

Economic Advantage

January 2026 review



Liontrust Special Situations Fund



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Key highlights

- January's gains for equity indices fail to tell the full story of a late-month sell-off in software and data groups due to AI concerns.
- Our conviction in the ability of most Fund holdings to maintain or strengthen their competitive moat over the long term remains undiminished, in spite of indiscriminate short term share price reactions to market noise.
- Auction Technology Group the latest holding to receive an opportunistic takeover approach.

Performance

The Liontrust Special Situations Fund returned 2.0%* in January. The FTSE All-Share Index comparator benchmark returned 3.1% and the average return in the IA UK All Companies sector, also a comparator benchmark, was 2.6%.

Commentary

Although global geopolitical risks were heightened by the US incursion in Venezuela, its threats to intervene amid widespread unrest in Iran, and Trump's continued pursuit of Greenland, investor risk appetite showed little sign of being affected.

The MSCI All Country World Index returned 0.9%, split between emerging markets up 4.8% and developed markets edging 0.2% higher, the latter figure subdued by dollar weakness.

One notable trend in equity markets was late-month weakness in technology shares, as the disruptive impact of AI continued to concern investors. These worries have spilled over into the early days of February and broadened

from software into related sectors following Anthropic's release of legal and marketing plug-ins to the Claude AI model.

Within the Fund, affected positions included **RELX** (-1.5%), **Sage Group** (-10%) and **Craneware** (-1.3%).

The team have naturally devoted considerable time over the past few years to research, thought and debate over the impact of AI on all the companies we own where there is a perceived theoretical or actual impact on their competitive advantage, either now or in the future. This is an emerging technology and it is still very early to determine the broader long-term implications, but we continue to monitor new developments, debate and discuss between ourselves and with our companies.

There have been a few instances over the past year where the conclusion of our debates and research has been that the risks to the business model outweigh potential reward despite extremely depressed valuations, catalysing an exit from the likes of RVS and Future.

However, our conviction in the ability of the majority of our holdings to maintain or strengthen their competitive moat over the long term remains undiminished, in spite of indiscriminate short term share price reactions to the market 'noise'. January's newsflow indicates that underlying trading from these companies remains robust and shows no sign of AI erosion of their competitive advantage. In its first quarter trading update, **Sage Group** saw 10% organic revenue growth, slightly ahead of consensus, and retained its full-year guidance for the period to 30 September. Meetings with the company have repeatedly underlined their view that AI presents a compelling opportunity for Sage rather than an existential threat. Sage has been leveraging machine-learning AI functionality within the product set for a number of years now (for example, accounts payable automation) but more recently have also launched generative AI functionality such as Sage CoPilot (now available across all its core products) and further AI agents to automate tasks across compliance, reconciliation and tax.

Our view – backed up by triangulating insight from meetings across our enterprise software holdings – is that, while software coding itself might be replicable via AI, it is these businesses' multitude of other, reinforcing sources of competitive advantages which will help to protect their competitive moat in the future. We believe that deep domain knowledge and the ability to act as a trusted 'system of record' for customers' data and workflow remain powerful attributes in the 'new world' – and for such businesses, as long as they are willing to lean in to AI innovation and integration within their products for the ultimate benefit of their customers, our belief is that they will retain the ability to compound strongly into the future.

Craneware (-1.3%), the software provider for healthcare organisations, released in-line interims and confirmed that it is trading in line with expectations for the year to 30 June.

Refocusing on the portfolio's positive contributors for January, we find there is plenty of cause for optimism, with solid trading performance across the companies reporting during the month. Building on last month's encouraging business developments, **Big Technologies** (+38%) rallied further as it was able to both upgrade profit guidance for 2025 and crystallise the litigation risk which has hung over the business for over two years.

Big Technologies has agreed to pay former shareholders in Buddi up to £39 million to settle claims over the process by which the subsidiary was acquired in 2019. The company continues to pursue a claim against its former CEO concerning her conduct around the Buddi litigation.

The provider of electronic monitoring solutions also stated that both revenue and adjusted earnings had exceeded market consensus in 2025. After adjusting for the loss of a large Colombian contract during 2024, the year saw 9% constant currency growth.

Mortgage Advice Bureau (+1.3%) grew adjusted earnings by 12% in 2025, in line with its expectations, after growing its adviser network 10% to 2,135. For 2026, the company thinks the impact of economic uncertainty is receding. The outlook for mortgage refinancing is particularly strong, with fixed-rate maturities due to rise 19% in 2026, while MAB also expects a modest release of pent-up demand after a lull in house purchase activity at the end of last year.

Digital marketing software provider **Dotdigital** (+11%) saw solid demand from existing and new customers during the six months to 31 December, with double-digit annualised recurring revenue growth in its core CXDP business, and is on track to meet full-year targets.

One of the key consequences of the UK's unloved status in recent years, particularly within the small and mid-cap space, is an increase in opportunistic takeovers from private equity or corporate acquirers, who are able to recognise and exploit the opportunity created by valuations trading at significant discounts to long-term averages and global peers.

M&A interest in companies held in the Liontrust Economic Advantage funds has been a recurring theme in recent years. As investors seeking to exploit the power of earnings compounding over a long time horizon, we believe it is becoming ever more important to take an active, long-term view in protecting UK stock market listed companies from opportunistic acquirers looking to take advantage of the extreme valuation compression experienced by small and mid-cap listed businesses in recent years. Quality compounders have historically provided UK investors with strong and reliable returns.

Auction Technology Group (ATG, +11%) was the latest to be targeted, revealing it had received and rejected a number of unsolicited, highly conditional proposals from its largest shareholder, FitzWalter Capital.

In our opinion, the mooted takeover bid – raised to 400p/share during the month – demonstrably failed to reflect the true value of this high-quality asset even when assessed over a short-term horizon, especially given the opportunistic timing at a depressed point in the cycle.

ATG is a leading player in the online auction marketplace, pioneering digitisation in an industry that lags behind many others in adopting online solutions. While the challenge of recent years has shone a spotlight on cyclicality in transaction volumes in its end markets, we believe that the company remains fundamentally a highly attractive asset.

As a platform business, it enjoys strong network effects: an increasing audience of bidders participating in auctions drives higher prices achieved for auctioneers, in turn prompting greater volumes of items listed on ATG's online auction marketplaces, reinforcing the business' competitive advantage. A key attraction of the model is its strong cash generation, with the business delivering in excess of \$45m of adjusted free cash flow over the last reported fiscal year (to September).

We were encouraged to see ATG's board stand firm in its conviction that this opportunistic approach undervalued the company, with FitzWalter confirming in early February that it does not intend to make a formal offer.

Positive contributors included:

Big Technologies (+38%), Mortgage Advice Bureau (+13%), Weir Group (+13%), IMI (+11%) and Dotdigital (+11%).

Negative contributors included:

RELX (-15%), Craneware (-13%), Sage Group (-10%), PageGroup (-13%) and Compass Group (-6.2%).

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

	Dec-25	Dec-24	Dec-23	Dec-22	Dec-21
Liontrust Special Situations I Inc	-3.8%	2.9%	6.3%	-11.2%	20.5%
FTSE All Share	24.0%	9.5%	7.9%	0.3%	18.3%
IA UK All Companies	15.4%	7.9%	7.4%	-9.1%	17.2%
Quartile	4	4	3	3	1

*Source: Financial Express, as at 31.01.26, total return (net of fees and income reinvested), bid-to-bid, institutional class. **Source: Financial Express, as at 31.12.25, 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.com/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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