Liontrust Special Situations Fund

February 2023 review

Fund managers: Anthony Cross and Julian Fosh

The Liontrust Special Situations Fund returned 1.9%* in February. The FTSE All-Share Index comparator benchmark returned 1.5% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 1.6%.

This year's investor excitement over the prospect of an imminent interest rate 'pivot' failed to extend throughout February. Rate hikes from key central banks– 50 basis point increments from the European Central Bank and Bank of England, and a slowdown to 25 basis points by the US Federal Reserve – were as expected, but several US macro releases later in the month pointed to unexpected economic strength and inflation persistence.

As markets priced in roughly an extra 50 basis points of US hikes this year – with a peak above 5.0% - equities lost momentum and bond yields moved higher. The S&P 500 and MSCI World Index of developed markets both dropped 0.8% in sterling terms in February. The UK stockmarket was able to buck this trend, helped by its sector constitution as energy alone accounted for 0.9% percentage points of the FTSE All-Share Index's 1.5% gain. This sizeable contribution reflects the sector's 12% index weighting coupled with a bumper quarterly reporting season for oil & gas giants **BP** (+14%) and **Shell** (+7.4%), both holdings in the Fund.

BP reported a $28bn annual profit, more than doubling its 2021 earnings to the highest level in its history after oil prices spiked due to disruption from Russia's war in Ukraine. Shell's 2022 profits also more than doubled to $40bn, well ahead of the $28bn in its previous most profitable year in 2008. Investors also seemed to welcome BP's move to slow the pace of its transition away from fossil fuels. The company announced that its oil and gas output is now expected to decline 25% (from 2019 levels) by 2030, compared with a previous commitment to reduce output by 40%.

A large rise in another fund holding, **John Wood Group** (+38%), further supplemented the energy sector's gains. In response to press speculation, the energy and materials consulting and engineering group stated that it had received and rejected three takeover proposals from Apollo. The most recent cash proposal was at 230p per share. Shares in John Wood rose significantly on the news but finished the month more than 10% below the proposed price. Under the UK Takeover Code, Apollo has until 22 March to either make its interest formal or withdraw.

Over the years, we have become very familiar with takeover interest around fund holdings, with the intangible barriers to competition the Economic Advantage process seeks out also frequently proving attractive to acquirers. In 2022, the Fund saw four holdings exit due to takeovers (Clipper Logistics, Ideagen, CareTech and EMIS Group), and John Wood Group is the first to attract interest in 2023.

Away from the energy sector, **Spectris** (+9.9%) rose after its 2022 results beat expectations, with 19% growth in profit before tax to £220m coming in ahead of consensus forecasts of £208m. The precision measurement specialist reported on 14% like-for-like sales growth to £1.33bn over the year, higher than its high single-digit percentage target, as both volumes and prices rose. It has maintained its medium-term target of 6% - 7% through-the-cycle organic sales growth.

Hargreaves Lansdown (-6.7%) reported a 31% year-on-year jump in profit before tax in the six months to 31 December 2023 as rising interest rates fed through to higher net interest margins on clients' cash balances. Revenues from the asset class rose more than tenfold year-on-year, on average cash balances that were only

28% higher, to contribute a third of overall revenues. Cash is currently the company's highest margin asset class, at between 160 and 170 basis points compared with 30 to 25 basis points on shares. Despite the positive earnings news, shares in the company slid as investors continued to show some apprehension over Hargreaves' heavy investment in its platform technology, which is slated to cost £50m to £55m this financial year and £225m by the end of 2026.

While an AGM trading statement from **RWS Holdings** (-5.4%) maintained financial guidance for the year to 31 September 2023, it now needs higher growth in the second six-months in order to achieve it. The intellectual property support services provider commented that certain client projects have been postponed to the second half of the year, partly due to the delayed implementation of the EU's Unitary Patent scheme.

Positive contributors included:
John Wood Group (+38%), BP (+14%), Spectris (+9.9%), TP ICAP (+9.3%) and IMI (+7.6%)

Negative contributors included:
Domino's Pizza Group (-8.8%), Integrafin Holdings (-9.4%), YouGov (-7.8%), Hargreaves Lansdown (-6.7%) and Future (-6.8%).

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Special Situations I Inc	-11.2%	20.5%	-1.2%	21.6%	-2.1%
FTSE All Share	0.3%	18.3%	-9.8%	19.2%	-9.5%
IA UK All Companies	-9.1%	17.2%	-6.0%	22.2%	-11.2%
Quartile	3	1	1	3	1

*Source: Financial Express, as at 28.02.23, total return (net of fees and income reinvested), bid-to-bid, institutional class.
**Source: Financial Express, as at 31.12.22, 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/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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