LIONTRUST

ECONOMIC ADVANTAGE PROCESS

This is a marketing communication

Liontrust GF Special Situations Fund

March 2022 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust GF Special Situations Fund returned 1.6%* in March. The Fund's comparator benchmark, the FTSE All-Share, returned 1.3%.

Although geopolitical volatility and macroeconomic uncertainties continued to loom large in the form of Russia's ongoing invasion of Ukraine and the monetary policy response to rampant inflation, the UK market was able to notch up its first monthly gain of the year.

The potentially far-reaching economic impact of the war in Ukraine has combined with pre-existing inflationary concerns to trigger a sharp increase in discussion of the alarming prospect of stagflation. The FTSE All-Share's ability to post a positive return in this environment was helped by 0.55% and 0.59% contributions from the energy and basic materials sectors respectively, both of which are benefiting from price rises as a result of supply disruption.

While the macro backdrop provided plenty of topics to keep market commentators occupied, it was also a busy month for those – like us – who prefer to take a bottom-up approach to their analysis. March is usually very heavy on newsflow, with many companies with December year-ends reporting their full-year results.

Big Technologies (+32%) rallied on the release of 2021 results, having already upgraded financial guidance in a January trading update. Big Technologies is a provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders. It generated 27% revenue growth in 2021 and it is targeting a similar level of growth for 2022. The company recently commenced an eight-year contract with the New Zealand Department of Corrections and is committed to investing its £48m cash balance in pursuing organic and acquisitive growth.

Likewise, **Alpha FX** (+23%) upgraded forecasts in January before going to release full-year results this month. The FX risk management specialist grew 2021 revenue by 68% to £78m, boosted by exceptionally high levels of demand in November and December. It has continued to grow its UK market share and now aims to replicate this success overseas with the launch of offices in Italy, Luxembourg and Australia this year.

Of the Fund's other holdings that released 2021 results during the month, **Coats Group** (+25%) was another to notch up strong gains. The industrial threads manufacturer moved higher as it commented that 2022 performance was now anticipated to be modestly ahead of its previous exceptions. The company reported a 29% rebound in revenues in 2021 to $1.50bn, which is also 9% higher than its 2019 level. Sales accelerated through the year, as demand recovered in its Apparel & Footwear division and its Threads business made market share gains. Operating profit still remains below 2019 levels but Coats is focusing on cost base efficiency as it targets margin improvement over the next two years.

Interdealer broker **TP ICAP** (+24%) performed poorly last year as it commented on subdued secondary markets and Covid-19 disruption at the interim stage before downgrading revenue guidance in November following disappointing volumes for its new Liquidnet. During March it released 2021 results showing a 1% drop in revenues once the effect of the Liquidnet acquisition is adjusted for, prompting further share price weakness. However, the shares recovered dramatically at the end of the month. The catalyst was pressure from US activist investor Phase 2 Partners, which is calling for TP ICAP to explore strategic options, including a sale process.

1%. However, investors focused on positive outlook comments; ICAP said that market volatility in 2022 has recovered to higher levels, driven by inflationary concerns and geopolitical uncertainty, meaning that revenues (excluding Liquidnet) in the period to 11 March were 4% higher year-on-year.

Shares in **Savills** (-13%) performed very strongly in the second half of 2021 as interim results flagged a recovery in transactions in most of its markets, before a November trading update stated that UK prime residential markets had been significantly stronger than expected. Some of this ground was given back in March as Savills released 2021 results: revenue rose 23% to £2.2bn, while a doubling of underlying profit before tax to £200m displayed the real estate group's operational gearing. However, Savills expects 2022 to see a normalisation of transaction volumes and discretionary spend from these elevated levels.

It has been a similar story for recruiter **PageGroup** (-14%), which reported a record gross profit of £888m, up 49% on last year and 7% higher than 2019. The company returned to growth versus 2019 levels in Q2 (+2%), a comparison which improved in Q3 (+13%) and Q4 (+24%). This performance was reflected in the shares' 30% outperformance of the FTSE All-Share in 2021. With Pagegroup including a cautious outlook statement which cited macroeconomic uncertainties for 2022, there was little in the results to drive further share gains.

Away from full-year results, an interim release was responsible for the drop in omnichannel marketing automation specialist **Dotdigital** (-45%) due to the inclusion of a downgrade to full-year guidance. The company stated that a post-lockdown unwinding of customer buying behaviour contributed to a slowdown in SMS activity from its exceptionally high levels in the prior year. However, Dotdigital continues to believe that the long-term impact of the pandemic will be to accelerate organisations' adoption of digital marketing tools.

Brooks Macdonald Group (+14%), however, made some headway on the back of interim results, although many of the headline numbers were already public following the release of a detailed trading update in January. The asset manager grew assets by 5.3% to £17.3bn over the six months through a combination of net inflows and positive investment performance. This fed through to a 10% year-on-year improvement in revenues and a 25% rise in underlying profit before tax.

Translation and intellectual property services provider **RWS Holdings** (-20%) has very successfully executed an acquisitive growth strategy over the years, notably doubling its size with the 2020 acquisition of SDL. In March, it announced the acquisition of Liones Holding for up to €22.5m. Liones is a Dutch provider of a cloud-native, data-driven authoring solution for mission critical documents. Alongside the acquisition announcement, RWS held investor presentations in which it gave updated short and medium-term growth targets.

The company stated that results for the year to 30 September 2022 are on track to be at the lower end of analysts' range of forecasts, while a new investment programme is also expected to constrain earnings growth in the following two years. However, it expects this investment to yield market-beating sales growth from FY2024 to FY2026, with pre-tax profit margins benefitting by between 200 and 300 basis points.

Finally, **CareTech** (+20%) shares jumped on confirmation that its CEO and Chairman were in the early stages of forming a consortium via their family office (Sheikh Holdings) with a view to a possible buyout of the company.

Positive contributors included:
Big Technologies (+32%), Coats Group (+25%), TP ICAP (+24%), Alpha FX (+23%) and CareTech Holdings (+20%).

Negative contributors included:
Dotdigital (-45%), RWS Holdings (-20%), Renishaw (-17%), PageGroup (-14%) and Savills (-13%).

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust GF Special Situations C3 Inst Acc GBP	4.2%	29.5%	-10.7%	8.8%	7.2%
FTSE All Share	13.0%	26.7%	-18.5%	6.4%	1.2%

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

*Source: Financial Express, as at 31.03.2022, 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 31.03.2022, total return (net of fees and income reinvested), primary class. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (08.11.12). 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.