Liontrust UK Growth Fund

April 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust UK Growth Fund returned 2.0%* in April. The FTSE All-Share Index comparator benchmark returned 0.3% and the average return in the IA UK All Companies sector, also a comparator benchmark, was -1.2%.

The narrative of rampant inflation and anticipation of the monetary response remained firmly entrenched during April. As US and UK consumer price inflation hit 8.5% and 7.0% respectively in March, consensus expectations for central bank rate hikes rose significantly. Much of this was due to the release of minutes from last month's US Federal Reserve rate-setting meeting which suggested some committee members would have preferred a 50bps rise to the 25bps implemented, were it not for uncertainty due to events in Ukraine.

News of fresh covid lockdown measures in parts of China also heightened existing concerns over global supply chains and input cost pressures for businesses.

The FTSE All-Share Index was able to register a monthly gain – led by the healthcare (+5.9%) and consumer staples (+4.4%) sectors - although it was notable that this strength derived from the large-caps: the FTSE 100 returned 0.8% while the FTSE 250 and FTSE Small Cap indices returned -1.8% and -1.2% respectively.

Amid an inflationary environment of relentless cost pressures, we believe the theme of pricing power will be critical. Our investment process specifically sets out to target those companies which possess enduring competitive advantage stemming from their intangible assets. As a consequence, many have strong pricing power which should stand the portfolio in good stead if inflation continues to spiral upwards.

From corporate newsflow and our meetings with companies, we believe that the majority of our holdings are proving resilient in their underlying trading so far this year, despite the well documented pressures of input cost inflation, supply chain shortages, logistical disruption and early signs of a squeeze on consumer spending and business sentiment.

Many have already proven themselves adept at leveraging their barriers to competition to pass on inflationary pressures to customers – something which will be critical to the relative success of companies over the coming months.

Consumer goods stocks **Reckitt Benckiser** (+8.8%) and **Unilever** (+7.6%) both showed good evidence of this within Q1 trading updates issued during April, as they enjoy the benefits of their key intangible assets: strong distribution networks and brands.

Reckitt Benckiser recorded 5.6% like-for-like sales growth, driven by 5.3 percentage points (ppt) of price effects and only 0.3 ppt volume increase. It now expects like-for-like net revenue growth for 2022 which is towards the top end of its 1% to 4% guidance range, and it believes it can maintain operating margins despite significant cost inflation.

Unilever's 7.3% like-for-like sales growth in Q1 comprised 8.3ppt of price effect and -1.0ppt volume. It stated that cost inflation is unprecedented and volatile, prompting it to push up its prices. As a result, it expects 2022 underlying sales growth to be towards the top of its 4.5% to 6.5% guidance range, although cost pressures will mean that underlying operating margins fall to the bottom of its 16% to 17% guidance range.

It is worth noting that the strength in Reckitt Benckiser and Unilever shares pre-dated the Q1 updates, which came towards the end of the month, suggesting that investors had already begun rotating towards the areas they thought offered good insulation from inflation. The same is true of the strength in the Fund's pharmaceutical stocks – **Indivior** (+12%), **GlaxoSmithKline** (+9.1%) and **AstraZeneca** (+5.5%) – which came before the release of Q1 results at the end of the month.

The Baring Private Equity Asia VIII Fund announced that it was considering an offer for **RWS Holdings** (+19%) although no formal approach had been made. The news pushed shares in RWS higher, but only really recouped the ground lost in March when its latest acquisition and strategy announcement underwhelmed investors. The news also overshadowed a trading update from RWS later in April in which it forecast adjusted profit before tax of at least £60m, slightly ahead of its prior expectations.

RWS is the second holding to reveal a takeover approach this year after **Clipper Logistics** recommended a takeover offer from US-listed GXO Logistics in February.

Petrofac (+30%) strengthened throughout April after it announced a large contract award on the first day of the month. The Australian government awarded Petrofac Phase 1 of the decommissioning of a floating production, storage and offtake (FPSO) facility. This phase involves the disconnection from subsea equipment and is likely to take around 18 months and be worth up to $236m.

Elsewhere, precision measurement specialist **Spectris** (+14%) issued a robust Q1 trading update which propelled its shares higher. Like-for-like sales rose 12% year-on-year as Spectris benefited from continued recovery in its end markets. Order intake rose 28% year-on-year, underpinning a positive outlook for the remainder of the year. The company commented that it has so far been able to leverage its pricing power and cost efficiencies to offset inflationary pressures.

A Q1 update from **Rotork** (-9.2%) was less upbeat. It commented that performance during the period was only "broadly in-line" with its expectations. While order intake was ahead of the 2021 comparator, revenues were down mid-single digits on an organic, constant currency basis due to ongoing component supply chain issues. In particular, its Shanghai facility is closed due to a covid lockdown. It expects supply issues and labour cost pressures to persist, but is so far mitigating this cost inflation through price increases

Shares in **John Wood Group** (+38%) recovered from February's losses due to the April 11th announcement that, despite having delaying publication of its full-year results from March in order to carry out an external investigation on an Aegis Poland construction contract, its 2021 performance was to remain in-line with guidance issued in January. Later in April, it released results showing a 10% drop in pre-exceptional operating profit to $192m. The $100m write down to the Aegis Poland contract was in line with the estimate issued in February. John Wood's order book rose 19% to $7.75bn during the year.

Positive contributors included:
John Wood Group (+38%), Petrofac (+30%), Spectris (+14%), Indivior (+12%) and Reckitt Benckiser (+8.8%).

Negative contributors included:
TI Fluid Systems (-15%), Future (-15%), Gamma Communications (-12%), Rotork (-9.2%) and Hargreaves Lansdown (-9.0%).

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 30.04.22, 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.

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