

Liontrust Special Situations I Inc

September 2024



Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

Overview

The focus of the fund is on growing the capital value of investments over time through a portfolio of UK equities. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Square Mile’s Expected Outcome

We believe that the fund should be able to outperform the FTSE All Share index by 3% per annum over rolling five year periods.

Square Mile’s Opinion

We believe this fund benefits from a number of compelling attributes. Under the leadership of Anthony Cross and Julian Fosh, Liontrust’s Economic Advantage team of six may be modest in number but works in a highly collegiate manner, with its members offering complementary skill sets. There is also a very well considered and defined investment process in place, which steers the managers towards relatively steady businesses that are gradually growing and generating high levels of cash. Essentially, the team is looking for companies operating with a clear and unique competitive edge. However, combined with this a firm must also be able to demonstrate that it can capitalise on this advantage to produce consistently attractive levels of return; importantly at levels that are greater than the cost of servicing its invested capital.

What is clear here is that the team operates with a disciplined adherence to their investment process, with the managers being fully prepared to exit those companies that lose their idiosyncratic advantage or fail to translate it into superior returns. Nevertheless, the thoroughness of the approach and experience of the team, mean that stock turnover in any given year tends to be on the low side.

Whilst this is not an income strategy as such, the companies in the portfolio tend to generate a high level of dividend growth over time as shareholders participate in the companies’ success. Often these types of business are not seen as being the most dynamic but they do tend to steadily generate attractive returns. It is important to note that the fund tends to be structurally absent from certain sectors (such as materials and utilities), so performance should be expected to deviate from the index at times. Pleasingly for the current fund holders, this performance deviation has been impressively positive, with the fund having demonstrated impressive success in meeting its long-term performance objective.

Fund Manager’s Formal Objective

The Fund aims to deliver capital growth over the long term (five years or more) and will invest at least 90% of the portfolio in companies incorporated, domiciled or which conduct significant business in the United Kingdom.

Outcome: Capital Accumulation	Domicile: UK
Active/Passive: Active	Benchmark: FTSE All Share
Asset Class: Equity	IA Sector: IA UK All Companies
Yield: 2.01%	Fund size: £3,553 M
Fund Manager: Anthony Cross, Julian Fosh, Matt Tonge, Victoria Stevens	Distribution Pay Date: July
Fund Price: -	Dividend Frequency: Annual
Currency of Share Class: GBP	Share Class Launch Date: 01/11/2010

Source: Square Mile and Refinitiv, Data as at: 31st July 2024

Asset Manager Overview

Liontrust is an independent asset manager that was launched in 1995 and listed on the London Stock Exchange in 1999. It has a number of investment teams within the business, offering equity, fixed income and multi-asset strategies to clients. All of the investment teams operate largely independently of each other and are free to follow their own investment process and philosophy.

Fund Manager/Team Overview

Anthony Cross commenced his investment management career at Schroders in 1991, where he initially worked as an equity analyst before moving over to the Smaller Companies team. Mr Cross then joined Liontrust in 1997, developing this fund's investment strategy and underlying process, which was first used in a UK smaller companies vehicle from 1998 onwards. He has run this fund, which uses the same philosophy and process but invests across the market capitalisation range, since its launch in 2005. Co-manager Julian Fosh has a career spanning back to 1984, having worked at Scottish Friendly Assurance Society Limited as well as Britannia Investment Managers and Scottish Amicable. Mr Fosh joined Liontrust in 2008 from Saracen Fund Managers and has worked alongside Mr Cross since that time. In 2015, the managers were then joined by Victoria Stevens, who came from specialist broking firm finnCap and Matthew Tonge, who has been with Liontrust since 2003, having previously headed up the firm's trading desk. More recently, the team has expanded through the hire of Alex Wedge, who joined in 2020, Natalie Bell who joined in 2022 from the Stewardship team within Liontrust and in May 2024 Alexander Game joined from Unicorn.

Investment Philosophy & Process Overview

The managers believe that companies which have a durable competitive edge will generate above average returns over the long run. For a company to have an edge, which is both durable and competitive, the managers believe that it needs to have at least one of the following three characteristics. Firstly, intellectual property that can be gained through possession of legally protected patents and copyrights, or through more informal means such as trade secrets or specialist know-how that is difficult to replicate outside of the organisation. Secondly, the firm may have a strong distribution network that is in a physical or electronic form. Thirdly, it might have recurring revenue streams that stem from the brand or convenience of the product that they offer. These three factors go towards building intangible assets, which are not evident on the company's balance sheet but nevertheless are vital components of a company's competitive advantage as they are difficult for outsiders to replicate. Often these attributes tend to be self-reinforcing, where success builds success, and this generates sustainable growth and subsequently, staying power. As a result, profits can remain at abnormally high levels for extended periods.

Having identified promising companies which possess one or more of these attributes, the team then analyses the firm's accounts to examine if its favourable competitive positioning has been converted into above average profit generation. Companies that have no history of financial productivity are not pursued. The team also tends to avoid companies with risks that are outside of the companies' control such as utilities and mining, or businesses which the managers struggle to fully understand such as life companies. The portfolio tends to be made up of around 50 - 60 stocks taken from across the capitalisation range, though there is a distinct small and mid cap bias. When considering smaller companies, the team is looking for situations where the firm's management retains a significant stake in the business.

