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Liontrust GF Special Situations Fund

April 2022 review

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The Liontrust GF Special Situations Fund returned -0.4%* in April. The Fund's comparator benchmark, the FTSE All-Share, returned 0.3%.

The narrative of rampant inflation and anticipation of the monetary response remained firmly entrenched during April. As US and UK consumer price inflation hit 8.5% and 7.0% respectively in March, consensus expectations for central bank rate hikes rose significantly. Much of this was due to the release of minutes from last month's US Federal Reserve rate-setting meeting, which suggested some committee members would have preferred a 50bps rise to the 25bps implemented, were it not for uncertainty due to events in Ukraine.

News of fresh covid lockdown measures in parts of China also heightened existing concerns over global supply chains and input cost pressures for businesses.

The FTSE All-Share Index was able to register a monthly gain – led by the healthcare (+5.9%) and consumer staples (+4.4%) sectors - although it was notable that this strength derived from the large-caps: the FTSE 100 returned 0.8% while the FTSE 250 and FTSE Small Cap indices returned -1.8% and -1.2% respectively.

Amid an inflationary environment of relentless cost pressures, we believe the theme of pricing power will be critical. Our investment process specifically sets out to target those companies which possess enduring competitive advantage stemming from their intangible assets. As a consequence, many have strong pricing power which should stand the portfolio in good stead if inflation continues to spiral upwards.

From corporate newsflow and our meetings with companies, we believe that the majority of our holdings are proving resilient in their underlying trading so far this year, despite the well documented pressures of input cost inflation, supply chain shortages, logistical disruption and early signs of a squeeze on consumer spending and business sentiment.

Many have already proven themselves adept at leveraging their barriers to competition to pass on inflationary pressures to customers – something which will be critical to the relative success of companies over the coming months.

Consumer goods stocks **Reckitt Benckiser** (+8.8%) and **Unilever** (+7.6%) both showed good evidence of this within Q1 trading updates issued during April, as they enjoy the benefits of their key intangible assets: strong distribution networks and brands.

Reckitt Benckiser recorded 5.6% like-for-like sales growth, driven by 5.3 percentage points (ppt) of price effects and only a 0.3 ppt volume increase. It now expects like-for-like net revenue growth for 2022 to be towards the top end of its 1% to 4% guidance range, and it believes it can maintain operating margins despite significant cost inflation.

Unilever's 7.3% like-for-like sales growth in Q1 comprised 8.3ppt of price effect and -1.0ppt volume. It stated that cost inflation is unprecedented and volatile, prompting it to push up its prices. As a result, it expects 2022 underlying sales growth to be towards the top of its 4.5% to 6.5% guidance range, although cost pressures will mean that underlying operating margins fall to the bottom of its 16% to 17% guidance range.

It is worth noting that the strength in Reckitt Benckiser and Unilever shares pre-dated the Q1 updates, which came towards the end of the month, suggesting that investors had already begun rotating towards the areas they thought offered good insulation from inflation. The same is true of the strength in the Fund's pharmaceutical stocks – **GlaxoSmithKline** (+9.1%) and **AstraZeneca** (+5.5%) – which came before the release of Q1 results at the end of the month.

It is already apparent that this year's stock market turmoil and the de-rating experienced by many businesses will not go unnoticed by corporate and private equity buyers if it persists. During April, two holdings received potential takeover approaches: the third and fourth of 2022 for the Fund.

The Baring Private Equity Asia VIII Fund announced that it was considering an offer for **RWS Holdings** (+19%), although no formal approach had been made. The news pushed shares in RWS higher, but only really recouped the ground lost in March when its latest acquisition and strategy announcement underwhelmed investors. The news also overshadowed a trading update from RWS later in April in which it forecast adjusted profit before tax of at least £60m, slightly ahead of its prior expectations.

Similarly, private equity investor Cinven announced that it was considering an offer for **Ideagen** (+7.8%), but had not made a formal approach. Earlier this year, **Clipper Logistics** recommended a takeover offer from US-listed GXO Logistics, while **CareTech** has announced the receipt of approaches from a founder-led consortium and a rival private equity bidder

Shares in **Learning Technologies** (-19%) were the Fund's weakest in April. The company delayed the publication of full-year results from 26 April to 3 May due to an additional balance sheet review required by auditors relating to the treatment of trade receivables. The company stated that the adjustment would have no impact on income statement, net assets or cash. In an accompanying trading update, Learning Technologies outlined 8% organic revenue growth during 2021 and stated that trading in the first quarter of 2022 has been strong and in-line with expectations.

Integrafin Holdings (-14%) continued its slide this year, despite issuing an update showing £1.4bn of net inflows to its Transact platform in its second quarter, cushioning the impact of market falls on its near £54bn of funds under direction. **Impax Asset Management** (-12%) has also seen its shares hit heavily during this year's market rotation. Its assets under management dropped 8% to £38.0bn in Q1 as a negative £3.8bn impact from market movements dwarfed the £468m net inflow recorded.

Elsewhere, precision measurement specialist **Spectris** (+14%) issued a robust Q1 trading update which propelled its shares higher. Like-for-like sales rose 12% year-on-year as Spectris benefited from continued recovery in its end markets. Order intake rose 28% year-on-year, underpinning a positive outlook for the remainder of 2022. The company commented that it has so far been able to leverage its pricing power and cost efficiencies to offset inflationary pressures.

Shares in **John Wood Group** (+38%) recovered from February's losses due to the April 11th announcement that, despite having delaying publication of its full-year results from March in order to carry out an external investigation on an Aegis Poland construction contract, its 2021 performance was to remain in-line with guidance issued in January. Later in April, it released results showing a 10% drop in pre-exceptional operating profit to $192m. The $100m write down to the Aegis Poland contract was in line with the estimate issued in February. John Wood's order book rose 19% to $7.75bn during the year.

Positive contributors included:
John Wood Group (+38%), RWS Holdings (+19%), Spectris (+14%), GlaxoSmithKline (+9.1%) and Reckitt Benckiser (+8.8%).

Negative contributors included:
Learning Technologies (-19%), Big Technologies (-19%), TI Fluid Systems (-15%), Integrafin Holdings (-14%) and Impax Asset Management (-12%).

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.

Disclaimer