

# Liontrust UK Smaller Companies I Acc

November 2021  
Investment Research



## Overview

The focus of the fund is on growing the capital value of investments over time through a portfolio of small sized, UK listed companies. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

## Square Mile Expected Outcome

We believe outperformance of the FTSE Small Cap (ex Investment Trust) index by 2% per annum over rolling five year periods is a reasonable expectation.

<b>Active/Passive:</b> Active	<b>Domicile:</b> United Kingdom
<b>Asset Class:</b> Equity	<b>IA Sector:</b> IA UK Smaller Companies
<b>Launch Date:</b> 07/08/1995	<b>Fund Size (as at 12 Nov 2021):</b> £1759.5m
<b>Yield:</b> 0.00%	<b>Distribution Pay Date:</b> May 01 (Final)
<b>Fund Manager:</b> Anthony Cross, Julian Fosh, Matthew Tonge, Victoria Stevens	<b>Ongoing Charge Figure:</b> 1.33%
	<b>Transaction Cost ex Ante:</b> -0.14%



## Fund Opinion

We believe that this fund benefits from a number of compelling attributes. Under the leadership of Anthony Cross, Liontrust's Economic Advantage team of five, may be modest in number but works in a highly collegiate manner with its members having complementary skill sets. This is evident through the involvement of Julian Fosh, who despite spending much of his time analysing larger companies, provides more of a governance and oversight role to this strategy. As the architect of the approach employed, Mr Cross has been involved with this strategy for over 20 years but has sensibly bolstered the team's resources with a particular focus on firms further down the market capitalisation scale.

The investment process applied is considered, well defined and steers the fund's management team towards relatively steady businesses that it believes have a competitive edge and are gradually growing and generating high levels of cash. The emphasis here is very much on a firm's intangible strengths, which by their very nature are difficult to assess using more traditional analytical techniques and therefore are often overlooked by many market participants. Furthermore, shareholder alignment is critical to the approach. Indeed, the managers will simply not invest in a company if its management team do not own at least 3% of the firm's equity, and are quite prepared to sell their investment if ownership falls below this level.

It is important to note that, given the type of company sought, this fund may look markedly different from its benchmark and is also likely to have significant exposure to AIM listed companies. Given the fund's emphasis on smaller companies, steps have been taken to limit the fund's capacity, though we do not necessarily see this as a negative for it both protects existing investors and ensures the integrity of the approach. Although, we note that an above average fee is applied, the fund's return profile net of all fees is exemplary.

## Fund Description

Liontrust Asset Management plc is a firm that allows each of its underlying investment teams the freedom to independently manage their respective strategies, according to their own investment processes and market views. The team responsible for this fund is known as the Economic Advantage team, and consists of five members. The most senior member and team head, Anthony Cross, is the architect of the philosophy and process and has managed the fund for over 20 years. Julian Fosh was hired in 2008 and given his emphasis on analysing larger companies, does not spend a significant amount of his time on the day to day running of this fund. In 2015 the managers were joined by, Victoria Stevens, who arrived from a corporate broker firm in 2015 and an internal hire, the former head of the group's dealing desk, Matthew Tonge. Both work closely with Mr Cross providing detailed company analysis. In March 2020, Alex Wedge joined the team as a trainee fund manager from N+1 Singer, a dedicated small cap broker, where he was a senior member of the equity sales team.

The overarching philosophy stems from the belief that companies which have a durable competitive edge will generate above average returns over the long run. During the initial part of the process, the team excludes all non-profit making companies and those without a UK based headquarters. In addition, companies where board level ownership is below 3% are not considered; an important factor as the belief is that management must be aligned with the long term profitability of the company. In practice, the average management equity ownership level of a company in the fund is above 20%. The team also tends to avoid companies who's businesses are reliant on factors outside of their control such as utilities and mining, or those businesses which the managers struggle to fully understand such as a number of financial services companies. These initial criteria help to reduce the investible to approximately 450 companies.

For a company to have an edge, which is both durable and competitive, the managers believe that it needs to have at least one of the following three characteristics. Firstly, intellectual property that can be gained through possession of legally protected patents and copyrights, or through more informal means such as trade secrets or specialist know-how that is difficult to replicate outside of the organisation. Secondly, the firm may have a strong distribution network that is in a physical or electronic form. Thirdly, the business may generate recurring revenue streams that stem from the brand or convenience of the product it offers. These three factors go towards building a company's intangible asset profile, which are not evident on the company's balance sheet but nevertheless act as a critical component of a company's competitive advantage.

Having identified promising companies which possess these attributes, the team then analyses the firm's accounts to evaluate if its favourable competitive positioning has been converted into above average profit's generation. The primary tool used to assess this is Canaccord Genuity's Quest database, which examines if a company's cash flow return exceeds its cost of invested capital - a prerequisite for investment. Companies that have no history of financial productivity are not pursued.

