Liontrust UK Growth Fund

May 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust UK Growth Fund returned 0.1%* in May. The FTSE All-Share Index comparator benchmark returned 0.7% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 0.1%.

May's macroeconomic data showed further evidence of the inflationary pressures which are expected to keep mounting as the year goes on. Consumer price inflation in the UK hit 9% in April, the highest level in 40 years, while the US equivalent was 8.3%. The central bank policy response was as expected: the Bank of England raised rates by 0.25% to 1.0% and the US Federal Reserve pushed through a 0.5% hike to a target range of 0.75% to 1.0%.

Against a market backdrop of geopolitical volatility and inflation concerns, we have recently been highlighting two themes which we think will be among the most influential this year: pricing power and takeover activity.

Looking at the former through the lens of May's newsflow, **TI Fluid Systems** (+13%) is among those companies hoping that product price rises will help offset the impact of cost increases. The company manufactures highly engineered automotive fluid systems and its shares have suffered from a slowdown in global vehicle production recently. However, it seems investor expectations are now at realistic levels after a Q1 trading update detailing a fall in revenues and margins. Revenue dropped 4.1% year-on-year to £755m, a modest outperformance of the 4.5% fall in global light vehicle production during the quarter. Margins also came under pressure due to inflation and production disruption. But TI Fluid Systems expects margins to improve towards the end of 2022 as cost inflation is gradually passed on in pricing.

May also provided more evidence that market volatility is leading to corporate and private equity acquirers seeking out undervalued assets. One of the Fund's holdings, **Clipper Logistics**, exited the portfolio in May as we sold the position ahead of completion of the takeover by US-listed GXO Logistics.

There were also further developments on another portfolio bid situation. Last month, Baring Private Equity Asia VIII Fund announced that it was considering making an unsolicited offer for **RWS Holdings** (-10%), prompting the shares to rise strongly. In May, it stated that it was no longer evaluating an offer. Amid the takeover speculation and the slew of stock exchange updates required by the UK takeover code, RWS Holdings' interim trading update in April did not gain much attention. The intellectual property services provider expects to report profit before tax of at least £60m in the six months to 30 March. This is slightly ahead of its prior expectations, following good cost synergies from its SDL acquisition and volume-led margin expansion in its group-wide translation functions.

Another of the Fund's holdings, **Next Fifteen Communications** (-18%), became involved in a potential takeover as acquirer, rather than acquiree. Since early January, marketing agency M&C Saatchi – which is not a holding in the Fund – has been the subject of takeover interest from one of its directors, Vin Murria, who is Chair of an acquisition vehicle – AdvancedAdvT Limited (also not a Fund holding) – which acquired 10% of M&C Saatchi's shares. Unsurprisingly, M&C Saatchi's other Board directors didn't welcome Murria's bid for a change of control and, in May, AdvancedAdvT took its offer hostile, approaching M&C Saatchi shareholders with an offer worth 208p, comprising either 100% AdvancedAdvT shares or 80% shares-plus-cash. M&C Saatchi's Board rejected the offer, describing it as derisory.

A few days later, Next Fifteen Communications entered the fray, making a 247p counter-offer (40p cash with the rest in shares) which was recommended by M&C Saatchi. In recent years, Next Fifteen Communications has attempted to broaden its services from being digital marketing specialist to offering data-driven growth consultancy. Acquisitions have formed a key part of the company's rapid growth, but a £300m+ purchase of M&C Saatchi would represent a step-change in the pace of its transformation. Investors showed some trepidation around the deal, and the drop in Next Fifteen Communications' share price over the month pushed down the value of its mostly-shares takeover offer, largely wiping out the premium to ADV's offer. ADV has maintained its hostile bid at its initial level, despite Next Fifteen's offer.

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Another key factor on the month's market returns we've yet to mention is the oil price. It has been trading at elevated levels since Russia's invasion of Ukraine, and tight supply conditions led it to rise again in May. Brent crude rose 12% to almost $123 a barrel. With this tailwind, the FTSE All Share's Energy sector was its best performing, returning 10% for the month. Driven by large rises for **BP** (+12%) and **Shell** (+10%), the sector was also the largest contributor to Fund returns.

In other portfolio news, **Spirax-Sarco Engineering** (-13%) slid after issuing an AGM statement, despite maintaining its full-year financial guidance. The company is an international engineer which has a dominant market position in products for regulating steam and electrical thermal energy. Although Spirax-Sarco commented that its strong order book and resilience to economic cycles stands it in good stead, its assessment of the economic backdrop was fairly downbeat. It noted that global industrial production for 2022 is now expected to be 3.9%, down from 4.2% at the time of its March release of full-year results.

Although **Sage Group**'s (-10%) interim revenue of £934m fell short of the analyst consensus of £958m, its results were largely robust and included unchanged full-year guidance. Of the revenue total, £866m is classed as organic recurring revenue, up 8% as Sage Business Cloud continues to grow rapidly. Sage expects organic recurring revenue to grow between 8% and 9% in 2022, with other revenue lines falling.

Positive contributors included:
TI Fluid Systems (+13%), BP (+12%), Shell (+10%), WH Smith (+9.5%) and Synthomer (+7.4%).

Negative contributors included:
Next Fifteen Communications (-18%), Spirax-Sarco Engineering (-13%), Sage Group (-10%), RWS Holdings (-10%) and Bunzl (-10%).

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 UK Growth I Inc	13.2%	22.6%	-14.0%	7.2%	2.6%
FTSE All Share	13.0%	26.7%	-18.5%	6.4%	1.2%
IA UK All Companies	5.4%	38.0%	-19.2%	2.9%	2.7%
Quartile	1	4	1	1	2

*Source: Financial Express, as at 31.05.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.03.22, 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.co.uk/glossary

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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

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