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Economic Advantage

March 2024 review

Liontrust GF UK Growth Fund

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The Liontrust GF UK Growth Fund returned 3.5%* in March. The Fund's comparator benchmark, the FTSE All-Share, returned 4.8%.

The FTSE All-Share was one of a number of major stock indices globally to hit all-time highs in March as the latest forecasts from the US central bank painted a benign picture for the world's largest economy. Although the Federal Reserve left rates unchanged as expected, it still plans to cut by 75 basis points – three quarter-point reductions – over the course of 2024. At the start of 2024, investors had been forecasting a cut in March followed by three or four further reductions during the year. Together with a lift in the Fed's 2024 economic growth forecast to 2.1% from 1.4% previously, the prospects of a market-friendly 'soft landing' or even 'no landing' appear to have risen. At the same time, recessionary 'hard landing' fears associated with central banks' attempts to bring down inflation have eased.

March saw a number of investor updates from portfolio holdings, many of them providing full details of 2023 trading.

Full-year results from TP ICAP (+26%) were better than expected, with record adjusted operating profit of £300 million representing 9% growth over 2023. Overall revenue growth of 3% was driven by an 18% increase in its energy & commodities division. TP ICAP has been benefitting from high interest rates as well as elevated macroeconomic and geopolitical uncertainty, which serve to drive volatility higher and boost the inter-dealer broker's volumes. The company expects these supportive conditions to persist in 2024; it comments that trading in the first two months of the new year are in line with consensus forecasts for the full year. However, a much more significant driver of the share price bounce was the company's confirmation that it is exploring ways to unlock the value of its data and analytics division, Parameta Solutions, including via a potential IPO of a minority stake. TP ICAP commented that "Parameta's significant growth prospects, and the intrinsic value of the business, are not appropriately reflected in our share price".

Coats Group's (+19%) 2023 results were also positively received, despite a 6% constant currency fall in revenues to $1.39 billion. The industrial threads and footwear component manufacturer expanded operating profit margin to its 17% target, allowing it to grow profits by 2% to $184 million. The company commented that widespread industry destocking impacted volumes in 2023, but it believes this trend is beginning to fade away as inventory levels normalise. Coats also claims that – against this tough backdrop – it expanded market share by 200 basis points in both apparel (to c.25%) and footwear (to c.27%).

Likewise, Savills (+16%) shares responded positively to evidence it is showing some resilience to tough market conditions. The real estate group's transactional advisory revenues – around a third of the total – dropped 17% in 2023 as high interest rates and uncertainty in the office sector limited transaction volumes. Leasing activity also softened as economic uncertainty led companies to delay committing to new contracts. However, its less transactional divisions – including consultancy and property management – grew revenue 7%, limiting the overall group revenue decline to 3% for the year (to £2.2 billion). Looking forward, Savills expects lower interest rates and sustainability considerations to drive transaction volumes. While it still expects the market to be characterised by significant economic uncertainty, it sees the worst as behind it following a 2023 which saw the lowest transaction volumes for a decade.

Shares in Synthomer (+78%) were one of the Fund's poorest performers during 2023, losing 80% of their value due to balance sheet concerns, triggered by an ill-timed debt-funded acquisition in 2022 coinciding with cyclical demand pressures and destocking issues in its medical latex glove division. The Fund participated in a rights issue to strengthen the balance sheet in September 2023, so it was pleasing to see the shares bounce strongly in March on signs of early recovery in demand. During 2023, revenues fell by 16% to £1.98 billion as volumes dropped 9.9% and lower raw material costs were passed through to prices. This dropped through to a 44% drop in EBITDA. In early 2024, Synthomer says that trading has been cautiously encouraging, with short-term restocking by customers, although the company stopped short of predicting a more broad-based recovery in demand.

Global learning group Pearson (+10%) released a solid set of results showing 5% underlying sales growth, stripping out businesses being sold or wound down. Adjusted operating profit rose 31% on an underlying basis as margins expanded following significant efforts to control costs. Pearson expects to meet analyst forecasts for 2024.

Interim results from YouGov (-12%) gave a more mixed picture of trading. While the research data and analytics group said Q1 was slower than expected with sales cycles remaining long, momentum accelerated in Q2 and the company maintains full-year guidance. Underlying revenue growth was 2% across the six months while adjusted operating profits fell 4% on an underlying basis due to a 100 basis point contraction in margin. However, the integration of CPS (Consumer Panel Services) – the European household purchase data business purchased last year – has gone well and medium-term targets for the deal have been increased. The inclusion of CPS boosts revenue growth to 9% (to £143 million), while adjusted operating profit rose 23% to £27.9 million as the deal lifted group adjusted operating profit margins by 200 basis points. YouGov has lifted its CPS medium-term revenue target to £650 million (up from £500 million).

Having weakened in February due to a surprise decline in Q4 sales, shares in consumer goods group Reckitt Benckiser (-9.7%) lost more ground in March. Investors looked to price in the litigation risks relating to its Mead Johnson Nutrition subsidiary after a court in Illinois awarded $60 million in damages to the mother of a premature baby that developed a fatal bowel condition following use of its Enfamil formula. Reckitt plans to appeal the decision and has emphasised it believes there is no link between its products and necrotising enterocolitis.

Wood Group (-10%), the engineer to energy and materials industries, reported 2023 results showing expansions in revenue, adjusted operating profit, and adjusted operating profits, but exceptional items still driving negative free cash flow. The short-term free cash flow picture is set to remain poor as it invests £50 million in a simplification programme, but this should yield results further down the line. Wood Group expects to be free cash flow positive by 2025.

The Fund added a new position in March in the form of Keywords Studios, a provider of outsourced services to the video gaming sector. The company helps its customers with all aspects of the video game creation and publishing chain, from content creation, functional testing and localisation to player engagement. We believe it to have a compelling intangible asset advantage in its distribution capability: Keywords is the clear leader in its market with around three times the share of its next biggest competitor, and it enjoys key strategic relationships, counting 24 of the top 25 gaming businesses globally as customers. The shares have slid heavily over the course of the previous few years, thanks to investor concerns over both the cyclicality of end market demand and the potential impact of AI on the company's business model. With the shares trading at well under half their long run average valuation (closer to 1/3 of long run average on some metrics), we believe this presents a compelling opportunity. Recent results demonstrate that Keywords has continued to grow revenue organically in the mid to high single digits, materially outperforming their market. Meanwhile, although AI advances will undoubtedly influence how certain of the company's services are delivered over the medium to longer term, we believe the risk here has been overstated. Keywords is actively investing in AI technology and, as the market leader, is also in a strong position to act as an aggregator, partnering with best-of-breed third-party providers to help customers unlock the significant efficiencies and productivity gains on offer.

Positive contributors included:

Synthomer (+78%), TP ICAP (+26%), Coats Group (+19%), Savills (+16%) and Pearson (+10%).

Negative contributors included:

YouGov (-12%), Wood Group (-10%), Reckitt Benckiser (-9.7%), RWS Holdings (-9.2%) and Keywords Studios (-9.1%).

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF UK Growth C3 Inst Acc GBP	7.2%	3.3%	13.1%	23.5%	-13.5%
FTSE All Share	8.4%	2.9%	13.0%	26.7%	-18.5%

	Mar-19	Mar-18	Mar-17	Mar-16	
Liontrust GF UK Growth C3 Inst Acc GBP	6.4%	2.0%	21.9%	1.9%	
FTSE All Share	6.4%	1.2%	22.0%	-3.9%	

*Source: Financial Express, as at 31.03.24, 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 31.03.2023, 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 (SRI)[2]	4
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 PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

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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.

Disclaimer