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Economic Advantage

November 2023 review

Liontrust Special Situations Fund

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The Liontrust Special Situations Fund returned 4.1%* in November. The FTSE All-Share Index comparator benchmark returned 3.0% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 4.4%.

Evidence of decelerating inflation helped drive a broad rally across asset classes, with investors largely disregarding central bankers' efforts to promote the possibility of further policy tightening. By the end of the month, financial markets had moved to price in a peak at current interest rates in the US, UK and eurozone.

We've recently highlighted the low valuation of UK stocks – particularly small caps – relative to both their own history and to other international equity markets. While the former of these two discounts narrowed slightly during November's strong equity market performance, the rally was global in nature, meaning that the UK still sits at a substantial valuation discount to other markets. We think this represents a very compelling longer-term investment opportunity in UK stocks.

Data driven consultancy **Next 15 Group** notched up an 18% gain following a trading update which simply maintained revenue and profits guidance for the full year to 31 January 2024. In the three months to 31 October Next 15 generated organic net revenue growth of 2.5% a similar rate to the first six months of the year.

YouGov (+21%) continued the 'relief bounce' we commented on last month following its solid set of full-year results which confirmed trading in the new year has begun in line with expectations. The fact that stocks are experiencing such strength on the back of merely 'in-line' statements remains emblematic of the level of pessimism currently priced into many share prices.

Sage Group (+16%) released full-year results showing 12% growth in underlying recurring revenue growth (to £2.1bn) driven by a 25% expansion in its Business Cloud division (to £1.6bn). Operating profit rose 18% to £456m. The accounting, HR and payroll software company was bullish over its short-term prospects, forecasting that profit margins trend upwards from next year and commenting that AI-powered services will increasingly become a revenue growth engine.

There were a couple of holdings that did cut guidance, resulting in heavy falls. **Pebble Group** (-39%), a smaller position in the Fund, lowered its 2023 revenue guidance due to lower order intake at its Brand Addition unit. This promotional products division has seen lower demand from the technology and consumer sectors. Pebble's Facilisgroup division – a digital commerce platform for promotional products – continues to trade robustly. Pebble now expects revenues of £124m, lower than the £134m achieved last year. This negative impact will be partially offset by improved margins.

Video game developer **Team17 Group** (-38%) expects 2023 revenues to be modestly ahead of market expectations but has seen an unfavourable shift in the sales mix between higher-margin own-IP titles and less lucrative third-party games. A trading update also disclosed that it has incurred cost overruns on some projects which means profits will be lower than previously forecast.

Kainos Group's (-13%) revenue growth of 7% in the six months to 30 September disappointed relative to investor expectations. The outsourced provider of IT design and support services noted that strong growth in public sector demand has been offset by lower revenues from its key healthcare market.

Diageo (-11%) warned that a weakening outlook for its Latin American and Caribbean division (about 11% of total sales) will lead group sales growth to slow. The region is expected to experience a 20% year-on-year organic net sales decline. Diageo cited macroeconomic pressures in the region which are resulting in lower consumption and consumer downtrading.

Overall, it was notable that there was a more 'risk on' feel to the market in November, with investors looking through short-term trading headwinds for more cyclical names. In addition to the positive contributors mentioned earlier, there were also decent rallies for the likes of recruitment business **PageGroup** (+19%) and financial securities broker **TP ICAP** (+18%) despite neither issuing updates during the month (although TP ICAP did issue an in-line trading update on the last day of October).

The outperformance of mid and small-caps was another welcome sign of improving investor appetite for the UK market and a boost for the Fund given its overweight exposure to these segments. The large-cap FTSE 100 has fairly relentlessly outperformed for the last two years, so it was encouraging to see the FTSE 250, FTSE Small-Cap (ex-investment trusts) and FTSE AIM All-Share return 7.1%, 4.0% and 5.3% respectively, versus the 2.3% from the FTSE 100. As we move towards the New Year, we are optimistic that the depressed share prices in this area of the market are due a strong bounce as investors gain sufficient confidence on inflation being under control, rates having peaked and macroeconomic gloom lifting.

Positive contributors included:

YouGov (+21%), PageGroup (+19%), TP ICAP (+18%), Next 15 Group (+18%) and Sage Group (+16%).

Negative contributors included:

Pebble Group (-39%), Team17 Group (-38%), Kainos Group (-13%), Diageo (-11%) and BP (-3.5%).

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

	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 30.11.23, 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/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