The resultant portfolio tends to consist of around 60 - 70 stocks. Position sizes are allocated on an absolute basis and are driven by the potential risks the firm may face, its growth potential and ultimately, how attractive the managers consider its valuation. Individual holdings tend not to exceed 4%.

## Risk Summary

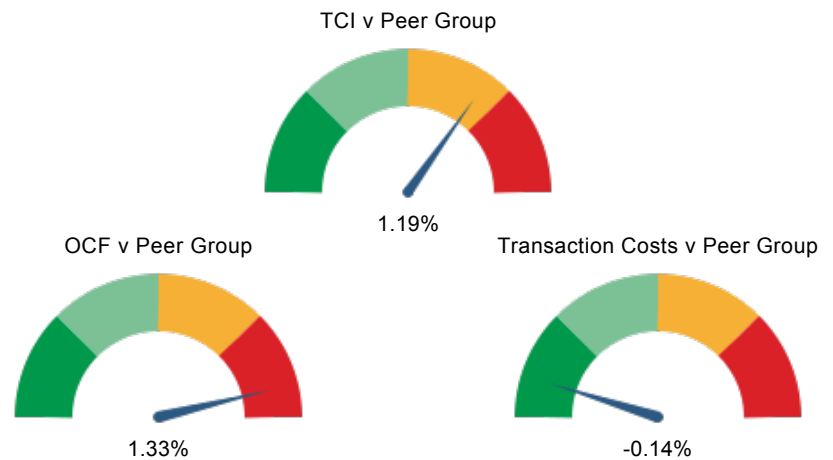
This is an equity based fund investing in UK-listed smaller companies. The fund will be exposed to moves in the stock market and investing in smaller companies has potential liquidity risks. As a result, the fund's returns may see increased levels volatility over short time periods.

The size of the overall strategy is something to remain aware of. Liontrust are monitoring and managing this carefully and have applied a higher than average fee to discourage new large investors. However, the low turnover approach and willingness to be patient when trading means we are comfortable with the present situation.

## Value for Money

Due to the fund's deliberately high annual management charge (AMC), which is designed as a mechanism to reduce the pace of inflows, its ongoing charge figure (OCF) is some way higher than the peer group average. Its transaction costs, however, are very reasonable, resulting in a total cost of investment (TCI) that is slightly above the peer group average. However, in our view, this premium is fully warranted as the fund provides access to a unique, tested and well-proven strategy managed by a highly credible team.

Furthermore, in line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, including items outside of the OCF, such as research costs. Liontrust absorbs the costs associated with its research.



## ESG Integration

<b>Company Assessment</b>	0	1	2	3
ESG factors are considered formally but are not instrumental within all of the company's investment processes.				
<b>UN PRI Strategy &amp; Governance Rating</b>	A+			
<b>Fund Assessment</b>	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Additional Information

<b>Annualised Return</b>	19.83%
<b>Annualised Volatility</b>	15.87%
<b>Max Drawdown</b>	-30.50%
<b>Max Gain</b>	23.39%
<b>Max Loss</b>	-30.50%
<b>Sharpe Ratio</b>	1.17
<b>Sortino Ratio</b>	0.84

(3 years data to last month end unless otherwise stated)

