LIONTRUST

ECONOMIC ADVANTAGE PROCESS

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Liontrust GF Special Situations Fund

March 2023 review

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The Liontrust GF Special Situations Fund returned -1.5%* in March. The Fund's comparator benchmark, the FTSE All-Share, returned -2.8%.

The month began with strong economic data which lifted expectations for the number of central bank hikes still to come. As news of Silicon Valley Bank's (SVB) demise fed through, the market narrative quickly shifted to one of financial sector resilience, which in turn seemed to reduce the chances of substantial further monetary tightening.

With investors fretting over banks' exposure to a combination of a negative yield curve (meaning more expensive short-term deposit finance and mark-to-market losses on long-term assets) and the risk of deposit flight, the sector took a broad-based hit. Credit Suisse was the highest profile casualty, forced into a government-brokered sale to UBS that wiped out bondholders and the majority of its share price.

Unsurprisingly, the financials sector was the weakest in the FTSE All-Share Index in March, losing 7.5% with the banks sub-segment down by 12%. The Fund has low exposure to the financials sector and no bank holdings, so avoided the worst of March's market weakness.

Although based in the US, SVB had strong ties with the technology sector globally, including companies in the UK. As its balance sheet unravelled and regulators stepped in, many companies – particularly small caps – chose to issue stockmarket updates in order to reassure over their exposure to SVB and liquidity position. Several portfolio stocks were among this number. The common theme was that where SVB exposure existed via deposits or borrowing facilities, it was an insignificant proportion of overall liquidity.

For example, among those companies that updated the market, **Alpha Group International** (+5.2%) moved to reassure clients and investors that it had no direct exposure to Silicon Valley Bank funding and, unlike a bank, keeps client funds in cash at all times rather than using them to finance loans. Alpha Group provides consultancy services and technologies to corporates and institutions looking to manage their currency exposures. Later in the month it released full-year results showing a 27% increase in revenue to £98m and a 42% increase in profit before tax to £47m. Alpha also commented that trading so far in 2023 has been in line with expectations, while it views the long-term market opportunity as larger than ever.

Future (-17%) stated that cash deposits with SVB accounted for less that 3% of its cash on hand (of £26m), while it had £438m of undrawn committed debt facilities excluding c.£25m of undrawn facilities with SVB. Future is a global multi-platform media company which owns publishing brands in specialist consumer and B2B sectors including technology, gaming and entertainment, music, creative and home interest. Shares in the company have been weak since a February trading update which stated that adjusted operating profit would be in line with expectations for the year to 30 September but noted that revenues would be a touch light of forecasts. Its consumer technology brands in particular have seen a slowdown in audience numbers and consumer spending.

RWS Holdings (-16%) has had a similar experience, sliding since a February update which maintained full-year guidance but stated higher growth would be need in the second six-months of the year in order to achieve it. It also updated on SVB exposure, detailing a $220m revolving credit facility of which SVB had committed 10%, a small cash deposit which it thinks is fully protected, and a portion of forward currency contracts. The latter looks to be the most significant, although RWS states that it thinks its overall exposure to SVB is limited and remains on track to meet consensus for profits in the year to 30 September 2023.

The Fund's largest gainer in March was **Mortgage Advice Bureau** (+26%). It reported solid growth in many of its key metrics over 2022: adviser numbers rose 20% to 2,254; gross mortgage completions were 20% higher at £27.3bn; and its market share of new mortgage lending rose from 6.4% to 7.5%. Liz Truss and Kwasi Kwarteng's September mini-budget had a large negative effect on the mortgage market, a headwind Mortgage Advice Bureau has described in detail through two subsequent trading updates. This negative development now looks to be priced into the shares, which have recovered around half the tumble they took in September. As expected, adviser numbers have reduced in the first quarter of 2023 to stand at 2,129 on 24 March. The company expects this metric to stabilise in Q2 and then build in the second half of the year alongside business volumes.

Shares in **Big Technologies** (+14%) have been soft since January, even though a trading statement released at the time stated that 2022 revenue and earnings would be ahead of analyst consensus. It subsequently rallied in March on the release of results that confirmed 2022 revenue of £50m, up 33%, and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of £31m, an increase of 50%. The provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders also commented trading so far in the new financial year has been in line with its expectations.

Reckitt Benckiser (+6.9%) recorded 6.2% constant currency like-for-like net sales growth in the fourth quarter of 2022, taking its total for the year to £14.5bn, up 7.6%. The consumer goods group grew operating profit by 9.2% to £3.4bn in constant currency terms as operating margins expanded by 90 basis points to 23.8%. The majority of the improvement in profitability came from its US nutrition business, where it benefited from temporary supply issues for its competitors.

Returning to the detractors, **Craneware** (-17%) had a tough month. In January it had warned that full-year group sales for the period to 30 June would fall short of market expectations. Investors also noted that cash generation was disappointing, with cash reserves falling to $38.7m from $41.7m a year ago. Although interim results released in March commented that headwinds in the US healthcare market look to be abating, they failed to alleviate these cash flow concerns. Craneware's cash conversion ratio over the six months dropped to 77% of EBITDA as some hospitals face financial pressures, although its not yet suffered any significant bad debts.

Smart Metering Systems (-14%) slid despite issuing a solid set of 2022 results and issuing 2023 guidance that is either in-line with expectations (underlying profit before tax) or marginally ahead (EBITDA). Its preferred revenue measure, ILARR (index-linked annualised recurring revenue), rose 13% to £97m, while its smart meter portfolio increased from 1.7m to 2.1m. It has a contracted smart meter order pipeline of 2.2m and continues to accelerate its meter installation run rate – to 45,000 a month in the second half of the year, up from 30,000 in 2021.

Positive contributors included:
Mortgage Advice Bureau (+26%), Big Technologies (+14%), Reckitt Benckiser (+6.9%), Compass Group (+5.9%) and Alpha Group International (+5.2%).

Negative contributors included:
Next Fifteen Communications (-19%), Future (-17%), Craneware (-17%), RWS Holdings (-16%) and Smart Metering Systems (-14%).

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust GF Special Situations C3 Inst Acc GBP	-0.8%	4.2%	29.5%	-10.7%	8.8%
FTSE All Share	2.9%	13.0%	26.7%	-18.5%	6.4%

	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Liontrust GF Special Situations C3 Inst Acc GBP	7.2%	22.7%	4.3%	7.2%	10.2%
FTSE All Share	1.2%	22.0%	-3.9%	6.6%	8.8%

*Source: Financial Express, as at 31.03.2023, 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 31.03.2023, 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.