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Liontrust GF Special Situations Fund

November 2022 review

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The Liontrust GF Special Situations Fund returned 7.7%* in November. The Fund's comparator benchmark, the FTSE All-Share, returned 7.1%.

Global equities recovered further in November, helped along by hopes that the pace of monetary policy tightening may be set to slow. The US Federal Reserve and Bank of England both implemented 75 basis point hikes in November, while the European Central Bank had lifted rates by the same amount at the end of October.

More important than the scale of this month's moves were the comments regarding the future direction of policy. Minutes from the Federal Reserve's rate-setting meeting and comments from its Chair, Jay Powell, noted that rates may need to peak higher than previously anticipated, but also suggested that future rate hikes may be smaller and slower, as the Fed waits to observe the cumulative impact of the policy measures already taken.

As investors weighed up whether this should be interpreted as a hawkish or dovish message, weaker-than-expected consumer price inflation tipped them towards the latter and added fuel to the recovery in risk asset prices. Inflation for October came in at 7.7% year-on-year, the lowest since January, down from June's peak of 9.1%, and below forecasts of 7.9%.

With a number of companies updating on trading on the period to 30 September, it was a busy month for portfolio newsflow, the majority of it fairly constructive.

Dotdigital Group (+28%) continued to recover from its heavy fall in March, which came after it warned of a post-lockdown unwinding of customer buying behaviour as well as tight labour market conditions in the US. In July, the omnichannel marketing automation specialist announced that revenues for the year to 30 June would exceed re-based expectations, and the release of full-year results in November triggered another leg up for the shares. The company commented that positive trading momentum has carried over into the new financial year, with the prior challenges now waning and market conditions improving overall. It is on track to meet expectations for revenue growth next year, while profitability is marginally ahead of forecasts.

Kainos Group (+30%) is an outsourced provider of IT design and support services primarily to the public sector and healthcare industry. Long-term customer relationships and ongoing demand from the NHS have meant that its business has proven resilient to a challenging economic backdrop. In November, it reported 26% year-on-year revenue growth to £180m in the six months to 30 September, while bookings rose 18% to £222m, taking its contracted backlog to £308m. At 53%, growth was particularly strong in its international operations, lifting its share of the group total to one-third.

Domino's Pizza Group's (+27%) shares eased back earlier in the year on a weaker outlook for consumer spending and due to the impact of food cost inflation. Although margins came under pressure in the first half of the year, Domino's has planned to pass costs on to franchisees in a lagged manner; investors will therefore be encouraged that November's Q3 trading update maintains full-year profit guidance, suggesting its approach is working so far. Its recent sales performance has been good: like-for-like systems (excluding the impact of VAT changes) grew 2.4%, and has accelerated to 10.4% in the first six weeks of Q4.

The company has also continued to retreat its fledgling international operations by exercising a sell option on its German division, which it expects to generate a profit on disposal of £40m - £50m. As part a tighter capital allocation framework applied since March 2021, Domino's also announced a new £20m share buyback.

Due to solid trading and strength in the US dollar, **Keywords Studios** (+22%) now expects both revenues and profits for 2022 to be ahead of its previous guidance. The support services provider to the video games industry also included upbeat 2023 outlook comments within a trading update, noting that organic growth may moderate but should remain well above its medium-term target of 15%. Keywords Studios anticipates a 2023 financial performance which is towards the upper end of the current analysts' forecast range.

The Fund's engineers also saw some strength in November, with **Rotork** (+17%) leading the way. Component supply chain issues contributed to slightly slower than expected sales growth earlier in the year for the provider of flow control solutions. However, a November trading update showed that attempts to address these issues have begun to pay off, with direct purchasing and forward buying of semiconductors yielding improvements. Together with robust customer demand and higher selling prices, this generated organic constant currency revenue growth of 19% in the four months to 30 October.

Weir Group (+16%) also noted that supply chain and logistics challenges are easing, while additionally commenting that gross margins have been maintained despite input cost inflation. With commodity prices remaining elevated, Weir Group experienced strong demand for its products in Q3, particularly for aftermarket spares which saw 21% order growth.

Among the portfolio detractors, **Paypoint** (-7.4%) shares gave up some ground on news of its agreed £76m deal to buy Appreciate Group, a gift card and reward scheme provider in the UK. The cash-and-shares offer equated to an offer price of 44p a share, a 69% premium to Appreciate's share price – a level which some Paypoint investors may have viewed as too full judging by the share price reaction.

TI Fluid Systems (-8.5%), a provider of highly engineered automotive fluid storage, is benefiting from a recovery in global car production, although it has lagged the uplift slightly. Q3 constant currency revenue growth was 20% in constant currency terms, 760 basis points behind the global light vehicle market's production increase. During this period, growth was constrained by low participation in the Chinese battery electrical vehicle market, which was dominated by domestic suppliers. Investors were also disappointed that TI Fluid Systems' pass-through of input cost increases to customers has only been partial, with further adjustments needed to mitigate margin pressures.

Positive contributors included:
Kainos Group (+30%), Domino's Pizza Group (+27%), Keywords Studios (+22%), Rotork (+17%) and Weir Group (+16%).

Negative contributors included:
Iomart Group (-16%), Midwich Group (-13%), Mortgage Advice Bureau (-13%), TI Fluid Systems (-8.5%) and Paypoint (-7.4%).

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 30.11.2022, 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[1]	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 (SRRI)[2]	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. SRRI = 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

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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