ESG Integration

Fund ESG Integration

This fund is not currently managed using an extensive consideration of environmental, social & governance (ESG) factors, and so companies are not necessarily removed from the investment universe for failings on these grounds. However, it is an area of analysis which has been developed over time, for example, more recently the team introduced the analysis of ESG factors as an additional risk measure. Within this, companies are scored from AAA (ESG leaders) to CCC (ESG laggards), with the starting point for scoring being MSCI ESG Manager data, although the team do have autonomy to adjust scores through their qualitative overlay. Subsequently, if a company receives a BBB or lower score, it will incur a higher risk score, which will be taken into account when assessing the investment. Overall, the aim of this methodology is to capture threats to the portfolio holdings' profitability emanating from ESG-related factors. Whilst we understand this is a step in the right direction, it is primarily as a risk input into the team's investment thesis and therefore not integral to their investment approach, as the team can, and have, chosen to invest in companies that score lowly but where they see the potential for improvement.

Furthermore, we would note that as part of the process, an evaluation of a company's management team is essential and, for smaller companies, positions are only considered if at least 3% of the business is owned by company directors. Positions are sold if ownership falls below this level to ensure that there is a true alignment of interests between the company's management and its shareholders.

Risk Summary

This fund invests in equities and as such the main risk is that these, as higher risk assets, can be volatile investments. As a result of the managers' quality growth focused investment approach, the fund will typically have a bias to medium and small companies, which can be more volatile than their larger sized peers. Though, we would note here that the managers' focus on steady and reliable businesses should help to add a defensive nature to this strategy's performance profile, when compared to the FTSE All Share index. Ultimately, the strategy may be more suitable for investors with a longer time horizon.

Additional Information

Annualised Return: 2.36%

Annualised Volatility: 13.60%

Max Drawdown: -19.19%

Max Gain: 11.58%

Max Loss: -9.97%

Sharpe Ratio: 0.07

Sortino Ratio: 0.07

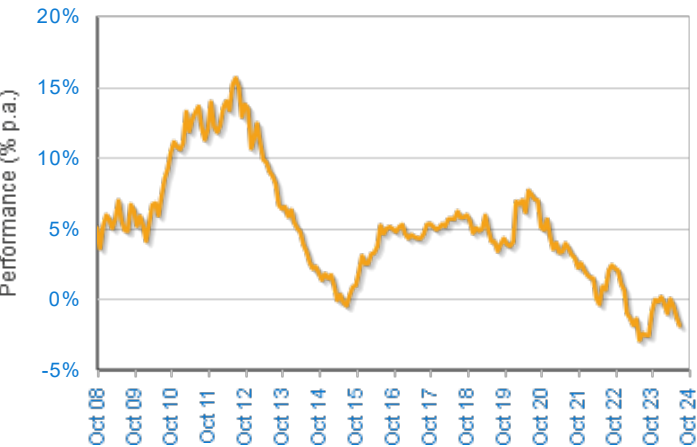
(3 years data to last month end unless otherwise stated)

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			
Interest Rate Risk			
Credit Risk			
Exchange Rate Risk			
Liquidity Risk			
Emerging Markets Risk			
Derivative Risk			
Manager Risk			

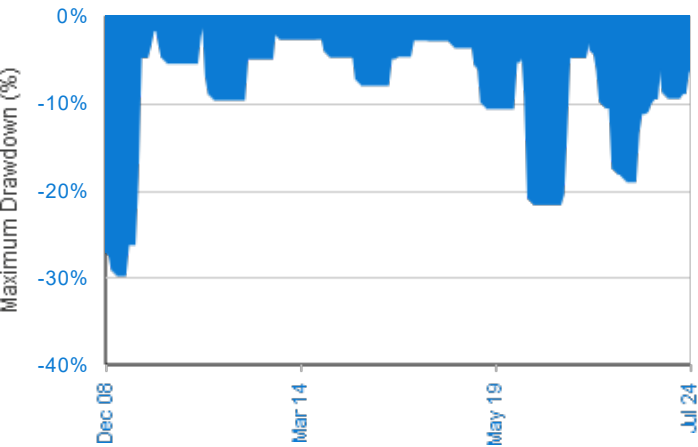
For the full summary of the risks, [click here](#)

3 Year Rolling Sector Outperformance



Source: Square Mile and Refinitiv, Data as at: 6th September 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 6th September 2024

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	6.3	7.2
2022	-11.2	-9.3
2021	20.5	17.1
2020	-1.2	-6.3
2019	21.6	22.4

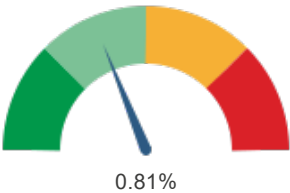
Source: Square Mile and Refinitiv, Data as at: 14th September 2024

Value for Money

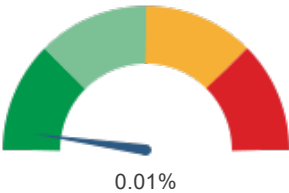
The fund's ongoing charge figure (OCF) is below the peer group median, as are the fund's transaction costs, which are associated with trading activity. Thus, we believe that the fund's total cost of investment is highly competitive and offers investors very good value for money, especially when one considers the fund's highly laudable success rate (in terms of the fund meeting its performance objective), as well as the very credible management team in place and the investment approach applied.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, which can include items outside of the OCF, such as research costs. Liontrust absorbs the costs associated with its research, which should slightly reduce the overall fee paid by investors.

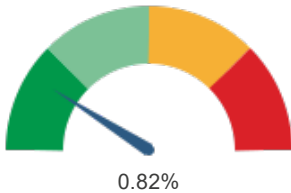
OCF v Peer Group



Transaction Costs v Peer Group



TCI v Peer Group



Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

Square Mile Analysts

David Holder - Senior Investment Research Analyst

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The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, [click here](#).

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