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Economic Advantage

December 2023 review

Liontrust GF Special Situations Fund

			
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The Liontrust GF Special Situations Fund returned 7.4%* in December. The Fund's comparator benchmark, the FTSE All-Share, returned 4.5%.

November's broad rally extended into December as investor risk appetite continued to improve, helped along, once again, by expectations of a 'pivot' from central banks towards lower rates.

Since the prior consensus of 'higher-for-longer' rates began to break down at the start of November, the FTSE All-Share has rallied from a calendar year-to-date loss of 121 points, or 3.0%, to a gain of 157 points, or 3.9%. In total return terms the performance improved from 0.3% at the end of October to 7.9% at the end of the year.

As we observed last month, one particularly encouraging characteristic of the recent rally is the strength of small-cap and mid-cap stocks. The mid-cap FTSE 250, FTSE Small-Cap (ex-investment trusts) and FTSE AIM All-Share returned 8.2%, 6.3% and 7.0% respectively in December, versus the 3.9% from the FTSE 100. This trend is beneficial for the Fund given its overweight exposure to these segments. We are optimistic that it may continue during 2024 as depressed share prices lower down the market cap scale could bounce strongly as investors gain sufficient confidence on inflation being under control, rates having peaked and macroeconomic gloom lifting.

Again echoing our comments from November, the rally was global in nature and extended beyond equities, so the UK stockmarket's discount to international peers remains substantial and, in our view, too wide. The catalyst to December's gains was the US Federal Reserve's publication of forecasts for interest rates to be reduced by 75 basis points in 2024, with more cuts to follow in 2025.

In this market environment, resurgent investor confidence was responsible for the majority of share price gains. This is reflected within the Fund's monthly contributors, with many of the largest gainers rallying without issuing any new information to investors.

One of the holdings that did provide a significant update was **Smart Metering Systems** (+46%), the Fund's largest riser. It recommended a cash takeover offer of 955p from private equity group KKR, a 40% premium to its prior share price.

Following this approach, 15 companies across the Economic Advantage fund range have experienced M&A interest since the start of 2022. Of these, nine takeovers have completed, two are pending, and four companies have had approaches which have either fallen away or been voted down. While M&A activity is always a double-edged sword, at the very least it does help to crystallise in investors' minds the level of latent value within share prices at current levels, and provides an influx of capital to redeploy across other holdings.

While not a full takeover deal, **GlobalData** (+30%) also received significant investment in December which prompted a positive reappraisal of its share valuation. The company disclosed the sale of a 40% stake in its Healthcare division to private equity group Inflexion for net proceeds of £434m. The division accounts for just over a third of GlobalData's revenues yet the implied valuation of over £1.1bn is not far short of the company's overall £1.35bn market capitalisation prior to the deal announcement.

GlobalData will continue to operate across three divisions (Consumer, Technology and Healthcare) with 60% ownership of Healthcare, which will be treated as a fully consolidated subsidiary. GlobalData plans to invest the deal proceeds in accelerating growth, including pursuing acquisition opportunities.

Only 7 of 56 holdings lost ground in December's broad-based rally. Of these, online cards and gifts platform **Moonpig Group** (-9.7%) was the heaviest faller.

Having previously highlighted a tough consumer environment with declining new customer acquisition and customers trading down to cheaper gifts, shares in Moonpig performed well from June onwards after full-year results showed a return to growth in its core greeting cards brand. December's in-line interims saw some of these gains given back, but the shares' 2023 performance still represents a turnaround from the prior year's downtrend.

We continue to believe in the long-term structural growth opportunity for Moonpig as it benefits from the shift of gifts spending online. Moonpig continues to extend its market leadership position, in no small part due to the hugely valuable pool of data it gathers on its customers to enable highly targeted marketing.

iomart (-6.9%) also missed out on the market rally after releasing interim results which fell slightly short of investor expectations. While **Future's** (-6.5%) full-year results were in line with expectations, it downgraded profit guidance for the new financial year due to a deliberate decision to reinvest in the business.

Positive contributors included:

Smart Metering Systems (+46%), GlobalData (+30%), John Wood Group (+24%), Savills (+22%), and Keywords Studios (+22%).

Negative contributors included:

Moonpig Group (-9.7%), Iomart (-6.9%), Big Technologies (-6.8%), Future (-6.5%) and Paypoint (-3.6%)

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust GF Special Situations C3 Inst Acc GBP	5.7%	-12.3%	19.3%	-1.4%	21.7%
FTSE All Share	7.9%	0.3%	18.3%	-9.8%	19.2%

	Dec-18	Dec-17	Dec-16	Dec-15	Dec-14
Liontrust GF Special Situations C3 Inst Acc GBP	-2.4%	15.4%	16.6%	12.5%	1.3%
FTSE All Share	-9.5%	13.1%	16.8%	1.0%	1.2%

*Source: Financial Express, as at 31.12.2023, 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 31.12.2023, total return (net of fees and income reinvested), primary class. Investment decisions should not be based on short-term performance.

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.

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