%	18.3%
IA UK All Companies	15.4%	7.9%	7.4%	-9.1%	17.2%
Quartile Ranking	4	4	4	2	1

*Source: Financial Express, as at 31.12.25, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 31.12.25, 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.com/benefits-of-investing/guide-financial-words-terms

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