

Liontrust UK Smaller Companies Fund

August 2022 review

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The Liontrust UK Smaller Companies Fund returned -3.0%* in August. The FTSE Small Cap (excluding investment trusts) Index comparator benchmark returned -4.0% and the average return of funds in the IA UK Smaller Companies sector, also a comparator benchmark, was -4.7%.

A further surge saw European gas prices breach the €250/MWh level intra-month, taking them to around ten times their normal levels prior to the spikes seen over the last year.

The Bank of England cited Russia's restriction of gas supplies as the major factor in an escalation in inflationary pressures over the summer months. While its decision to raise rates by 50 basis points to 1.75% was expected, the tone of its accompanying comments was even more downbeat than most had expected. It noted that the UK is projected to enter recession in the fourth quarter, with real household income expected to fall sharply in 2022 and 2023.

Consumer confidence data from GfK confirmed a gloomy macroeconomic backdrop, with the August index score hitting its lowest level (-44) since the dataset began in 1974. Investors' assessment of the UK's economic prospects was reflected in a 3% fall in the trade-weighted value of sterling, taking its year-to-date depreciation to 5.7%.

The deterioration in economic outlook prompted another bout of risk-off investor behaviour, resulting in a -1.7% FTSE All-Share Index return. The weakness was most acute among the mid-cap FTSE 250 index, which returned -5.2% for the month.

Following the July 2021 acquisition of Sentry, **Craneware's** (-16%) revenues jumped by 119% to \$165m in the year to 30 June 2022, with adjusted EBITDA rising 85% to more than \$50m. The provider of IT solutions to US healthcare providers has now fully completed the integration of Sentry, with the combined EBITDA margin target of 30% being hit ahead of schedule. It also commented that synergies from the deal have largely mitigated the wage inflation seen in the industry this year. However, many of the hospitals it serves have yet to fully recover activity levels to pre-pandemic levels. While this has restricted growth to some extent in the last year, Craneware expects activity to normalise soon.

Globaldata's (+21%) 10% underlying revenue in the six months to 2022 rises to 23% overall growth with the inclusion of last year's acquisitions. Encouragingly, it also disclosed that subscription revenues had risen 21% to represent 83% of the total. Repeat business is one of the three core intangible assets which we think often create barriers to competition. The consultancy and data analytics group restated its intention to seek out further complementary businesses, with an upcoming refinancing of bank facilities set to release £180m in capital for acquisitions.

In other portfolio news, **Next Fifteen Communications'** (-16%) pursuit of M&C Saatchi rumbles on, with the approach classed as hostile since the June removal of M&C Saatchi's board approval. It faces competition in the form of another hostile offer from AdvancedAdvT Limited, an acquisition vehicle chaired by Vin Murria, also a director of M&C Saatchi.

Elsewhere, portfolio newsflow once again seemed to take a back seat to other factors in driving individual share price moves. The fund's other largest positive and negative contributors did not issue material updates in August,

although investors in **Microlise** (+24%) may still have been digesting an upbeat late-July trading update. The provider of transport management software to fleet operators announced 11% year-on-year growth in annual recurring revenues in the six months to 30 June, 60 new customers and a very low customer churn rate of 0.1%, while also reaffirming 2022 revenue and profit guidance.

Positive contributors included:

Microlise (+24%), Globaldata (+21%), Keystone Law Group (+17%), On The Beach (+15%) and FRP Advisory (+13%).

Negative contributors included:

Focusrite (-25%), Next Fifteen Communications (-16%), Craneware (-16%), Learning Technologies Group (-14%) and Impax Asset Management (-13%).

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

Past performance does not predict future returns

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust UK Smaller Companies I Inc	-18.4%	46.7%	1.9%	2.3%	18.7%
FTSE Small Cap ex ITs	-14.6%	65.2%	-12.3%	-8.6%	6.4%
IA UK Smaller Companies	-22.1%	53.1%	-6.5%	-6.2%	17.2%
Quartile	2	3	1	1	2

*Source: Financial Express, as at 31.08.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.06.22, 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.

The portfolio is primarily invested in smaller companies and companies traded on the Alternative Investment Market. These stocks may be less liquid and the price swings greater than those in, for example, larger companies.

Disclaimer

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