Liontrust Special Situations Fund

April 2023 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust Special Situations Fund returned 0.9%* in April. The FTSE All-Share Index comparator benchmark returned 3.4% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 2.5%.

Stockmarkets continued their recovery from March's banking crisis, despite signs that confidence in US-based First Republic Bank had plummeted to levels that led to its collapse. Investors seemed content that systemic problems had been side-stepped through the swift action of regulators in the US and Europe. There was also increasing consensus around the view that the resulting tightening of lending conditions could stymy economic activity sufficiently to remove the need for many more central bank rate hikes.

The Fund's largest absolute stock mover was to the downside as **Focusrite** lost 25%, although the impact on the Fund's performance was limited by the small size of the portfolio position. Updates from the company in February and March noted some weakening in demand but maintained full-year profit expectations, with large contributions expected from product launches in the second half of the year. April's interims showed revenues down 7% year-on-year to £86m in the six months to 28 February. Its sales continue to be affected by soft demand as well as some surplus channel inventory. Focusrite develops hardware and software for the high-quality production of recorded and live sound. It yet again reaffirmed its belief that second-half revenue growth will meet market expectations as it launches new products, although flagged that costs may be elevated due to existing product promotions.

A number of positive returns in the portfolio ensured the Fund sat in positive territory for the month, although slightly behind the FTSE All-Share's rise. One of the top gainers was fund administration provider **JTC** (+13%). Its share price rise reflected 2022 financials which modestly exceeded consensus analyst expectations and an upbeat outlook. The company grew revenue by 36% to £200m over the year, with underlying operating profit rising 42% to £44m. It now expects to achieve its target of doubling its 2020 scale two years ahead of schedule, and has maintained its medium-term guidance of 8% to 10% revenue growth per year.

John Wood Group (+13%) also rose strongly. The provider of consulting and engineering services to the energy and materials sectors has received several takeover proposals from private equity group Apollo this year. After rejecting the first four, it received a fifth and final cash proposal of 240p per share in April, an offer which prompted John Wood Group's board of directors to enter discussions; under the Takeover Code, a firm offer or withdrawal of interest is currently required by 17 May.

Updating on Q1, **Reckitt Benckiser** (+6.3%) announced like-for-like net revenue growth of 7.9%. With inflation still running at very high levels, the household products group successfully boosted revenues by 12 percentage points through price increases, which was partially countered by a smaller negative volume effect of 4.5%. Due to this strong start to the year, Reckitt upgraded its full-year like-for-like net revenue growth target to between 3% and 5%.

Consumer goods peer **Unilever** (+5.9%) is another to have driven sales through price increases. Its 10.7 percentage points of price hikes only resulted in a 0.2 percentage point negative volume effect, with Q1 underlying sales growth netting out at 10.5%. We believe that the intangible asset strengths which the Economic Advantage investment process explicitly seeks out should confer better than average pricing power upon the holdings in the Fund; these strong pricing updates from the consumer goods giants are welcome evidence of that pricing power coming through.

Returning to the detractors, **Learning Technologies'** (-13%) full-year results release didn't give enough impetus to maintain the share price momentum from a very positive full-year trading update in January. The company reported £597m in revenues in 2022, more than double the 2021 level due primarily to the acquisition of GP Strategies, which it says it has now successfully integrated. Its outlook notes a "more challenging macro environment" and guides towards high single-digit growth in operating profit – a pace which may have disappointed against some loftier investor expectations.

RWS Holdings (-15%) had already weakened in February after an AGM update warned that higher growth would be needed in the second six-months of the year in order to achieve full-year forecasts. It then downgraded this guidance within an interim trading statement after reduced levels of activity persisted. Compared with consensus analyst expectations of £133m, it now expects full-year profit before tax of closer to £128m. The intellectual property support services provider commented that certain clients have displayed slower decision making and softer activity levels. It is cutting some cost in reflection of these trends, but is also on the look-out for acquisitions that could accelerate its growth plans.

Renishaw (-12%) slid at the start of April after a research analyst initiated coverage of the stock with an underperform rating due to concerns over the near-term health of its end-markets, particularly the electronics and semiconductor sectors. The company confirmed some of these worries in a quarterly trading update which downgraded its full-year guidance. The specialist in high-tech precision measuring and calibration equipment now expects revenue of £680m to £700m (versus £690m to £730m previously) as subdued market conditions continue.

Kainos (-10%) is an outsourced provider of IT design and support services primarily to the public sector and healthcare industry. Its shares slid despite confirming that results for the year to 31 March 2023 are expected to be in line with consensus and providing upbeat outlook comments.

Overall, while there have inevitably been individual instances of stocks disappointing on short term earnings, we have been very encouraged by the trading resilience of the companies in the Fund, despite the wider macro economic challenges. By the end of April, over 60% of the Fund's holdings have reported an 'in line' set of numbers during the year to date, and, of the remaining companies, the prevalence of upgrades has been notably higher than downgrades..

Positive contributors included:
Alpha Group International (+13%), JTC (+13%), John Wood Group (+13%), Coats Group (+8.0%) and Reckitt Benckiser (+6.3%).

Negative contributors included:
Focusrite (-25%), RWS Holdings (-15%), Learning Technologies (-13%), Renishaw (-12%) and Kainos Group (-10%)

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 Special Situations I Inc	0.1%	5.1%	31.1%	-11.0%	8.9%
FTSE All Share	2.9%	13.0%	26.7%	-18.5%	6.4%
IA UK All Companies	-1.9%	5.4%	38.0%	-19.2%	2.9%
Quartile	3	3	3	1	1

*Source: Financial Express, as at 30.04.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.03.23, 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.

Disclaimer

[23/295]