Liontrust SF UK Growth Fund: Q3 2023 review

Fund managers: Peter Michaelis and Martyn Jones

The Fund returned -3.3% over the quarter, versus the IA UK All Companies sector average of 0.9% and the 2.6% return from the MSCI UK Index (both of which are comparator benchmarks)*.

While capital markets have provided volatility for sustainable investors over the last two years, we believe the foundations of the key underlying sustainable themes we invest in remain very strong. The 20 sustainable investment themes that we have identified – which each in some way contribute to a cleaner, healthier and safer future – are in our view the strongest and most dependable long-term growth trends in the economy.

Our job is to think differently to the crowd by considering the longer term and focusing on understanding our companies. We aim to understand their prospects for future cashflow growth and how the market has mis-appreciated their potential over the long term. We want to harness the exponential effect of companies that can grow at a strong rate both now and 10 years from now as they innovate and solve sustainability issues.

Looking to the future, we see no reason why the powerful sustainable trends in which we have invested should not persist, and so look forward with great confidence.

Independent digital review platform **Trustpilot** rose sharply after beating earnings expectations following a strong first half of the year. The company, which is exposed to our *Connecting people* theme, upgraded earnings guidance to beyond the top of the range of market expectations after a 16% rise in bookings to $99 million.

Trustpilot plays an important role in improving trust in e-commerce in the digital economy, helping to address the asymmetry of information between consumers and businesses. With bricks and mortar retailers you can go into a shop and leave feedback – this interaction is more difficult to have in a digital economy; a free, fair and independent reviewing system helps to improve trust in the digital economy.

Kingspan Group performed strongly over the quarter, consolidating a sharp rally in July with further gains in August. In its July trading update, the high performance insulation and building envelope specialist commented that trading profit in the first half of 2023 would be around €435 million, up from prior guidance of just over €400 million. In August it issued a full set of half-year results confirming the trading result and commenting on an improving order intake trend.

Held under our *Improving the efficiency of energy use* theme, Kingspan's products dramatically improve the energy efficiency of buildings. We believe Kingspan is well positioned to have a significant impact in reducing global energy use from buildings, which is essential if we are to prevent global warming exceeding the 1.5C threshold that the IPCC (Intergovernmental Panel on Climate Change) warns is critical.

Also among the notable performers was motor and home insurance company **Admiral Group**. Held under our *Insuring a sustainable* economy theme, Admiral's interim report released in August showed an improvement in demand trends compared with March's full-year results. Admiral grew profits after successfully applying premium rate increases to offset an environment of elevated claims inflation.

Admiral's insurance provides a financial safety net to protect against damage and we hold the position under our *Insuring a sustainable economy theme.* A car or house can be some of the biggest investments that an individual might make, and therefore being able to spread risk of damage is an important service. Insurance allows individuals and corporations to spread risk, which can then be shared among multiple actors. This can help to mitigate the financial and consequent social impacts of larges losses that can arise from catastrophes or medical situations. We believe this has benefits for the individual and the wider economy.

Having struggled year-to-date, educational software and consulting business **Learning Technologies Group** was again among the detractors in Q3, with shares falling after the announcement of its interim 2023 results. Despite a challenging economic backdrop, LTG reported a 2% increase in revenues to £285 million for the first half of the year, with solid performance coming from its software-as-a-service (SaaS) segment as well as from its long-term contracts. However, the company stated that it encountered one-off issues relating to the integration of LEO into GP Strategies' content division, which has impacted its first half performance.

Oxford Biomedica has fallen over the last six months and dropped reasonably heavily in August despite the lack of any obvious catalyst for the poor performance. The shares have, however, been subject to some downward revisions of analysts near-term earnings forecasts; the company has excellent growth prospects but is currently loss-making.

Held under our theme of *Enabling innovation in healthcare*, Oxford Biomedica is a leader in lentiviral vector innovation and manufacture. Lentiviral vectors are one of the core delivery mechanisms within the new healthcare therapy paradigm we have identified of gene and cell therapies. We believe such therapies are set to revolutionise the healthcare landscape, as they have the potential to provide a one-off cure to underlying diseases.

FD Technologies, a leading provider of products and consulting services to some of the world's largest finance, technology and energy institutions, was also among the fallers despite providing no investor updates over the quarter.

The online world and the proliferation of sensors in all areas of economic and social activity is driving an explosion in data generation but this data is only useful if it is captured and managed so that it can be analysed effectively. First Derivatives has the leading database software for time-series databases: information where the time of the event is critical. First Derivatives' architecture can deliver a 10-20x reduction in the number of servers needed for a task and 100x improvement in speed and commensurate reductions in energy consumption.

In terms of portfolio activity, we also opened a position in British engineering group **Spirax-Sarco Engineering** under our *Improving the resource efficiency of industrial and agricultural processes* theme. Spirax's steam systems dramatically improve the resource efficiency of chemical and industrial plants, saves its customers an estimated 18.2mt CO_2e per annum.

We exited the position in long-term holding **Crest Nicholson**, a leading UK house builder with excellent sustainability credentials built into every home. Unfortunately, there has been some management mis-steps and changes over the past few years and we believe the UK housing recovery could take longer than anticipated. With these concerns, we have decided there are better opportunities in other areas of the portfolio.

We also sold Identity verification and fraud protection specialist **GB Group**. Despite strong structural demand, GB Group’s management team made an expensive acquisition linked to cyber security in cryptocurrencies in what transpired to be the height of the crypto boom. This lack of discipline around capital allocation causes us to lose faith that management are careful custodians of our client’s capital – we decided to exit our position over the period.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Sustainable Future UK Growth 2 Acc	3.0%	-30.4%	30.2%	-0.3%	2.0%
MSCI UK	14.2%	3.8%	25.8%	-19.8%	2.8%
IA UK All Companies	12.8%	-15.3%	32.4%	-12.8%	0.0%
Quartile	4	4	2	1	2

*Source: FE Analytics, as at 30.09.23, total return, net of fees and income reinvested.
**Source: FE Analytics, as at 30.09.23, primary share class, total return, net of fees and income reinvested.

For a comprehensive list of common financial words and terms, see our glossary at:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

- All investments will be expected to conform to our social and environmental criteria.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.
- The Fund will invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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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