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ECONOMIC ADVANTAGE PROCESS

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Liontrust GF Special Situations Fund

May 2022 review

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The Liontrust GF Special Situations Fund returned -1.2%* in May. The Fund's comparator benchmark, the FTSE All-Share, returned 0.7%.

May's macroeconomic data showed further evidence of the inflationary pressures which mounting as the year goes on. Consumer price inflation in the UK hit 9% in April, the highest level in 40 years, while the US equivalent was 8.3%. The central bank policy response was as expected: the Bank of England raised rates by 0.25% to 1.0% and the US Federal Reserve pushed through a 0.5% hike to a target range of 0.75% to 1.0%.

Although the FTSE All-Share Index recorded a gain in May, this was driven by large-caps with the FTSE 100 returning 1.1%,: the FTSE mid-cap 250 returned -1.1% and the FTSE Small Cap (ex-investment trusts) Index and AIM All Share index returned -1.9% and -4.4% respectively. The Fund is underweight to large-caps relative to the index and, in turn, has higher allocations to mid and small caps.

Negative returns from both the technology and industrial sectors were also evident over the month. This, and the outperformance of the largest companies continued a trend that has been evident for much of this year, and contributed to the Fund's negative relative return versus the index during May.

The oil price has been trading at elevated levels since Russia's invasion of Ukraine, and tight supply conditions led it to rise again in May. Brent crude rose 12% to almost $123 a barrel. With this tailwind, the sector was the best performer on the UK market and was also the largest contributor to Fund returns, driven by rises for **BP** (+12%) and **Shell** (+10%).

Against a market backdrop of geopolitical volatility and inflation concerns, we have recently been highlighting two themes which we think will be among the most influential this year: pricing power and takeover activity.

Looking at the former through the lens of May's newsflow, **TI Fluid Systems** (+13%) is among those companies hoping that product price rises will help offset the impact of cost increases. The company manufactures highly engineered automotive fluid systems and its shares have suffered from a slowdown in global vehicle production recently. However, it seems investor expectations are now at realistic levels after its shares strengthened on a Q1 trading update detailing a fall in revenues and margins. Revenue dropped 4.1% year-on-year to £755m, a modest outperformance of the 4.5% fall in global light vehicle production during the quarter. Margins also came under pressure due to inflation and production disruption. But TI Fluid Systems expects margins to improve towards the end of 2022 as cost inflation is gradually passed on in pricing.

Cost pressures were also one of the key takeaways from **Integrafin's** (-16%) interim results. Despite a fall in market levels over the six months to 31 March 2022, net inflows of £2.7bn on its Transact platform pushed funds under management up 3% to £53.5bn. This fed through to 12% growth in gross profit of £66m, but cost increases restricted operating profit growth to 2% (to £26m). Operating expenses rose by 24% year-on-year during the six months with the biggest factor being increased staff costs, partly as a result of acquisitions and new hires but also due to general wage inflation. With 50 additional software development and systems staff hires planned in the next 18 months, the cost headwinds look set to persist in the short term.

May also provided more evidence that market volatility is leading to corporate and private equity acquirers seeking out undervalued assets. We noted last month that a handful of the Fund's companies have already been the subject of takeover interest or speculation this year. **Clipper Logistics**, exited the portfolio in May as we sold the position ahead of completion of the takeover by US-listed GXO Logistics.

There were further developments on other portfolio bid situations. Having announced in April that it was in the early stages of considering a possible offer for **Ideagen (+48%)**, private equity investor Cinven subsequently withdrew its interest in May. However, Ideagen disclosed that it had recently also received proposals regarding cash takeovers from Astorg and Hg. Ideagen is a leading supplier of information management software to highly regulated industries including life sciences, banking and aerospace. On 9th May, Ideagen recommended an offer of 350p a share from Hg, an investor in software businesses which manages funds of over $40bn. Shares in Ideagen immediately jumped to trade at the offer level, while Astorg withdrew its interest a few days later.

