

Economic Advantage

January 2026 review



Liontrust GF UK Growth Fund



Anthony Cross

Head of Economic Advantage



Matt Tonge

Fund
Manager



Victoria Stevens

Fund
Manager

Key highlights

- January's modest gains for equity indices fail to tell the full story of a late-month sell-off in software and data groups due to AI concerns.
- Our conviction in the ability of most Fund holdings to maintain or strengthen their competitive moat over the long term remains undiminished, in spite of indiscriminate short term share price reactions to market noise.
- Auction Technology Group the latest holding to receive an opportunistic takeover approach.

Performance

The Liontrust GF UK Growth Fund returned 1.4%* in January. The Fund's comparator benchmark, the FTSE All-Share, returned 3.1%.

Commentary

Although global geopolitical risks were heightened by the US incursion in Venezuela, its threats to intervene amid widespread unrest in Iran, and Trump's continued pursuit of Greenland, investor risk appetite showed little sign of being affected.

The MSCI All Country World Index returned 0.9%, split between emerging markets up 4.8% and developed markets edging 0.2% higher, the latter figure subdued by dollar weakness.

One notable trend in equity markets was late-month weakness in technology shares, as the disruptive impact of AI continued to concern investors. These worries have spilled over into the early days of February and broadened

from software into related sectors following Anthropic's release of legal and marketing plug-ins for the Claude AI model.

Within the Fund, affected positions included **RELX** (-1.5%), **Sage Group** (-10%) and **Pearson** (-8.8%).

The team have naturally devoted considerable time over the past few years to research, thought and debate over the impact of AI on all of the companies we own where there is a perceived theoretical or actual impact on their competitive advantage, either now or in the future. This is an emerging technology and it is still very early to determine the broader long-term implications, but we continue to monitor new developments, debate and discuss between ourselves and with our companies.

There have been a few instances over the past year where the conclusion of our debates and research has been that the risks to the business model outweigh potential reward despite extremely depressed valuations, catalysing an exit from the likes of RVVS and Future.

However, our conviction in the ability of the majority of our holdings to maintain or strengthen their competitive moat over the long term remains undiminished, in spite of indiscriminate short term share price reactions to the market 'noise'. January's newsflow indicates that underlying trading from these companies remains robust and shows no sign of AI erosion of their competitive advantage. In its first quarter trading update, **Sage Group** saw 10% organic revenue growth, slightly ahead of consensus, and retained its full-year guidance for the period to 30 September. Meetings with the company have repeatedly underlined their view that AI presents a compelling opportunity for Sage rather than an existential threat. Sage has been leveraging machine-learning AI functionality within the product set for a number of years now (for example, accounts payable automation) but more recently have also launched generative AI functionality such as Sage CoPilot (now available across all its core products) and further AI agents to automate tasks across compliance, reconciliation and tax.

Our view – backed up by triangulating insight from meetings across our enterprise software holdings – is that, while software coding itself might be replicable via AI, it is these businesses' multitude of other, reinforcing sources of competitive advantages which will help to protect their competitive moat in the future. We believe that deep domain knowledge and the ability to act as a trusted 'system of record' for customers' data and workflow remain powerful attributes in the 'new world' – and for such businesses, as long as they are willing to lean in to AI innovation and integration within their products for the ultimate benefit of their customers, our belief is that they will retain the ability to compound strongly into the future.

An in-line 2025 trading statement from **Pearson** outlined underlying sales growth for the year of 4% following an acceleration to 8% in Q4, with all business sub-units contributing to the rise. In the medium term, the learning and education provider is targeting mid-single digit underlying sales growth and an average improvement in profit margins of 40 basis points.

Refocusing on the portfolio's positive contributors for January, **BAE Systems** (+1.5%) topped the list as defence stocks rallied globally in January on Donald Trump's comments that he would like to lift US military spending 50% to \$1.5 trillion.

BP (+7.2%) moved higher on a solid quarterly trading update and rising energy prices – Brent crude jumped 16% during the month. Rising energy and commodity prices also strongly boosted the Fund's industrial engineers – **Weir Group** (+1.3%), **IMI** (+1.1%) and **Rotork** (+8.7%) – due to the demand read-across for their resource sector clients.

One of the key consequences of the UK's unloved status in recent years, particularly within the small and mid-cap space, is an increase in opportunistic takeovers from private equity or corporate acquirers, who are able to recognise and exploit the opportunity created by valuations trading at significant discounts to long-term averages and global peers.

M&A interest in companies held in the Liontrust Economic Advantage funds has been a recurring theme in recent years. As investors seeking to exploit the power of earnings compounding over a long time horizon, we believe

it is becoming ever more important to take an active, long-term view in protecting UK stock market listed companies from opportunistic acquirers looking to take advantage of the extreme valuation compression experienced by small and mid-cap listed businesses in recent years. Quality compounders have historically provided UK investors with strong and reliable returns.

Auction Technology Group (ATG, +11%) was the latest to be targeted, revealing it had received and rejected a number of unsolicited, highly conditional proposals from its largest shareholder, FitzWalter Capital.

In our opinion, the mooted takeover bid – raised to 400p/share during the month – demonstrably failed to reflect the true value of this high-quality asset even when assessed over a short-term horizon, especially given the opportunistic timing at a depressed point in the cycle.

ATG is a leading player in the online auction marketplace, pioneering digitisation in an industry that lags behind many others in adopting online solutions. While the challenge of recent years has shone a spotlight on cyclicality in transaction volumes in its end markets, we believe that the company remains fundamentally a highly attractive asset.

As a platform business, it enjoys strong network effects: an increasing audience of bidders participating in auctions drives higher prices achieved for auctioneers, in turn prompting greater volumes of items listed on ATG's online auction marketplaces, reinforcing the business' competitive advantage. A key attraction of the model is its strong cash generation, with the business delivering in excess of \$45m of adjusted free cash flow over the last reported fiscal year (to September).

We were encouraged to see ATG's board stand firm in its conviction that this opportunistic approach undervalued the company, with FitzWalter confirming in early February that it does not intend to make a formal offer.

Positive contributors included:

BAE Systems (+15%), Weir Group (+13%), IMI (+11%), Rotork (+8.7%) and BP (+7.2%).

Negative contributors included:

RELX (-15%), PageGroup (-13%), Sage Group (-10%), Compass Group (-6.2%) and Pearson (-8.8%).

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

	Dec-25	Dec-24	Dec-23	Dec-22	Dec-21
Liontrust GF UK Growth C3 Inst Acc GBP	1.5%	4.3%	4.5%	-0.4%	21.5%
FTSE All Share	24.0%	9.5%	7.9%	0.3%	18.3%

	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16
Liontrust GF UK Growth C3 Inst Acc GBP	-8.1%	19.5%	-6.4%	13.2%	17.0%
FTSE All Share	-9.8%	19.2%	-9.5%	13.1%	16.8%

*Source: Financial Express, as at 31.01.26, 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 31.12.25, total return (net of fees and income reinvested), primary class. Investment decisions should not be based on short-term performance.

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 Features of the Liontrust GF UK Growth Fund

Investment objective & policy ¹	The investment objective of the Fund is to provide long term capital growth by investing predominantly in UK equities. The Fund invests at least 80% in securities of companies traded on the UK and Irish stock exchanges. The Fund invests predominantly in UK large and mid-cap stocks.
Recommended investment horizon	5 years or more
Risk profile (SRI) ²	4
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the FTSE All Share Index (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.

Notes: 1. As specified in the PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

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.

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