LIONTRUST

THE SUSTAINABLE FUTURE PROCESS

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Liontrust SF UK Growth Fund: Q1 2022 review

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The Fund returned -15.1% over the quarter, underperforming the IA UK All Companies sector average of -4.9% and 4.8% from the MSCI UK Index (both of which are comparator benchmarks)*†.

We have written at length about the current headwinds for our quality growth investment style, with longer-duration companies hit harder by fears of inflation and interest rate hikes intended to control it. Equities, broadly speaking, had a stronger March but we reiterate those comments, especially if this year remains volatile. In short, over the 21 years we have managed the Sustainable Future funds, we have seen many periods of inflation and interest rate shifts. During these, we have remained resolutely focused on the long-term prospects of our high-quality companies that can grow profitably year after year by making the world a better place. Our experience is that the long-term success of our investments will be determined by the compounding of growth, not the discount rate shifting up a few per cent.

Of course, this situation has been exacerbated by the conflict in Ukraine but while we are following events closely, we do not attempt to forecast macroeconomic or geopolitical factors. We continue to focus on our core competence: identifying businesses exposed to strong sustainability trends that will endure and grow their value per share regardless of economic backdrop. At times of indiscriminate sell-offs, the market presents us with opportunities to add to our highest-conviction companies at more attractive valuations, as well as starting positions in names we have long admired but, prior to now, were fairly valued by the market.

Over a volatile period marked by indiscriminate selling, we would highlight strong performance from GlaxoSmithKline, which is finally being rewarded for its restructuring and refocusing on health and consumer health. We have long believed there are two good companies within Glaxo struggling to show themselves.

Global catering business Compass Group, held under our *Leading ESG management* theme, also had a positive period, with the company reporting a solid first quarter of its financial year (to end December), during which it spent a further £87 million on bolt-on acquisitions in the US. Despite concerns about impact from the Omicron variant in Q2, its guidance for FY22 remains unchanged.

Elsewhere, London Stock Exchange, where shares rallied as the group announced plans to sell a group of assets known as BETA+ for US$1.1 billion to private equity firm Motive Partners and investment firm Clearlake Capital Group. The BETA+ platforms deal with securities processing, custody, clearing, and asset servicing, as well as cost and tax basis reporting software and front-end client solutions. LSEG said its data and analytics business will target mid-single digit annual revenue growth in the medium term following the divestment of BETA+.

Shares in Capital for Colleagues have also continued to rise, held under *our Increasing financial resilience* theme. The company advises, invests in and supports businesses that are either already employee-owned or would like to become so, supporting the economy by providing capital to SMEs, driving sustainable job creation and innovation, and helping address the issue of inequality. Profits in employee-owned businesses tend to be more evenly distributed than those where ownership is concentrated in the hands of a few.

We would also highlight solid performance from the SDCL Energy Efficiency Income Trust, which invests in and operates projects that reduce energy waste across a broad range of technologies and geographies. This fund is a strong fit for our *Improving the efficiency of energy use* theme, helping reduce emissions and bills while increasing security of supply. This is coupled with a lack of power price exposure, as it takes on the credit risk of counterparties, which makes the fund unique among listed renewable peers. Over the quarter, SDCL planned to raise £75 million through an issue of new ordinary shares but this was oversubscribed and the placing was ultimately £100 million.

Weaker performers over Q1 were generally our fastest-growing companies that are not yet profitable from a P&L perspective. These continue to reinvest and grow in their nascent markets, developing their products and services, growing their headcount and building strong competitive advantages.

Trustpilot, for example, is becoming the world's leading review platform, allowing an independent and objective space for customers and merchants to interact online. As the economy continues to digitise, we believe Trustpilot's dominant position in this fast-growing market will result in strong cashflow generation over the long term with millions of reviewers and merchants on this two-sided platform. The shares have dropped precipitously since IPO in March 2021, yet the results continue to positively surprise us. We have added to the position on weakness and remain confident in our thesis.

Oxford BioMedica shares continue to be sold off, which we find hard to understand as, operationally, the business has never looked stronger. It may see less demand for AstraZeneca vaccine manufacturing as the pandemic appears to be receding but this is being replaced by higher value contracts with partners developing ground-breaking gene therapies. As we have said before, while the vaccine and its supply agreement with AstraZeneca has grabbed the headlines, the investment case for Oxford BioMedica's shares is primarily based on other conditions its technology can treat, varying from lymphoma to Parkinson's.

Among our detractors, we would only note two where there are issues with the underlying business: Trainline, where the restructuring of UK rail is leading to uncertainty, and Countryside Partnerships, which had a very unexpected profit warning as housing completions were 30% lower than anticipated and CEO Iain McPherson stepped down.

Chair John Martin is carrying out a review, with no clear reason given for this shortfall. This review could lead to a restatement of medium-term targets and re-establishing the quality of the partnerships business, but we feel it is more likely these will be downgraded. This is annoying as we like the company's focus on affordable housing and houses for rental but execution seems to be poor and we have reduced our position significantly.

Elsewhere, Hargreaves Lansdown's shares fell on the back of interim results and its Capital Markets Day in February. Net new business and earnings per share were weaker than consensus expectations and the company also announced a suspension of special dividends and a higher cost trajectory for the next couple of years as it plans to reinvest in the business. We think these investments are the right thing to do for the long term, helping HL maintain its market-leading position, but they have taken too long to make and are not without execution risk. We continue to believe this is one of the better businesses in the UK but have concerns over management quality. Due to the de-rating of the shares and the exposure to our *Saving for the future* theme, we maintain a position but prefer other names in this space including St James's Place and AJ Bell.

In terms of trading, Wise was a new addition in February, with the company's mission to bring transparency and fairness into moving money around the world; a resilient financial system helps support all in society and we look for businesses that dramatically improve access to financial services and reduce the costs for everyone. Around 1.7 billion people remain unbanked in the world and foreign exchange has traditionally been costly for individuals, especially those remitting small amounts regularly. Wise offers a significantly better rate, lower fees, and a very simple app-based approach.

We also added Ashtead over the quarter under our *Delivering a circular materials economy* theme. This is the embodiment of a sharing economy, renting out industrial, commercial and general equipment across the US, UK and Canada. The company maximises use of equipment that would otherwise sit idle for long periods and offers assurance this kit is serviced and maintained properly. In doing so, Ashtead allows the businesses that rent its equipment to concentrate on their core competencies as well as reducing their own inventories. Ashtead is a rare example of a UK success story in the US, acquiring Sunbelt in 1990, then adding the US rental business of Rentokil in 2000 and NationsRent in 2006. This has led to sales going from £47 million in 1990 to £7 billion now and, financial crisis aside, returns on equity consistently above 20%.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Sustainable Future UK Growth 2 Acc	-8.0%	42.6%	-9.2%	6.9%	10.3%
MSCI UK	19.1%	20.0%	-19.1%	7.6%	-0.2%
IA UK All Companies	5.4%	38.0%	-19.2%	2.9%	2.7%
Quartile	4	2	1	1	1

*Source: FE Analytics, as at 31.03.22, 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:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms