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Liontrust GF UK Growth Fund

August 2023 review

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The Liontrust GF UK Growth Fund returned 2.0%* in August. The Fund's comparator benchmark, the FTSE All-Share, returned 1.0%.

The Bank of England implemented its 14th successive hike in this tightening cycle, taking interest rates to 5.25%. Wage and inflation data released later in the month confirmed the view that one or two more increases are likely to be needed before rates top out.

During August, investors were also paying close attention to trends in China, where interest rates are moving in the other direction. Having gradually disappointed this year against expectations of a post-Covid lockdown bounce in activity, China's economic woes weighed on investor sentiment during the month. China's central bank responded by lowering its one-year loan rate – the 'medium-term lending facility' – by 15 basis points, in a move that surprised markets and economists alike..

The UK market experienced broad-based declines with some pockets of deeper weakness in areas with greater exposure to Chinese demand – such as basic materials (-5.9%) and consumer discretionary (-3.3%).

The Fund had a stronger month when compared with the market, helped along by a large rise at **EMIS Group** (+32%) after the UK's Competition and Markets Authority (the CMA) provisionally cleared its acquisition by UnitedHealth Group. The £1.2bn deal was first announced in June 2022, prompting a large rally in EMIS shares, only for these gains to be retraced in March of this year when the CMA referred the acquisition for a Phase 2 investigation. Shares in EMIS have now jumped again to trade very close to UnitedHealth's offer price of £19.25 a share.

As briefly covered in last month's review, **Domino's Pizza Group** (+15%) released a strong set of interim results on the first day of August. Like-for-like sales growth of 7.9% year-on-year was ahead of expectations. A programme of store openings has been accelerated, with 11 franchise partners opening 29 stores, helping boost total sales growth to 20%. With robust trading carrying over to the first weeks of July, Domino's issued full-year earnings guidance which was about 5% ahead of analyst consensus forecasts.

Last month, Domino's removed some succession uncertainty by announcing Andrew Rennie as its new CEO, having operated with an interim CEO since late last year. Rennie's appointment was received with enthusiasm by investors, given his high calibre and significant previous experience across the Domino's global empire: he was previously a successful multi-unit franchisee for a decade, and then spent over two decades at the Sydney-listed Domino's Pizza Enterprises in multiple roles, overseeing a very strong period of growth at the business.

Industrial thread manufacturer **Coats Group** (+10%) had already warned in a May trading update of a fall in sales this year as customers destocked in reflection of subdued consumer demand and high inventory levels. Interim results showed an organic drop in sales of 19% in the first half of 2023. Including sale contributions from its recent footwear acquisitions – Texon and Rhenoflex – brings the sales drop to a more moderate 11%. While volumes may be under pressure, investors took heart from better-than-expected operating profit margins of 15%, up 30 basis points on the same period last year. Outlook comments were also encouraging, with Coats expecting volumes to gradually recover from current levels.

Spirax-Sarco Engineering (-8.9%) has also seen some customer destocking, particularly within the pharmaceuticals and biotechnology ("biopharm") sectors. While revenues were up 2% in organic terms to

£851m, this headline figure masks contrasting fortunes between its Steam Specialities and ETS divisions which saw good growth and its Watson-Marlow unit which suffered a 21% sales drop due to its exposure to biopharm. An unfavourable sales mix also knocked 360 basis points off Spirax-Sarco's margins (down to 20.2%), meaning adjusted operating profit fell 13% to £172m. The company now expects the destocking in biopharma to continue into 2024, leading investors to downgrade their expectations for full-year profits.

Having seen its shares jump in February due to bid interest from Apollo, only to tumble in May as the private equity group walked away, **John Wood Group** (+8.1%) was able to regain some impetus on the back of contract momentum and robust interims. Firstly, the consulting and engineering group announced the award of a multi-year extension to its relationship with Shell. Although no financial details were disclosed, the deal covers Shell's global projects for a three-year period, with options for two one-year extensions. It then announced revenue growth of 16% to £3.0bn in the first half of 2023, with adjusted operating profit rising 9% to £89m. Although revenue growth is expected to slow in the second half, earnings are now on track to be ahead of the company's prior expectations.

Positive contributors included:
EMIS Group (+32%), Domino's Pizza Group (+15%), Coats Group (+9.6%), BAE Systems (+8.2%) and John Wood Group (+8.1%).

Negative contributors included:
Hargreaves Lansdown (-11%), YouGov (-10%), Spirax-Sarco Engineering (-8.9%), IMI (-7.3%) and Spectris (-5.3%).

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust GF UK Growth C3 Inst Acc GBP	5.8%	2.2%	17.2%	-9.4%	2.7%
FTSE All Share	7.9%	1.6%	21.5%	-13.0%	0.6%

	Jun-18	Jun-17	Jun-16
Liontrust GF UK Growth C3 Inst Acc GBP	10.8%	18.9%	8.2%
FTSE All Share	9.0%	18.1%	2.2%

*Source: Financial Express, as at 31.08.2023, total return (net of fees and income reinvested), sterling terms, C3 institutional class. Non fund-related return data sourced from Bloomberg.
**Source: Financial Express, as at 30.06.2023, total return (net of fees and income reinvested), primary class. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (03.09.14). Investment decisions should not be based on short-term performance.

Key Features of the Liontrust GF UK Growth Fund

Investment objective & policy[1]	The investment objective of the Fund is to provide long term capital growth by investing predominantly in UK equities. The Fund invests at least 80% in securities of companies traded on the UK and Irish stock exchanges. The Fund invests predominantly in UK large and mid-cap stocks.
Recommended investment horizon	5 years or more
Risk profile (SRRI)[2]	5
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the FTSE All Share Index (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.

Notes: 1. As specified in the KIID of the fund; 2. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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.