Liontrust UK Growth Fund

September 2023 review

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The Liontrust UK Growth Fund returned 1.7%* in September. The FTSE All-Share Index comparator benchmark returned 1.8% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 0.6%.

The Bank of England (BoE) held interest rates at 5.25%, ending a 14-month streak of hikes, following data which showed inflation slowing from a 6.8% yearly rate to 6.7% in August, rather than rising to 7.0% as economists had forecast. Although the US Federal Reserve also opted to hold rates steady, the market environment remained one of adjustment to a period of higher rates. This is because while further short term rate rises may be limited, investors are increasingly accepting that rates may remain around these levels rather than being swiftly reduced.

Against this backdrop, company size continued to be a significant driver of stock returns. On the UK market, the all-cap FTSE All-Share Index's 1.8% return was driven by a 2.4% gain for the large-cap FTSE 100. The FTSE 250 mid-cap index retuned -1.5%, while the FTSE Small Cap Index registered a 0.5% gain and the FTSE AIM All-Share Index lost 1.2%.

Within the Fund's portfolio, integrated oil and gas giants **BP** (+9.0%) and **Shell** (+8.1%) benefitted from a 10% rise in crude oil prices to over $95 a barrel as Saudi Arabia and Russia implemented supply cuts. BP's shares largely shrugged off the departure of CEO Bernard Looney in the wake of allegations surrounding a lack of disclosure of historical personal relationships with colleagues.

RELX (+7.6%) shares continued their upward march following late July interims which were marginally ahead of consensus, delivering strong upper-single-digit organic growth and demonstrating the resilience of the analytics group's subscription-led business model.

GSK's (+7.4%) share price was supported by early prescription and market share data coming through following the launch of the pharma company's key new *Arexvy* vaccine, giving protection against respiratory syncytial virus (RSV) for older adults.

Also among the Fund's key positive contributors, **Future** (+15%) is a smaller portfolio position which enjoyed a bounce in September. As has been discussed in previous months' reviews, Future has been under very significant share price pressure over the past two years driven by the combination of an aggressive de-rating, concerns over the impact of macro-economic pressures on advertising budgets, and fears over the potential medium-term effect of AI advances on the business model. Share price strength came late in the month as the company released a trading update for its fiscal year ending September, confirming adjusted operating profitability in line with expectations and some green shoots of stabilisation and improving momentum into the end of the year.

Turning to the Fund's detractors, **Synthomer** (-50%) was a very large faller, although its impact on performance was limited by its small position size in the Fund. Shares in the company have been decimated since their peak in 2021, due to a nasty combination of balance sheet stretch and trading weakness. The chemicals business performed very strongly in Covid as one of its divisions is a supplier of latex to medical glove manufacturers. However, the company has experienced issues with persistent industry over-capacity and destocking trends since the end of the pandemic, compounded by more recent macro-related demand weakness in its other divisions. Meanwhile, due to a debt-funded and (with hindsight) extremely poorly-timed acquisition in 2022, leverage has sharply risen. While new management have been busy refining the strategy, completing cost efficiency, cash preservation and refinancing measures over the last year, this all came to a head in September with the announcement of a deeply-discounted rights issue as a 'last resort' to put the company back on a firmer balance sheet footing from which to rebuild.

Halma (-10%) shares eased over the month despite a half-year trading update confirming full year guidance in line with prior expectations (mid single-digit organic growth and return on sales of around 20%), though with a marginally increased weighting to the second half of the year. While the safety technology specialist continues to benefit from its broad end market and geographic diversification, the shares carry a premium valuation (reflecting a long history of consistent delivery), and some elements of caution in the update (notably slower order intake in Healthcare thanks to destocking trends and budget constraints, as well as some weakness in China) served to knock investor confidence.

Spirax-Sarco Engineering (-14%), like Halma, has long been rewarded with a premium valuation by the market for its history of high quality, consistent growth. However, in the absence of newsflow during the month, the market's concerns over the impact of the weakening global industrial production backdrop on forthcoming newsflow weighed on shares in the steam management and pump specialist engineer.

Positive contributors included:
Future (+15%), BP (+9.0%), Shell (+8.1%), RELX (+7.6%) and GSK (+7.4%).

Negative contributors included:
Synthomer (-50%), Brooks Macdonald Group (-12%), Halma (-9.6%), WH Smith (-8.4%) and Spirax-Sarco Engineering (-6.0%),

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 UK Growth I Inc	10.9%	-5.5%	26.1%	-11.0%	3.0%
FTSE All Share	13.8%	-4.0%	27.9%	-16.6%	2.7%
IA UK All Companies	12.8%	-15.3%	32.4%	-12.8%	0.0%
Quartile	3	1	3	2	2

*Source: Financial Express, as at 30.09.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 30.09.23, 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 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.

- 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.
- 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.