



## Liontrust UK Growth Fund

### March 2023 review

Fund managers: Anthony Cross and Julian Fosh

**The Liontrust UK Growth Fund returned -2.1%\* in March. The FTSE All-Share Index comparator benchmark returned -2.8% and the average return in the IA UK All Companies sector, also a comparator benchmark, was -3.4%.**

The month began with strong economic data which lifted expectations for the number of central bank hikes still to come. As news of Silicon Valley Bank's (SVB) demise fed through, the market narrative quickly shifted to one of financial sector resilience, which in turn seemed to reduce the chances of substantial further monetary tightening.

With investors fretting over banks' exposure to a combination of a negative yield curve (meaning more expensive short-term deposit finance and mark-to-market losses on long-term assets) and the risk of deposit flight, the sector took a broad-based hit. Credit Suisse was the highest profile casualty, forced into a government-brokered sale to UBS that wiped out bondholders and the majority of its share price.

Unsurprisingly, the financials sector was the weakest in the FTSE All-Share Index in March, losing 7.5% with the banks sub-segment down by 12%. The Fund has low exposure to the financials sector and no bank holdings, so avoided some of March's market weakness.

Although based in the US, SVB had strong ties with the technology sector globally, including companies in the UK. As its balance sheet unravelled and regulators stepped in, many companies – particularly small caps – chose to issue stockmarket updates in order to reassure over their exposure to SVB and liquidity position. A few portfolio stocks were among this number. The common theme was that where SVB exposure existed via deposits or borrowing facilities, it was an insignificant proportion of overall liquidity.

For example, among those companies that updated the market, **Future** (-17%) stated that cash deposits with SVB accounted for less than 3% of its cash on hand (of £26m), while it had £438m of undrawn committed debt facilities excluding c.£25m of undrawn facilities with SVB. Future is a global multi-platform media company which owns publishing brands in specialist consumer and B2B sectors including technology, gaming and entertainment, music, creative and home interest. Shares in the company have been weak since a February trading update which stated that adjusted operating profit would be in line with expectations for the year to 30 September but noted that revenues would be a touch light of forecasts. Its consumer technology brands in particular have seen a slowdown in audience numbers and consumer spending.

**RWS Holdings** (-16%) has had a similar experience, sliding since a February update maintained full-year guidance but noted higher growth would be needed in the second six-months of the year in order to achieve it. It also updated on SVB exposure, detailing a \$220m revolving credit facility of which SVB had committed 10%, a small cash deposit which it thinks is fully protected, and a portion of forward currency contracts. The latter looks to be the most significant, although RWS states that it thinks its overall exposure to SVB is limited and remains on track to meet consensus for profits in the year to 30 September 2023.

In better news, **Reckitt Benckiser** (+6.9%) recorded 6.2% constant currency like-for-like net sales growth in the fourth quarter of 2022, taking its total for the year to £14.5bn, up 7.6%. The consumer goods group grew operating profit by 9.2% to £3.4bn in constant currency terms as operating margin expanded by 90 basis points to 23.8%. The majority of the improvement in profitability came from its US nutrition business, where it benefited from temporary supply issues for its competitors.

Elsewhere among the portfolio's positive contributors, a risk-off environment ensured a strong showing from some typically defensive names. Aerospace and defence group **BAE Systems** (+9.4%), was the top riser without issuing any significant investor update, while contract caterer **Compass Group** (+5.9%) also moved higher without a newsflow catalyst.

Returning to the detractors, **EMIS Group** (-20%) tumbled after a negative intervention by the UK Competition and Markets Authority (CMA) threatened to derail its acquisition by UnitedHealth Group, a deal announced in June 2022. On 17 March, the CMA announced that it would be referring the acquisition to a Phase 2 investigation. EMIS and UnitedHealth responded by proposing the sale of a UK business owned by the latter, but the CMA stated that this did not remedy its competition concerns, meaning the Phase 2 referral will continue. With all parties now considering their options, EMIS has lost almost all the of the share price gain it notched up on receipt of the bid last year.

**Synthomer** (-24%) had a tough 2022, issuing a profit warning due to a worse-than-expected deterioration in macroeconomic conditions and post-pandemic medical glove destocking hitting demand at its nitrile butadiene rubber division. Events in March showed that the slowdown is impacting cash flow and liquidity, with the company moving to secure a new \$480m revolving credit facility with longer duration and greater covenant headroom. Full-year results for 2022 showed revenue rising 9.7% to £2.38bn in constant currency terms but EBITDA halving to £249m, and the company has prioritised cost savings and a rationalisation of non-core business units as it looks to boost free cash flow and reduce net debt.

**Positive contributors included:**

BAE Systems (+9.4%), Reckitt Benckiser Group (+6.9%), Compass Group (+5.9%), RELX (+4.6%) and Spectris (+4.0%).

**Negative contributors included:**

Synthomer (-24%), EMIS Group (-20%), Next Fifteen Communications (-19%), Future (-17%) and RWS Holdings (-16%).

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

***Past performance does not predict future returns***

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust UK Growth I Inc	3.2%	13.2%	22.6%	-14.0%	7.2%
FTSE All Share	2.9%	13.0%	26.7%	-18.5%	6.4%
IA UK All Companies	-1.9%	5.4%	38.0%	-19.2%	2.9%
Quartile	1	1	4	1	1

\*Source: Financial Express, as at 31.03.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

\*\*Source: Financial Express, as at 31.03.23, 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**

This document is issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business. **This is a marketing communication.** It should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. The investment being promoted is for units in a fund, not directly in the underlying assets. It contains information and analysis that is believed to be accurate at the time of publication but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust. Always research your own investments and if you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.

[23/222]