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Liontrust GF Special Situations Fund

June 2022 review

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The Liontrust GF Special Situations Fund returned -8.8%* in June. The Fund's comparator benchmark, the FTSE All-Share, returned 6.7%.

The UK market suffered its worst monthly fall of 2022 so far as investors increasingly viewed aggressive central bank action on inflation as likely to tip the economy into recession.

While the FTSE All-Share Index's total return is -4.6% year-to-date (and -6.4% in price terms), several other global equity indices – including the S&P500 – are close to, or below, the 20% drop which is often used to arbitrarily define a bear market.

In this risk-off environment, the more defensive areas of the UK market such as healthcare (+2.0%), telecoms (+0.1%) and consumer staples (-2.0%) were the most resilient. This year's trend of large-cap outperformance was also extended: the FTSE 100's -5.5% return takes its year-to-date performance to -1.0%, but the FTSE 250 returned -8.3%, taking it to -19.4% for 2022, with its price drop of 20.5% sitting the wrong side of that bear market line.

The Fund holds 18 stocks in the mid-cap FTSE 250 index. With many of these featuring amongst the biggest negative contributors over the month and registering double-digit falls, often on no results or news, this clearly had an impact on fund performance. FTSE-250 'losers' were drawn predominantly from the industrials sector (including **Weir Group** (-14%), **PageGroup** (-13%), **Rotork** (-14%), **Renishaw** (-12%) and **Spectris (**-10%)) and the consumer discretionary sector, including **Domino's Pizza** (-17%),which announced the loss of its CEO who is leaving to take the top job at Whitbread, and **TI Fluid Systems** (-17%). Some of the fund's holdings in the financial sector also saw double-digit price falls, including **JTC** (-20%), **Impax Asset Management** (-25%), **Mortgage Advice Bureau** (-12%), Alpha FX (-25%) and **TP ICAP** (-14%). In both categories, fallers included stocks which remain 'expensive' relative to the market on conventional valuation measures, suggesting that the de-rating of such stocks may not yet have fully run its course despite substantial underperformance already this year.

Elsewhere, the energy sector has been the UK market's strongest area by some margin this year as the Ukraine war has disrupted supply, but this support turned to a headwind in June. Having almost doubled over the prior 12 months, the Brent crude oil price slipped 6.5% to $115 a barrel during June. The Fund's sector holdings weakened; **Shell** (-10%) and **BP** (-11%) registered double-digit percentage losses and **John Wood Group** (-35%) fell heavily despite announcing the disposal of its built-environment consulting business for $1.9bn, having put the unit up for sale earlier this year.

While a number of the portfolio's stocks have experienced painful share price falls in recent months, we retain our conviction in the companies the Fund owns and we believe their characteristics – such as barriers to competition, high financial returns and strong balance sheets – will shine through in time.

There is also ongoing evidence that corporate and private equity buyers are identifying value on the UK market and among the Fund's holdings. Following **Clipper Logistics'** exit from the portfolio last month ahead of completion of the takeover by US-listed GXO Logistics, June saw the position in **Ideagen** sold. Following confirmation of Cinven's interest in the company in April, events progressed rapidly through to the agreement of £1bn+ takeover by HGCapital in May, which is now scheduled to complete in July.

CareTech (+5.1%) also announced the receipt of takeover approaches earlier this year, from both a founder-led consortium (Sheikh Holdings) and a rival private equity bidder (DBAY Advisers). In June it was announced that Sheikh Holdings had teamed up with private equity investor THCP to make an 750p per share cash offer which has been recommended by CareTech's independent directors. DBAY Advisers confirmed it would not be making a bid. Shares in CareTech had weakened in early June on interim results that commented that performance had been only "broadly in-line" with expectations. But the confirmed bid pushed the shares back up to all time highs, marginally below the offer level.

EMIS Group (+43%) was another portfolio beneficiary of takeover interest as its Board recommended a £1.24bn offer from US-based healthcare and insurance provider UnitedHealth Group. The cash offer of 1925p a share is 29% above the level prior to its announcement and 32% higher than EMIS's prior all-time high of 1460p. The deal is expected to complete by the end of the year; shares in EMIS jumped to trade at a small discount to the offer price.

Things have so far gone less well for **Next Fifteen Communications** (-17%) in its pursuit of M&C Saatchi. A share price slide since it made a cash-and-shares offer for M&C Saatchi means that its bid is now worth less than the prior offer made by AdvancedAdvT Limited, an acquisition vehicle chaired by Vin Murria, also a director of M&C Saatchi. In response to the falling implied value of Next Fifteen Communication's bid, the Board of M&C Saatchi has withdrawn its prior recommendation of the offer. Next Fifteen Communications has maintained its offer despite the share price fall and loss of Board support. It also issued a statement commenting that trading is strong and that adjusted profit before tax is ahead of management expectations.

Positive contributors included:
EMIS Group (+43%), Craneware (+31%), Caretech Holdings (+5.1%), AstraZeneca (+3.3%) and GSK (+1.9%).

Negative contributors included:
YouGov (-38%), John Wood Group (-35%), Alpha FX (-25%), Domino's Pizza Group (-17%) and TI Fluid Systems (-17%).

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.

Disclaimer