

# Economic Advantage

December 2025 review



## Liontrust UK Smaller Companies Fund



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### Key highlights

- The Fund owns a portfolio of high-quality compounders which trade at significant discounts to historical averages, yet have on average experienced solid trading in an uncertain macro environment
- During December, the Fund saw the usual mix of companies experiencing near-term successes or setbacks along their longer-term growth paths.
- Although adverse stylistic headwinds persisted, there are varied and significant catalysts at the underlying stock level within the portfolio, which will continue to be an important driver of returns for the foreseeable future.

### Performance

The Liontrust UK Smaller Companies Fund returned -1.0%\* in December. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark return was 3.2%, and the average fund in the IA UK Smaller Companies sector, also a comparator benchmark, returned 0.8%.

### 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. The year was also another challenging period with regards to Small Cap sector flows with persistent capital outflows throughout the year, which were elevated in Q4 around the Budget: the dynamic continues to be unhelpful for broader sector valuations.

We reiterate our messages from recent months: the Fund owns a portfolio of high-quality compounders which trade at significant discounts to historical averages, yet have on average experienced solid trading in an uncertain macro environment; 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 its conviction in high-quality compounders; calling the timing of a turning point for Quality is difficult, but when it arrives it should offer a significant valuation re-rating. In the meantime, there are varied and significant catalysts at the underlying stock level within the portfolio, which will continue to be an important driver of returns for the foreseeable future.

During December, the Fund saw the usual mix of companies experiencing near-term successes or setbacks along their longer-term growth paths.

Starting with the positives, **Big Technologies** (+24%) moved higher after updating investors on a number of positive developments, despite an absence of updates on its outstanding litigation against its founder and former CEO, who was dismissed in March over failure to disclose interests in several entities with current or historic shareholdings in Big Technologies. The electronic monitoring provider secured new business wins in Lithuania, Latvia and Pierce County (Washington state) and a new contract in Prince Edward Island, Canada. It also announced a strategic partnership with US based Recovery Monitoring Solutions to provide alcohol monitoring and GPS products, and receiving US approval for a new product combining alcohol detection, GPS tracking and facial recognition.

**On The Beach** (+20%) reported an 11% rise in total transaction value (TTV) to £1.25 billion in the year to 30 September. Momentum has carried across to the new financial year, with bookings up 15% and TTV rising 16%, giving On The Beach confidence in meeting its financial targets for the full year. The company highlighted that an upgraded technology platform has yielded results in the form of an 18% increase in repeat bookings and a 15% rise in customers booking twice or more a year.

**Tristel** (+14%), the manufacturer of infection prevention products, issued an AGM statement confirming in-line trading since the start of its new financial year in July. It remains "firmly on target" to grow revenues by 10% year-on-year, although, as with prior years, trading will be weighted towards the second half of its year as hospitals increase demand during winter months.

**Tribal Group** (+10%) expects adjusted earnings for 2025 to be ahead of market expectations, with revenues "comfortably in-line" with consensus. The software provider to the international education market saw strong trading in its Student Information Services division, which now includes a large proportion of higher education customers on subscription licenses, supporting Tribal's shift to a software-as-a-service business.

Strong trading and favourable working capital movements have helped Tribal move from a £3.2 million net debt position last year to a net cash holding of at least £5 million. As a result of the balance sheet improvement, Tribal announced a 1.5p per share special dividend.

Among the monthly detractors, **Nexteq** (-23%) confirmed in-line trading in 2025 but warned that 2026 financial performance will be below current market expectations. Nexteq's Quixant division supplies computer platforms for the casino gaming and slot machine market, while its Denistron business provides display components into a diverse range of industrial sectors. One of Nexteq's largest gaming customers has been taken over, meaning a reduction in revenues as its technology is integrated with the acquirer's. Nexteq describes the opportunity to pitch for new business with the acquirer as significant, but notes that any new revenues will not feed through in time to offset the decline from technology integration.

Although **AJ Bell** (-18%) reported a £7.5 billion inflow and 18% revenue growth in the year to 30 September, its shares lost ground as a commitment to accelerate investments in brand and marketing threatened to put margins under pressure next year.

**Cohort** (-17%), the provider of electronic and surveillance technology solutions, weakened as adverse sales mix effects led profits to fall slightly despite a 9% revenue increase. The company has maintained its full-year financial guidance, with around 96% of expected revenues covered by the order book. The short-term share price fluctuations continue to be influenced more by external geopolitical events rather than company specific newsflow.

Short-term margin pressure also appeared to be behind the drop in **Foresight Group's** (-10%) shares. Interims from the alternative investment manager focused on infrastructure real assets and private equity were otherwise in line with expectations, with a 4% increase in assets under management to £13.7 billion and an 11% rise in revenues to £82 million.

**Positive contributors included:**

Big Technologies (+24%), On The Beach (+20%), Tristel (+14%), Tribal Group (+10%), EKF Diagnostics (+10%).

**Negative contributors included:**

Nexteq (-23%), AJ Bell (-18%), Cohort (-17%), Craneware (-12%) and Foresight Group (-10%).

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

	Dec-25	Dec-24	Dec-23	Dec-22	Dec-21
Liontrust UK Smaller Companies I Inc	-4.6%	-0.3%	-0.8%	-23.0%	24.7%
FTSE Small Cap ex ITs	10.9%	13.8%	10.4%	-17.3%	31.3%
IA UK Smaller Companies	4.1%	6.7%	0.5%	-25.2%	22.9%
Quartile	4	4	3	2	2

\*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 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.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.

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.

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