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Economic Advantage

June 2024 review

Liontrust Special Situations Fund

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The Liontrust Special Situations Fund returned -1.9%*in June. The FTSE All-Share Index comparator benchmark returned -1.2% and the average return in the IA UK All Companies sector, also a comparator benchmark, was -1.2%.

Having set another all-time high in May, the FTSE All-Share index gave back some ground during June, with materials (-4.5%), health care (-2.9%) and consumer discretionary (-2.7%) sectors among the weak spots.

However, index returns remain positive over Q2 (+3.7%) and year-to-date (+6.7%), reflective of improving sentiment towards UK equities as inflation returns to target while economic growth remains positive; we think July's removal of election uncertainty should also allow investors to look towards the likelihood of upcoming policy catalysts for the UK stockmarket.

Most of our monthly fund commentaries see a spread of short-term 'winners' and 'losers' as portfolio holdings experience the inevitable short-term successes or headwinds in their pursuit of the longer-term capital growth potential for which we hold them. July was no exception, with **Moonpig** (+19%) and **RWS Holdings** (+9.3%) providing upbeat assessments to counter disappointments at **YouGov** (-59%) and **Spectris** (-15%).

Shares in **YouGov** (-59%) were punished after the company issued an unscheduled profit warning. When reporting interim results in March, the research data and analytics group had noted Q1 was slower than expected with sales cycles remaining long, but that momentum had accelerated in Q2, giving it confidence in meetings its prior full-year sales guidance. Since then, YouGov has experienced weaker performance than anticipated, with a slowdown in the Data Products division affecting revenue and having an outsized impact on profits given the higher margin profile of the business. Fast turnaround research services also declined, while – although the recently-acquired Consumer Panel Services business is said to be performing well – some revenues have shifted into next year due to alignment of revenue recognition policies. Notwithstanding the broader attractions of YouGov's business (an extensive and high-quality global panel and proprietary datasets), it will take time to rebuild market confidence.

A trading update from precision measurement specialist **Spectris** (-15%) also downgraded guidance, albeit more moderately. Its Q2 update noted that rollout of its enterprise and resource planning system has completed but caused more operational disruption than anticipated – shifting around £15m of sales into the second half of the year. The company has also seen demand weakness in China and in the pharmaceuticals and electric vehicles markets. Spectris now expects full-year operating profit to be at or marginally below the lower end of the analyst consensus forecast range.

Meanwhile, results from online cards and gifts platform **Moonpig** (+19%) were received much more positively, with the company flagging that headwinds are abating, allowing it to deliver growth in revenue and profits. While last year it reported on a tough consumer environment with declining new customer acquisition and customer down-trading, the 12 months to 30 April saw 7% growth in sales and a 14% increase in adjusted EBITDA (earnings before interest, tax, depreciation and amortisation). The company also owns the Red Letter Days, Buyagift and Greetz brands, but it was the core Moonpig cards business which drove growth – the unit registered an 8% sales increase as both orders and average order value rose. The group expects to record mid-to-high single digit percentage revenue growth next year.

RWS Holdings built on the positive tone of its April trading statement within its interim results. As flagged in April, the revenue trend improved 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. The intellectual property support services provider has been experiencing macro-related delays in decision-making among some customers. Its shares also suffered from market concerns about the impact of generative AI models. However, RWS itself has been much more confident in its ability to integrate AI into its portfolio of services. More than a quarter of revenues in the first half of 2024 were AI-related: either AI products such as Language Weaver and TrainAI or from localisation services which were machine-trained initially.

Elsewhere in the portfolio, **Next 15 Group** (-22%) slid in the wake of a trading update. The data-driven marketing and digital transformation consultancy commented that the macro environment remains tough, with political uncertainty leading to some delays on government contracts. It also flagged that spending across large US technology clients remains soft. However, Next 15 has maintained guidance ahead as it approaches the second half of its financial year (running to 31 January) – a period which historically captures a larger proportion of business each year.

GSK (-13%) shares suffered a blow as the litigation risks around its discontinued heartburn drug Zantac appeared to increase. A US state court ruled that thousands of jury cases could hear evidence suggesting a link between the drug and plaintiff cancers. Later in the month, its shares dropped further after a US regulator blocked an expansion in the recommended patient age ranges for its Arexvy RSV vaccine.

We have long been referencing the extremity of undervaluation of UK equities, and the consequent high prevalence of inbound M&A interest in UK stocks. The Fund has three active bid situations ongoing for its holdings, with two of these providing significant further ballast to portfolio performance in the month. There were further developments for both **Hargreaves Lansdown** (+7.3%) and **Wood Group** (+17%) in June. Having rejected three successive takeover proposals from Dubai-based group Sidara at 205p, 212p and 220p a share, engineer **Wood Group** announced that it had decided to enter discussions over a fourth and final offer at 230p. **Hargreaves Lansdown** had previously rejected two takeover proposals from a private equity consortium, the highest at 985p a share, but this month it received an improved proposal of 1140p a share, leading it to engage with the bidder and provide due diligence access.

The Fund initiated a new position in **Fevertree Drinks** in June. The Fevertree mixer and adult soft drinks brand likely needs little introduction for many of our readers. It was bought for the Fund thanks to its key intangible asset strength in distribution. Fevertree enjoys a commanding market leadership position in the UK with 45% value share of the entire mixer market, and also occupies number one market positions in Europe and Australia in premium mixers. It has been making significant inroads into the US as well, extending its position as the largest premium mixer brand in a growing category. The challenges of global expansion in times of rampant inflationary pressure have wrought havoc on the share price over the past few years, but we believe Fevertree's compelling longer term growth runway – through both expansion of the product range and further geographic expansion – mean that current levels provide an attractive entry point on a longer-term view.

Positive contributors included:

Moonpig Group (+19%), Wood Group (+17%), RWS Holdings (+9.3%), Hargreaves Lansdown (+7.3%) and RELX (+6.5%).

Negative contributors included:

YouGov (-59%), Next 15 Group (-22%), Spectris (-15%), TP ICAP (-8.8%) and Domino's Pizza Group (-7.9%)

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust Special Situations I Inc	12.9%	6.8%	-11.0%	24.6%	-7.7%
FTSE All Share	13.0%	7.9%	1.6%	21.5%	-13.0%
IA UK All Companies	12.6%	6.2%	-8.5%	27.7%	-11.0%
Quartile	3	3	3	3	2

*Source: Financial Express, as at 30.06.24, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 30.06.24, 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/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