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Liontrust GF Special Situations Fund

January 2023 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust GF Special Situations Fund returned 2.4%* in January. The Fund's comparator benchmark, the FTSE All-Share, returned 4.5%.

Equity markets started 2023 strongly, helped by expectations for a softer landing and fewer interest rate rises.

Although rhetoric from central bankers remained hawkish, futures pricing suggests investors expected – in the US at least – a slightly lower rates peak, followed by rate cuts later this year. Expectations for a June 2023 peak rate began to move below 5%, while the implied rate in a year's time fell towards 4.25%.

The IMF's latest economic forecasts for 2023 global economic growth were revised up from 2.7% (in October last year) to 3.2%, although it expects the UK to slide into recession after cutting its forecast from 0.2% growth to a 0.5% contraction. The IMF observed that global growth has proven "surprisingly resilient".

On the UK stockmarket, rejuvenated risk appetite saw cyclical sectors lead the market higher. Consumer discretionary (+11%) was the FTSE All-Share's best-performing sector, followed by financials (+9.2%). Real estate (+8%) was another area of strength.

Within this environment, the Fund's top risers included **Savills** (+18%) and **Rightmove** (+15%) – benefitting from positive newsflow for the former and improved property sector sentiment overall – and a number of its mid and small-caps, most notably **Learning Technologies Group** (+22%) and **Future** (+19%). But the Fund ultimately had too little cyclical exposure to keep pace with the UK market's sharp bounce. In particular, its low weight to financials was a source of negative attribution, with the banks (+15%) sub-sector rising very strongly.

We believe that the Fund is invested in companies which are dependable, consistent businesses in possession of barriers to competition which give them pricing power. The Fund can sometimes lag the market during periods of sharp recovery when investors re-rate more cyclical businesses, as it did this month. But we expect it to outperform over the course of the cycle, and particularly in more normalised, 'steady state' market conditions where companies are rewarded by investors for delivery of expectations.

Looking at January's newsflow in more detail, **Savills** (+18%) issued a robust update. Alongside other real estate-related businesses, its share price in 2022 reflected the mounting headwinds facing the property market, most notably the rapid move higher in interest rates. It was no surprise then that the shares moved higher in January as it commented it had performed ahead of its expectations for the year and well ahead of the 2019 pre-Covid comparable. Commercial transaction volumes have been hit by the large rise in cost of debt finance, but this was mitigated by unexpected strength in the prime residential market. Outside of London, Savills expects volumes to normalise in 2023 from the abnormally high post-lockdown levels it has seen but expects the London prime market to benefit from its international nature and lower dependence on mortgage finance.

Learning Technologies Group (+22%) issued a very positive full-year trading update. At the interim stage, the company had already commented that the integration of GP Strategies – its recent £284m acquisition – had progressed well, with margin improvements and organic revenue growth ahead of management's expectations. It has now upgraded guidance again, stating it is on track for revenues of at least £595m, ahead of consensus analyst expectations of £589m, and adjusted operating profit of over £100m, compared with expectations of £97.5m.

A 2022 trading update from **Smart Metering Systems** (+12%) outlined a year of strong growth in revenues and smart meter portfolio which has pushed profit-before-tax materially ahead of its prior expectations. Its smart meter portfolio increased from 1.7 million to 2.1 million over the year, with a contracted pipeline of around 2.2 million. Its preferred top-line measure of index-linked annual recurring revenues rose 13% to £97.1m.

In its interim trading update, **Craneware** (-20%) noted that revenues for its Professional Services division had not recovered towards historical levels as expected, leading it to flag that full-year group sales will fall short of market expectations. Cash generation was also disappointing, with cash reserves falling to $38.7m from $41.7m a year ago, and investors will be keen for greater clarity on the causes when interim results are published in March. Due to cost cutting efforts, Craneware still expects to report adjusted EBITDA which is in line with consensus forecasts.

Between its Q3 trading update and full-year 2022 update, **TI Fluid Systems** (-11%) expectations for constant currency revenue growth slipped from “consistent with, or slightly below” global light vehicle production growth (of 6.2%) to 100 basis points below. Some of the deterioration is attributable to a negative sales impact from unexpected production shutdowns in China due to its Covid policies.

Shares in **Big Technologies** (-8.2%) slid despite issuing a full-year trading update which revealed both revenue and adjusted EBITDA were ahead of consensus expectations. It grew revenue by 33% to around £50.0m, ahead of the £48.7m analyst consensus, while EBITDA will be at least £30.0m, above the £28.6m consensus. The company is a provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders. The business has strong intellectual property, some of it patented, and a key selling point to customers is its superior product design compared to competitors. It also boasts high levels of revenue visibility, as contracts with its government customers are very long term in nature (averaging 3-5 years, but in some cases up to 12 years in duration).

Robert Walters (-7.0%) warned that although 2022 profits would be a record level, they are slightly below market expectations. The recruiter blamed an uncertain global economic backdrop for a softening in activity levels in many of its markets during the fourth quarter. Net fee income grew 8% year-on-year in the fourth quarter, a deceleration which saw full-year growth fall to 20%.

Positive contributors included:
Learning Technologies Group (+22%), Savills (+18%), IMI (+12%), Smart Metering Systems (+12%) and Coats Group (+10%).

Negative contributors included:
Craneware (-20%), TI Fluid Systems (-11%), Big Technologies (-8.2%), Robert Walters (-7.0%), AstraZeneca (-5.6%).

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust GF Special Situations C3 Inst Acc GBP	-12.3%	19.3%	-1.4%	21.7%	-2.4%
FTSE All Share	0.3%	18.3%	-9.8%	19.2%	-9.5%

	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Liontrust GF Special Situations C3 Inst Acc GBP	15.4%	16.6%	12.5%	1.3%	18.8%
FTSE All Share	13.1%	16.8%	1.0%	1.2%	20.8%

*Source: Financial Express, as at 31.01.2023, 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 31.12.2022, total return (net of fees and income reinvested), primary class. 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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