Also last month, Baring Private Equity Asia VIII Fund announced that it was considering making an unsolicited offer for **RWS Holdings** (-10%), prompting the shares to rise strongly. In May, it stated that it was no longer evaluating an offer. Amid the takeover speculation and the slew of stock exchange updates required by the UK takeover code, RWS Holdings' interim trading update in April did not gain much attention. The intellectual property services provider expects to report profit before tax of at least £60m in the six months to 30 March. This is slightly ahead of its prior expectations, following good cost synergies from its SDL acquisition and volume-led margin expansion in its group-wide translation functions.

Another of the Fund's holdings, **Next Fifteen Communications** (-18%), became involved in a potential takeover as acquirer, rather than acquiree. Since early January, marketing agency M&C Saatchi – which is not a holding in the Fund – has been the subject of takeover interest from one of its directors, Vin Murria, who is Chair of an acquisition vehicle – AdvancedAdvT Limited (also not a Fund holding) – which acquired 10% of M&C Saatchi's shares. Unsurprisingly, M&C Saatchi's other Board directors didn't welcome Murria's bid for a change of control and, in May, AdvancedAdvT took its offer hostile, approaching M&C Saatchi shareholders with an offer worth 208p, comprising either 100% AdvancedAdvT shares or 80% shares-plus-cash. M&C Saatchi's Board rejected the offer, describing it as derisory.

A few days later, Next Fifteen Communications entered the fray, making a 247p counter-offer (40p cash with the rest in shares) which was recommended by M&C Saatchi. In recent years, Next Fifteen Communications has broadened its services from being a digital marketing specialist to offering data-driven growth consultancy. Acquisitions have formed a key part of the company's rapid growth, but a £300m+ purchase of M&C Saatchi would represent a step-change in the pace of its transformation. Investors showed some trepidation around the deal, and the drop in Next Fifteen Communications' share price over the month pushed down the value of its mostly-shares takeover offer, largely wiping out the premium to AdvancedAdvT's offer. AdvancedAdvT has maintained its hostile bid at its initial level, despite Next Fifteen's offer.

In other portfolio news, **Spirax-Sarco Engineering** (-13%) slid after issuing an AGM statement, despite maintaining its full-year financial guidance. The company is an international engineer which has a dominant market position in products for regulating steam and electrical thermal energy. Although Spirax-Sarco commented that its strong order book and resilience to economic cycles stands it in good stead, its assessment of the economic backdrop was fairly downbeat. It noted that global industrial production for 2022 is now expected to be 3.9%, down from 4.2% at the time of its March release of full-year results.

Although **Sage Group**'s (-10%) interim revenue of £934m fell short of the analyst consensus of £958m, its results were largely robust and included unchanged full-year guidance. Of the revenue total, £866m is classed as organic recurring revenue, up 8% as Sage Business Cloud continues to grow rapidly. Sage expects organic recurring revenue to grow between 8% and 9% in 2022, with other revenue lines falling.

Big Technologies (+15%) moved higher after an AGM update reassured on supply chain difficulties and predicted that 2022 results will be "at least in line" with market consensus expectations. In the first four months of the year, the provider of integrated hardware/software solutions for the electronic monitoring of criminal offenders recorded an 18% year-on-year increase in revenue to £13.9m. It is increasing its inventory levels on long lead-time components and describes its pipeline of future business opportunities as strong.

Positive contributors included:
Ideagen (+48%), Big Technologies (+15%), TI Fluid Systems (+13%), BP (+12%) and YouGov (+10%).

Negative contributors included:
Next Fifteen Communications (-18%), Craneware (-18%), Integrafin (-16%), Spirax-Sarco Engineering (-13%) and Sage Group (-10%).

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust GF Special Situations C3 Inst Acc GBP	4.2%	29.5%	-10.7%	8.8%	7.2%
FTSE All Share	13.0%	26.7%	-18.5%	6.4%	1.2%

	Mar-17	Mar-16	Mar-15	Mar-14
Liontrust GF Special Situations C3 Inst Acc GBP	22.7%	4.3%	7.2%	10.2%
FTSE All Share	22.0%	-3.9%	6.6%	8.8%

*Source: Financial Express, as at 31.05.2022, 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 31.03.2022, 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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