

Liontrust Special Situations Fund

October 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust Special Situations Fund returned 3.9%* in October. The FTSE All-Share Index comparator benchmark returned 3.1% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 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 Special Situations I Inc	-16.0%	27.6%	-3.7%	2.8%	13.8%
FTSE All Share	-4.0%	27.9%	-16.6%	2.7%	5.9%
IA UK All Companies	-15.3%	32.4%	-12.8%	0.0%	5.5%
Quartile	3	3	1	2	1

*Source: Financial Express, as at 31.10.22, total return (net of fees and income reinvested), bid-to-bid, institutional class.

**Source: Financial Express, as at 30.09.22, 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 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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