### Currency of Share Class

GBP

### Fund Price (as at 12 Nov 2021)

2410.1 pence

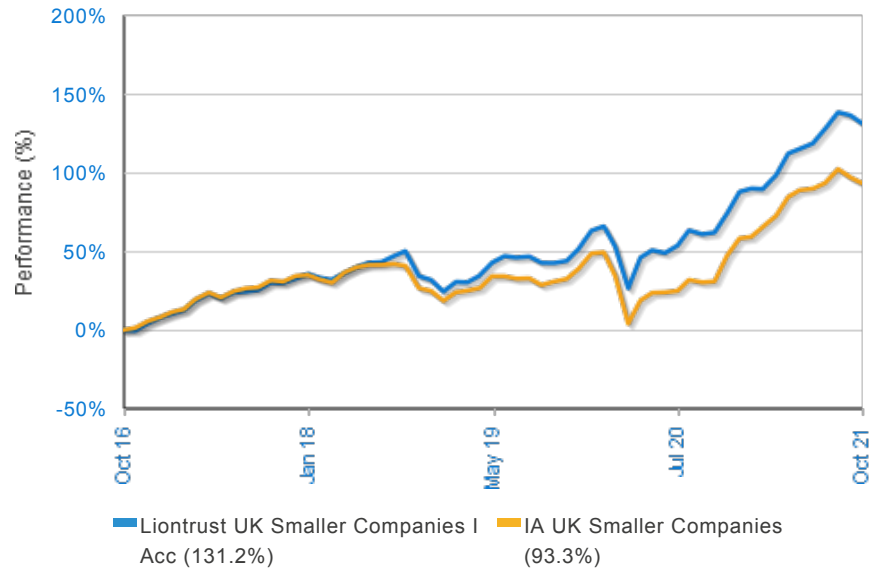
### Benchmark

FTSE Small Cap Ex ITs

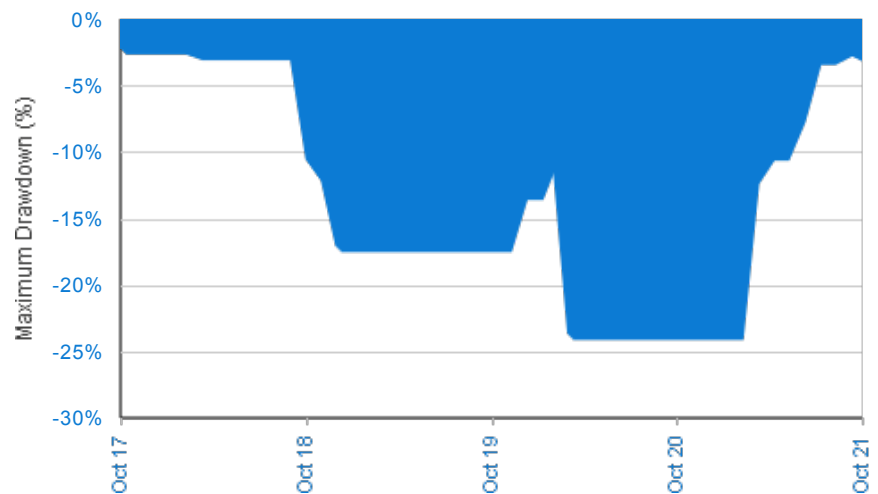
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	46.9	51.1	3
12-24m	12.8	-0.4	1
24-36m	-5.0	-7.1	2
36-48m	19.7	10.8	1
48-60m	23.8	25.0	3

## Capital Growth



## Maximum Drawdown (Rolling 12 Months)



## Top Ten Holdings

(Data as at 29 Oct 2021)

Company Name	%
NEXT FIFTEEN COMMUNICATIONS GROUP	2.8
YOUGOV	2.8
ROBERT WALTERS	2.6
DOTDIGITAL GROUP PLC	2.5
RWS HLDGS	2.4
MORTGAGE ADVICE BUREAU (HLDGS) PLC	2.4
IMPAX ASSET MANAGEMENT GROUP PLC	2.2
ALPHA FX GROUP PLC	2.1
CLIPPER LOGISTICS PLC	2.0
JTC PLC	1.9

## Sector Breakdown

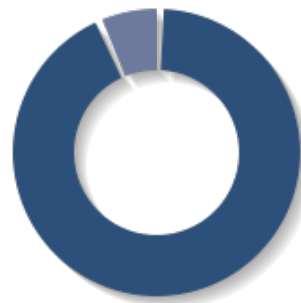
(Data as at 29 Oct 2021)



- Industrials (22%)
- Financials (22%)
- Technology (19%)
- Consumer Discretionary (17%)
- Health Care (9%)
- Money Market (7%)
- Consumer Staples (2%)
- Real Estate (1%)
- Basic Materials (1%)

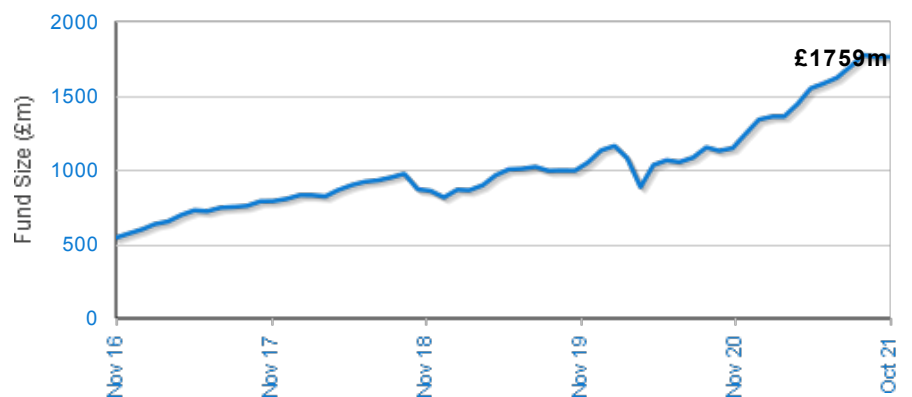
## Geographic Breakdown

(Data as at 29 Oct 2021)



- UK (93%)
- Money Market (7%)

## Assets Under Management



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk			●
Liquidity Risk	●		
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk	●		

### Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress. Share prices of smaller companies can be more volatile than the wider market.

### Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

### Credit Risk

This fund does not have significant exposure to corporate debt.

### Exchange Rate Risk

The fund is predominantly invested in domestic assets.

### Liquidity Risk

The fund invests in smaller companies and may have to resort to disposing of assets at below fair value when selling shares to meet client redemptions. The risks of this happening are most acute at times of financial distress.

### Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The lead manager, Anthony Cross, is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if he were to leave.

FE Risk Rating: 77.00

SRRI: 5

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