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Economic Advantage

January 2024 review

Liontrust GF Special Situations Fund

Anthony Cross
Head of Economic Advantage

Julian Fosh
Fund Manager

Matt Tonge
Fund Manager

Victoria Stevens
Fund Manager

The Liontrust GF Special Situations Fund returned 0.2%* in January. The Fund's comparator benchmark, the FTSE All-Share, returned -1.3%.

The year kicked off with investors continuing to debate whether key economies will avoid recession and execute a 'soft landing' in the face of pressure applied by two years of rising interest rates.

Markets retreated slightly from their late-2023 conviction that this year will bring swift interest rate cuts as inflation comes down to target. There had previously been growing talk of Goldilocks conditions in which economic activity is sedate enough to allow for interest rate cuts but not so low that it might contract. On balance, January's data seemed to edge investors more towards the 'too hot' scenario in which evidence of economic strength might delay or reduce the extent of rate cuts.

The Economic Advantage investment process intentionally adopts a bottom-up focus and avoids any attempt to position portfolios based on a macroeconomic view. As such, we spend a lot of time gauging conditions through company-level news flow. In this respect, January is often an informative month due to the volume of companies providing trading updates for the period to 31 December.

Overall, trading updates coming through from the Fund's companies were solid, which is testament to the resilience many of these businesses display in the face of more challenging economic conditions. While many companies recognise that the outlook is more uncertain than normal – and contains headwinds and challenges in certain sectors – it also seems sufficiently benign that many companies have been able to successfully execute their growth plans.

It was notable that companies delivering such in-line updates were generally rewarded with a positive share price response, which we see as being indicative of generally more upbeat investor sentiment.

The Fund's top riser was one recovering from a setback at the end of last year. A November profit warning from **Team17 Group** (+46%) had said that although 2023 revenues were modestly ahead of forecasts, profits had been hit by cost overruns and an unfavourable shift in the sales mix between higher-margin own-IP titles and less lucrative third-party games. A more upbeat January trading update maintained the reduced financial guidance but also commented on positive Black Friday and Christmas trading, suggesting it enters 2024 in a good position.

Craneware (+23%) continued its own share price recovery. It had de-rated in the first half of 2023 on concerns that financial pressures on some US hospitals were impacting revenue growth from new orders. A reassuring set of full-year results in September, however, allowed the shares to recover, and January's trading update provided more signs of positive trading momentum. Craneware provides IT solutions to the US healthcare market. It commented that revenue growth accelerated in the second half of 2023 as the US demand backdrop improved. Revenues rose 8% to $901m, in line with its expectations. With some contract wins yet to convert to sales, its annual recurring revenue is now running at around $171m. Craneware states that it enters the next six months in a strong position to benefit from its increased market confidence.

Elsewhere, data-driven growth consultancy **Next 15 Group** (+10%) issued an in-line update. It expects 3% revenue growth for the year to 31 January, while operating margins will expand slightly despite ongoing inflationary pressures. Following a number of new business wins in the last few months, Next 15 believes growth will accelerate in the new financial year.

Shares in **GSK** (+8.1%) started 2024 strongly, helped by a broker moving its research rating to 'buy' on a more upbeat assessment of the company's growth prospects. On the last day of January, they received another boost with the release of an upbeat set of 2023 results. The pharma giant recorded sales of over £30bn, up by 5%; excluding the impact of Covid products that are retreating from their peak, sales growth was 15%. GSK maintained 2024 guidance of 5% to 7% sales growth and 7% to 10% adjusted operating growth, and it upgraded its 2021 to 2026 average annual growth targets to 7% for sales and 11% for operating profit.

Naturally, there were also a handful of instances of companies suffering setbacks, although the share prices of several – such as recruiter Page Group and drinks giant Diageo – remained relatively steady despite the trickier short term trading.

One source of disappointment was **Big Technologies** (-29%), the provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders, which confirmed that 2023 trading had been in line with expectations, with revenues of around £55m and adjusted EBITDA of £33m. However, its outlook for 2024 includes revenues retreating around 10% and profit margins coming under pressure. The revenue shortfall results from a large Colombian contract which has been subject to short-term renewals since September 2021 but is now due to expire in the next few months.

Wood Group's (-8.5%) 2023 trading update was largely upbeat but the shares lost some ground on a slight deterioration in its balance sheet. The engineering and consultancy business recorded 9% revenue growth to $6bn, while adjusted EBITDA grew at the same rate to more than $420m – slightly ahead of guidance. The update also revealed a 4% upgrade to its forward order book, which now stands at $6.1bn across the energy and materials industry clients Wood Group serves. However, despite maintaining a commitment to achieve positive free cash flow in 2024, investors were disappointed to see net debt drift up to $680m in 2023 after an adverse currency impact of $15m.

We have spoken in previous reviews about unusually low valuations triggering an acceleration in merger and acquisition activity across the market. January saw the Fund exit its position in **Smart Metering Systems** following the board's recommendation of a cash takeover offer of 955p from private equity group KKR at a 40% premium to the previous share price close. The deal is expected to complete imminently and shares in the company trade within 1% of the offer price, allowing us to exit the position and seek to redeploy the capital.

Positive contributors included:

Team17 Group (+46%), Craneware (+23%), Next 15 Group (+10%), GSK (+8.1%) and Gamma Communications (+6.0%).

Negative contributors included:

Big Technologies (-29%), Midwich Group (-14%), Wood Group (-8.5%), Coats Group (-7.5%) and Domino's Pizza Group (-6.7%).

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 31.01.2024, 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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