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ECONOMIC ADVANTAGE PROCESS

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Liontrust GF Special Situations Fund

July 2022 review

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The Liontrust GF Special Situations Fund returned 8.9%* in July. The Fund's comparator benchmark, the FTSE All-Share, returned 4.4%.

Following the worst monthly return of 2022 in June, the UK market bounced back with its best showing so far this year. With little change to the main macroeconomic narrative of monetary policy tightening in the face of inflationary pressures, it's hard to pinpoint a reason for the shift. Many of last month's key trends reversed: the FTSE 250 (+8.3%) significantly outperformed the FTSE 100 (+4.4%) and industrials (+11.2%) moved from one of the heaviest fallers to July's best-performing sector.

Some of last month's biggest Fund fallers bounced back in July. Mining technology specialist **Weir Group** (+23%) was at the head of this group after releasing interims showing an 18% increase in revenues (on continuing operations) to £1.3bn and a 14% increase in orders to £1.3bn. High commodity prices have contributed to a 23% increase in aftermarket orders, while its sustainable solutions have driven 18% growth in original equipment orders. The strength of trading in the first half has led Weir to predict full-year 2022 operating profit will be towards the upper range of the analysis forecast range.

Other industrials sector holdings to recover included **Renishaw** (+22%), **Coats Group** (+19%) and **Spirax-Sarco Engineering** (+21%). The latter announced the £226m acquisition of Vulcanic, a privately owned French company which is Europe's largest supplier bespoke industrial electric heating solutions. The deal complements Spirax-Sarco's specialisms in thermal energy management and niche pumping solutions.

This year so far has seen a de-rating of stocks with high expected growth profiles and commensurate 'expensive' conventional share valuations. Much of this trend, which has impacted the Fund, has been driven by shifts in investor sentiment in response to macroeconomic conditions rather than stock-specific newsflow. We have previously commented that, while many of our holdings acknowledge strengthening economic headwinds (such as cost inflation and falling consumer confidence), most have so far proven resilient in their underlying trading.

There were lots of company updates for us to digest in July, many of which were trading statements covering the first half of 2022. On the whole, these were supportive of our assessment that Fund holdings are showing good trading resilience amid a deteriorating economic environment.

Among the Fund's smaller companies, **Dotdigital** (+41%) was one of the largest risers. Shares in the company had fallen heavily in March as it warned of a post-lockdown unwinding of customer buying behaviour as well as tight labour market conditions in the US. In July, the omnichannel marketing automation specialist announced that revenue for the year to 30 June grew 8% to £62.8m, while adjusted earnings are expected to be ahead of market expectations. Dotdigital says it continued to see an acceleration in the shift towards digital marketing across industries, with the company experiencing a particularly strong performance in the final quarter of the year which, so far, has carried over to the new year. The company also commented it has now addressed the challenges from earlier in the year; specifically, it has now hired a senior management team to execute its North American expansion plans.

YouGov (+27%) also made strong gains after a trading update for the year to 31 July reassured that results will be in line with the company's expectations, with underlying growth across all divisions and geographies. The market research and analytics group commented that it is yet to see any significant adverse impact on client behaviour, but is very aware of the impact that macroeconomic uncertainties could have on business.

Learning Technologies (+19%) moved higher as its interim trading update gave a positive assessment of the integration of GP Strategies – a £284m acquisition last year. So far, the acquired business is integrating well, with margin improvements and organic revenue growth ahead of management's expectations. The acquisition has been transformative, accounting for the bulk of an interim revenue increase to £280m from £82.6m last year, but organic growth has also been steady at 5%.

Recruiter **PageGroup** (+15%) benefited from tight conditions in labour markets as a Q2 trading update outlined a 26% year-on-year increase in Q2 gross profit to £281m. Although it is wary of macroeconomic headwinds, PageGroup recorded its best-ever month in June, when gross profit exceeded £100m, so enters Q3 with good momentum.

The robust tenor of updates also extended to some of the Fund's negative performers in June. For example, **Midwich Group** (-11%) – a recent smaller company addition to the Fund – slid despite including a small upgrade to guidance within its interim trading update. The specialist on-trade audio-visual equipment distributor generated interim revenue of at least £560m, a year-on-year increase of 45%, and adjusted profit before tax of over £19m, a 50% rise. Organic revenue growth contributed 27 percentage points, with the remainder coming from its two recently acquired businesses: Nimans and DVS. The period saw a partial return of live and in-person events, a trend which, if continued, should boost gross margins from their current levels of 15%. As a result of the good momentum seen in the first half of the year, Midwich has slightly upgraded its full-year expectations.

Pebble Group (-5.0%) also lost ground despite issuing an interim trading update which predicts full-year results will exceed market expectations. The promotional products provider stated that its Facilisgroup division is on track to beat expectations for the first six months in sterling terms, as it benefits from US dollar strength, while its Brand Addition unit has traded very strongly and ahead of forecasts.

CareTech exited the portfolio in July, ahead of the company's acquisition by a founder-led private equity consortium, which is scheduled to complete in September. The Fund received shares in **Haleon**, **GSK's** consumer healthcare business which was spun-out during the month.

Positive contributors included:
Weir Group (+23%), Renishaw (+22%), Spirax-Sarco Engineering (+21%), Savills (+18%) and PageGroup (+15%).

Negative contributors included:
Midwich Group (-11%), Globaldata (-7.8%), Moonpig Group (-8.0%), Haleon (-5.4%) and Pebble Group (-5.0%).

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust GF Special Situations C3 Inst Acc GBP	-11.9%	23.1%	-7.9%	6.6%	15.7%
FTSE All Share	1.6%	21.5%	-13.0%	0.6%	9.0%

	Jun-17	Jun-16	Jun-15	Jun-14
Liontrust GF Special Situations C3 Inst Acc GBP	19.8%	8.2%	8.0%	11.0%
FTSE All Share	18.1%	2.2%	2.6%	13.1%

*Source: Financial Express, as at 31.07.2022, 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 30.06.2022, 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.

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