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Economic Advantage

April 2024 review

Liontrust GF Special Situations Fund

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The Liontrust GF Special Situations Fund returned 0.6%* in April. The Fund's comparator benchmark, the FTSE All-Share, returned 2.5%.

During Q1, UK markets went through a somewhat muted re-run of the pattern of 2022 – when the performance of mega and large caps diverged from mid and small caps, and AIM stocks in particular. The FTSE 100 returned 4.0%, compared with the 1.6% and -1.0% respective returns of the mid-cap FTSE 250 and the FTSE Small Cap (ex-investment trusts). The FTSE AIM All-Share once again brought up the rear with a -2.3% return.

The Fund's overweight exposure to small and mid-caps, particularly those that are AIM-listed, has left it vulnerable to weak investor sentiment towards those segments in recent years. However, we have consistently stressed that the Fund has looked, and will continue to look, to maintain the shape of the portfolio in terms of its size allocation. We are passionate believers in the long-term compounding potential of the entrepreneurial, high quality smaller companies in which we invest, and are committed to maintaining the stated 20-30% of the Fund's NAV which is allocated to small caps, so that our investors will benefit when the segment recovers and the valuation gap closes.

In April, the UK market's positive mood bucked the trend for global equities, which largely struggled with the prospect of fewer US interest rates cuts which was raised by unexpectedly strong economic data. There were some tentative signs of respite from small-cap underperformance, with the FTSE Small Cap (ex-ITs) index return of 4.0% outstripping the FTSE 100's 2.7% rise, but the FTSE AIM All-Share still lagged with a 2.5% return.

The FTSE 100 hit a new all-time high at the end of the month as it surpassed its prior peak in February 2023. As the second largest stock in the index, a large rise in AstraZeneca (+13%) contributed strongly to this milestone. While AstraZeneca is held in the Fund as one of its largest positions, it is significantly underweight the index due to the Fund's risk-driven absolute weighting discipline, which caps any individual position at max 4.0% of NAV. AstraZeneca's sharp rise came as the pharmaceutical group released Q1 results which beat expectations for both revenues and earnings. The company maintained full-year guidance for "low double-digit to low teens percentage" growth in revenues and earnings, but the strength of Q1 trends has led some analysts to expect upgrades later in the year.

Video game developer Team17 Group (+11%) continued its recovery from a late-2023 profit warning. Full-year results delivered more detail on the positive tone adopted in a January trading update. The company has responded to an unfavourable shift in the sales mix between higher-margin own-IP titles and less lucrative third-party games by reducing the cost base, with headcount reduced from 392 to 348. While the 2024 launch schedule of 10 games is skewed towards third-party games, Team17 now has a clear focus on increasing the proportion of first-party IP games over time. The company maintained its guidance for 2024 financial performance.

Learning Technologies Group (-14%) specialises in workplace digital learning and talent management software. While over 70% of its revenues are on long-term service or recurring software-as-a-service (SaaS) contracts, providing good visibility and resilience, its remaining transactional or project-based sales are exposed to a subdued macroeconomic environment. As a result, it has focused on deleveraging and portfolio management rather than pursuing an acquisitive growth strategy that most notably included a £370 million deal for GP Strategies in 2021. A full-year results release for 2023 showed financials in line with its most recent guidance but included lacklustre outlook comments. For 2024, Learning Technologies sees revenue as flat on 2023, with operating profit growth coming from margin expansion (including the benefits of GP Strategies' integration).

Intellectual property support services provider RWS Holdings (-8.0%) suffered in 2023 due to macro-related delays to decision-making among some customers – contributing to cuts to financial forecasts – and wider market concerns about the impact of generative AI models.

April's interim trading statement noted a sequential improvement in six-monthly revenues to a 4% year-on-year contraction, better than the -5% and -7% respectively in the first and second half of its prior financial year. RWS maintains its stance that its combination of linguistic expertise and long-term investments in technology allows it to meet clients' increased appetite for AI-enabled solutions. IT has recently launched two AI services – TrainAI and Evolve – which have shown encouraging early signs of developing into growth engines for the company.

Alpha Group International (+13%) rose as the FX risk management and alternative banking provider moved over from AIM to the Premium Segment of the Main Market with an expectation for it to join the FTSE250 at the next index review. Alpha demonstrates clearly how the UK equity market can provide vital support and funding to a small cap business during its high growth phase, as articulated by the founder and CEO, Morgan Tillbrook, in his statement in the company's full year results: "London's capital markets have endured a difficult period, with much conjecture surrounding their competitiveness. Without them however, we would not have been able to achieve nearly as much in such a short space of time, and certainly would not be the business we are today, now employing over 480 people globally. It is gratifying that we have been able to reward our shareholders handsomely and we will endeavour to continue doing so."

The position in Reckitt Benckiser was sold following last month's unexpected litigation blow, in which a court in Illinois awarded $60 million in damages to the mother of a premature baby that developed a fatal bowel condition following use of its Enfamil formula. The company has made too many missteps in recent years and the acquisition of Mead Johnson, the infant milk business, has destroyed value. The litigation ruling was our catalyst to sell as the financial risks could potentially be quite meaningful but are unlikely to crystallise for some time. In the meantime, we can reallocate the capital to plenty of other Fund holdings which are at attractive valuations and do not suffer from such an uncertain outlook.

As mentioned earlier in the review, the Fund has actively targeted a consistent allocation to small, mid and large caps over the past few years. This has chiefly been achieved through deploying excess capital to top up existing smaller company holdings trading at depressed valuations, where we believe the medium-long term potential has been fundamentally overlooked by the market in the short term. However, the Fund has recently initiated a new position in the form of Auction Technology Group. ATG is a leading operator of online auction marketplaces and services across two key sectors: Industrial & Commercial and Art & Antiques. It is a business which truly exploits the power of network effects, with an increasing audience of bidders participating in auctions driving higher prices for auctioneers and greater volumes of items listed on the company's marketplaces. While ATG, like its peers, has seen some softness in activity due to prevailing economic conditions, this has provided the Fund with the opportunity to take a small starting position, taking a longer-term view of the business' potential.

Positive contributors included:

GlobalData (+16%), Alpha Group International (+13%), AstraZeneca (+13%), John Wood Group (+12%) and Team17 Group (+11%).

Negative contributors included:

Learning Technologies (-14%), YouGov (-13%), Keywords Studios (-12%), Spirax-Sarco Engineering (-11%) and RWS Holdings (-8.0%).

Discrete years' performance** (%) to previous quarter-end:

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF Special Situations C3 Inst Acc GBP	3.6%	-0.8%	4.2%	29.5%	-10.7%
FTSE All Share	8.4%	2.9%	13.0%	26.7%	-18.5%

	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
Liontrust GF Special Situations C3 Inst Acc GBP	8.8%	7.2%	22.7%	4.3%	7.2%
FTSE All Share	6.4%	1.2%	22.0%	-3.9%	6.6%

*Source: Financial Express, as at 31.03.24, 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 (SRI)[2]	4
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 PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

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For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

The Fund will invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

Disclaimer