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# Economic Advantage

## January 2024 review

# Liontrust GF UK Growth Fund

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**The Liontrust GF UK Growth Fund returned 0.1%* in January. The Fund's comparator benchmark, the FTSE All-Share, returned -1.3%.**

The year kicked off with investors continuing to debate whether key economies will avoid recession and execute a 'soft landing' in the face of the pressure applied by the two years' of rising interest rates.

Markets retreated slightly from their late-2023 conviction that this year will bring swift interest rate cuts as inflation comes down to target. There had previously been growing talk of Goldilocks conditions in which economic activity is sedate enough to allow for interest rate cuts but not so low that it might contract. On balance, January's data seemed to edge investors more towards the 'too hot' scenario in which evidence of economic strength might delay or reduce the extent of rate cuts.

The Economic Advantage investment process intentionally adopts a bottom-up focus and avoids any attempt to position portfolios based on a macroeconomic view. As such, we spend a lot of time gauging conditions through company-level news flow. In this respect, January is often an informative month due to the volume of companies providing trading updates for the period to 31 December.

This time round, the portfolio conformed to the cliché of a 'mixed bag' of updates – one that seems consistent with the finely balanced economic conditions most commentators describe. While many companies recognise that the outlook is more uncertain than normal – and contains headwinds and challenges in certain sectors – it also seems sufficiently benign that many companies have been able to successfully execute their growth plans.

As is always the case, there were also instances of companies suffering setbacks. With investor sentiment proving a more subdued compared with the bullish end to 2023, some of these stocks shares were heavily penalised.

Shares in GSK (+8.1%) started 2024 strongly, helped by a broker moving its research rating to 'buy' on a more upbeat assessment of the company's growth prospects. On the last day of January, they received another boost with the release of an upbeat set of 2023 results. The pharma giant recorded sales of over £30bn, up by 5%;

excluding the impact of Covid products that are retreating from their peak, sales growth was 15%. GSK maintained 2024 guidance of 5% to 7% sales growth and 7% to 10% adjusted operating growth, and it upgraded its 2021 to 2026 average annual growth targets to 7% for sales and 11% for operating profit.

Next 15 Group (+10%) moved higher on an in-line full-year trading update and an upbeat outlook. The data-driven growth consultancy expects 3% revenue growth for the year to 31 January, in line with its expectations, while operating margins will expand slightly despite ongoing inflationary pressures. Following a number of new business wins in the last few months, Next 15 believes growth will accelerate in the new financial year.

Wood Group's (-8.5%) 2023 trading update was largely upbeat but the shares lost some ground on a slight deterioration in its balance sheet. The engineering and consultancy business recorded 9% revenue growth to $6bn, while adjusted EBITDA grew at the same rate to more than $420m – slightly ahead of guidance. The update also revealed a 4% upgrade to its forward order book, which now stands at $6.1bn across the energy and materials industry clients Wood Group serves. However, despite maintaining a commitment to achieve positive free cash flow in 2024, investors were disappointed to see net debt drift up to $680m in 2023 after an adverse currency impact of $15m.

TI Fluid Systems (-6.8%) has shown some relative strength since a Q3 trading update released in early November, but it gave back some ground after January's solid full-year update. The automotive fluid systems specialist commented that Q4 saw further good performance, resulting in full-year financials slightly exceeding market expectations. Double-digit percentage growth punished revenues to around €3.5bn, while its adjusted operating profit margin rose to 7.4%.

Similarly, WH Smith (-7.7%) made gains in November following its release of full-year results, but it gave up some ground in January. Towards the end of the month the retailer issued an in-line trading update covering the 20 weeks to 20 January. Revenue was up 8% year-on-year overall, driven by 15% growth in the UK, with good demand in its Travel unit which was boosted by improving airport passenger numbers and strong demand in hospitals and rail stations. At its High Street division, sales continue to decline and the company's focus remains on cost control.

## Positive contributors included:

Indivior (+17%), Next 15 Group (+10%), GSK (+8.1%), BAE Systems (+6.0%) and Reckitt Benckiser (+5.3%).

## Negative contributors included:

Wood Group (-8.5%), Smiths Group (-8.0%), WH Smith (-7.7%), Coats Group (-7.5%) and TI Fluid Systems (-6.8%).

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

| | Dec-23 | Dec-22 | Dec-21 | Dec-20 | Dec-19 |
|---|---|---|---|---|---|
| Liontrust GF UK Growth C3 Inst Acc GBP | 4.5% | -0.4% | 21.5% | -8.1% | 19.5% |
| FTSE All Share | 7.9% | 0.3% | 18.3% | -9.8% | 19.2% |

| | Dec-18 | Dec-17 | Dec-16 | Dec-15 |
|---|---|---|---|---|
| Liontrust GF UK Growth C3 Inst Acc GBP | -6.4% | 13.2% | 17.0% | 9.0% |
| FTSE All Share | -9.5% | 13.1% | 16.8% | 1.0% |

*Source: Financial Express, as at 31.01.2024, 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 31.12.2023, 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 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.

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