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## Liontrust GF Special Situations Fund

### October 2022 review

Fund managers: Anthony Cross and Julian Fosh

**The Liontrust GF Special Situations Fund returned 3.8%\* in October. The Fund's comparator benchmark, the FTSE All-Share, returned 3.1%.**

The UK equity market recovered from mid-month to post a solid gain in October, with the mid-cap FTSE 250 index (+4.5%) arresting its heavy year-to-date underperformance of large-caps. The market rally was a global phenomenon, which was helped along in the UK by a conclusion to the latest episode of political turmoil with the resignation of Chancellor Kwasi Kwarteng, the reversal of his mini-budget measures by his successor Jeremy Hunt and the subsequent departure of Liz Truss as prime minister.

With equities enjoying a reprieve from this year's prevailing headwinds, some recent underperformers recovered ground. Sustainable investing specialist **Impax Asset Management** (+28%) has been one of the stocks most affected by rising interest rate expectations and the accompanying de-rating of high forecast growth businesses. Its shares rallied in October on evidence of solid underlying inflow trends; in Q3, it recorded net asset inflows of £606m, taking its 30 September 2022 total assets under management to £35.7bn. Although this figure is down on the £37.2bn a year ago, this is due to the impact of falling markets (-£4.4bn), with net flows still positive for the year at £2.9bn, an impressive achievement given current levels of investor uncertainty.

Staying with the Fund's investment management and platform businesses, a negative market movement effect of £7.4bn for **AJ Bell** (+21%) outweighed £5.8bn of net inflows in the year to 30 September to push assets under administration down 2% to £69.2bn. While the market backdrop is clearly out of its control, investors were encouraged by underlying business trends: the net inflow was underpinned by 16% organic growth in its customer base to over 425,000, with good growth for both its advised channel and its direct-to-consumer offering.

**Hargreaves Lansdown's** (-12%) quarterly trading update followed a similar pattern – falling assets as net inflows are outweighed by market weakness – but sentiment towards the shares was dented by the announcement of its CEO's departure. Chris Hill has been in the post since 2017 and as recently as February 2022 launched a new company strategy; he will leave Hargreaves by November 2023.

**Coats Group** (+20%) moved higher as investors reacted positively to a Capital Markets Day focused on the company's footwear division. Coats has expanded the scale of its footwear unit significantly recently with the acquisitions of US businesses Texon and Rhenoflex. It has now issued medium-term sales growth guidance of 7% to 8% per annum for footwear, with an operating profit margin target of over 20%. This higher divisional forecast has shifted up the overall group's medium-term targets (inclusive of its apparel and performance materials divisions) from 5% to 6% sales growth per annum, with an operating margin target of 17%.

Coats also reiterated the message, already conveyed within interim results, that it has been able to offset cost inflation through price increases and internal efficiency measures. Pricing power has long been one of the most valued characteristics we look for in the Economic Advantage investment process, stemming in our view from the barriers to competition provided by companies' intangible and difficult-to-replicate assets.

Elsewhere within the portfolio, **PageGroup** (+14%) moved higher on a reassuring Q3 trading update. Quarterly gross profit of £271m was up 14% year-on-year in constant currency terms, putting the recruiter well on track to achieve consensus forecasts for full-year operating profit of £204m.

Precision measurement specialist **Spectris** (+11%) also confirmed full-year guidance when issuing a Q3 update. Its 10% like-for-like sales growth for the quarter means that it has also achieved 10% through the first nine months of the year, leaving it in a strong position to hit its full-year target of high single-digit percentage growth. It also announced new medium term targets, including 6% - 7% through-the-cycle organic sales growth.

Cloud computing provider **iomart** (-17%) slid after issuing an interim trading update which warned that profit margins are no longer expected to recover sufficiently to hit its prior full-year profit guidance.

**Positive contributors included:**

Impax Asset Management (+28%), Spectris (+11%), Coats Group (+20%), PageGroup (+14%) and BP (+11%).

**Negative contributors included:**

iomart (-17%), Moonpig Group (-14%), Hargreaves Lansdown (-12%), DotDigital (-11%) and Smart Metering Systems (-8.1%).

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

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust GF Special Situations C3 Inst Acc GBP	-16.7%	25.2%	-3.4%	3.1%	13.4%
FTSE All Share	-4.0%	27.9%	-16.6%	2.7%	5.9%

	Sep-17	Sep-16	Sep-15	Sep-14
Liontrust GF Special Situations C3 Inst Acc GBP	12.6%	22.8%	6.0%	5.8%
FTSE All Share	11.9%	16.8%	-2.3%	6.1%

\*Source: Financial Express, as at 31.10.2022, 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 30.09.2022, 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 (08.11.12). Investment decisions should not be based on short-term performance.

**Key Features of the Liontrust GF Special Situations Fund**

Investment objective & policy <sup>1</sup>	The investment objective of the Fund is to provide long-term capital growth by investing in mainly UK equities using the Economic Advantage investment process. The Fund invests at least 80% in companies traded on the UK and Irish stock exchanges. The Fund is not restricted in choice of investment in terms of company size or sector. The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRRRI) <sup>2</sup>	5
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 KIID of the fund; 2. SRRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>

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**Key Risks:**

**Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.**

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.

A proportion of the portfolio is invested in smaller companies and companies traded on the Alternative Investment Market. These stocks may be less liquid and the price swings greater than those in, for example, larger companies.

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