



## Liontrust Special Situations Fund

### September 2023 review

Fund managers: Anthony Cross, Julian Fosh, Victoria Stevens and Matthew Tonge.

**The Liontrust Special Situations Fund returned 0.7%\* in September. The FTSE All-Share Index comparator benchmark returned 1.8% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 0.9%.**

The Bank of England (BoE) held interest rates at 5.25%, ending a 14-month streak of hikes, following data which showed inflation slowing from a 6.8% yearly rate to 6.7% in August, rather than rising to 7.0% as economists had forecast. Although the US Federal Reserve also opted to hold rates steady, the market environment remained one of adjustment to a period of higher rates. This is because while further short term rate rises may be limited, investors are increasingly accepting that rates may remain around these levels rather than being swiftly reduced.

Against this backdrop, company size continued to be a significant driver of stock returns. On the UK market, the all-cap FTSE All-Share Index's 1.8% return was driven by a 2.4% gain for the large-cap FTSE 100. The FTSE 250 mid-cap index returned -1.5%, while the FTSE Small Cap Index registered a 0.5% gain and the FTSE AIM All-Share Index lost 1.2%.

The Fund is significantly overweight mid and small cap, relative to the FTSE All Share benchmark. The Fund has 45% of NAV invested in FTSE100 stocks (FTSE All-Share: 84%), while its mid cap FTSE250 exposure is 27% of NAV (FTSE All Share: 13%) and small cap / AIM-listed stocks comprise the remaining 23%.

While the Fund has a lower weight to large-caps than the FTSE All-Share Index average, it still participated in the strength of these stocks. This was particularly true for integrated oil and gas giants **BP** (+9.0%) and **Shell** (+8.1%), which benefitted from a 10% rise in crude oil prices to over \$95 a barrel as Saudi Arabia and Russia implemented supply cuts. BP's shares largely shrugged off the departure of CEO Bernard Looney in the wake of allegations surrounding a lack of disclosure of historical personal relationships with colleagues.

**RELX** (+7.6%) shares continued their upward march following late July interims which were marginally ahead of consensus, delivering strong upper-single-digit organic growth and demonstrating the resilience of the analytics group's subscription-led business model.

Staying with the Fund's large-caps, the **GSK** (+7.4%) share price was supported by early prescription and market share data coming through following the launch of the pharma company's key new *Arexvy* vaccine, giving protection against respiratory syncytial virus (RSV) for older adults.

Also among the Fund's key positive contributors, **Future** (+15%) is a smaller portfolio position which enjoyed a bounce in September. As has been discussed in previous months' reviews, Future has been under very significant share price pressure over the past two years driven by the combination of an aggressive de-rating, concerns over the impact of macro-economic pressures on advertising budgets, and fears over the potential medium-term effect of AI advances on the business model. Share price strength came late in the month as the company released a trading update for its fiscal year ending September, confirming adjusted operating profitability in line with expectations and some green shoots of stabilisation and improving momentum into the end of the year.

Amid an environment of weak investor sentiment, particularly towards smaller companies, any signs of caution within earnings statements triggered share price falls. **Learning Technologies Group** (-16%) was one of these. The company specialises in workplace digital learning and talent management software. Over 70% of its revenues

are on long-term service or recurring software-as-a-service (SaaS) contracts, providing good visibility and resilience. But its remaining transactional or project-based sales have been weaker this year, which the company attributes to a tough macroeconomic backdrop. These headwinds were flagged to the market in an interim trading update in July, which cut financial guidance for 2023 as a whole.

While September's interims stuck by the recently reduced full-year targets (£560m revenue, a 6.7% drop on 2022, and £98m adjusted operating profit, a 2% fall), its outlook comments predict that lower transactional volumes will continue to offset its SaaS resilience.

Soft sentiment also seemed to have affected **Big Technologies** (-15%), whose share price drop in September looked larger than justified by a modest downgrade to guidance. Big Technologies is a provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders. Interims released during September showed further revenue growth of 19% year-on-year to £27.3m, with adjusted operating profit rising 15% to £13.9m. However, it issued full-year 2023 revenue and earnings guidance which was at the low end of market expectations.

Lastly among the detractors, **Alpha Group International** (-12%) was another to fall despite results showing trading resilience. Interims were in line with expectations, with 20% revenue growth and 9% underlying growth in profit before tax, excluding a very significant non-underlying boost from interest income on client cash balances, which drove statutory profit before tax almost 200% higher year-on-year thanks to higher prevailing interest rates.

**Positive contributors included:**

Future (+15%), BP (+9.0%), Shell (+8.1%), RELX (+7.6%) and GSK (+7.4%).

**Negative contributors included:**

Learning Technologies Group (-16%), Big Technologies (-15%), Impax Asset Management (-14%), YouGov (-14%) and Alpha Group International (-12%).

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

*Past performance does not predict future returns*

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Special Situations I Inc	8.6%	-16.0%	27.6%	-3.7%	2.8%
FTSE All Share	13.8%	-4.0%	27.9%	-16.6%	2.7%
IA UK All Companies	12.8%	-15.3%	32.4%	-12.8%	0.0%
Quartile	4	3	3	1	2

\*Source: Financial Express, as at 30.09.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.

\*\*Source: Financial Express, as at 30.09.23, 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/glossary>.

### 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.

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