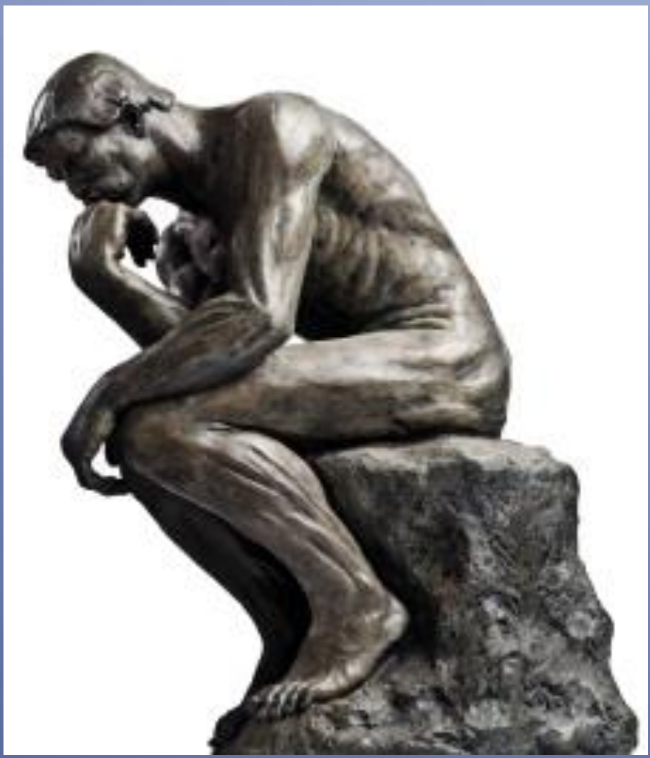

Fund Bites

Liontrust Special Situations Fund

The Liontrust Special Situations Fund is a new fund to the portfolios in 2013. This “fund bites” is a summary of a recent meeting with the fund managers, Anthony Cross and Julian Fosh.

Introduction

In the portfolios we have a good mix of funds to choose from in the UK space. However, we have been monitoring the M&G Recovery Fund which has significantly underperformed and grown to a size which we believe is restricting the potential for the fund to perform to its best ability.

We have also seen the departure of Alex Breese from Neptune. These two funds have been removed from our list of UK Funds and we have added to the list a fund we have been monitoring for 12 months, the Liontrust Special Situations Fund.

We have been impressed by the performance of this fund, and the long trust record of the management team behind it. It is a special situations fund but a lot of these types of funds are more recovery type funds and this is where the fund differs from the market.

Special situations are all about a specific process which they follow. The process is about intangible company strengths that competitors struggle to reproduce which are effectively barriers to entry. The hardest areas are intellectual property, distribution channels and repeat business.

This means there will fairly lumpy businesses as well as a mix of smaller businesses and it is this blend which we believe makes it an interesting addition to the portfolios.

The Fund

The fund is co-managed by Anthony Cross who joined Liontrust in 1997 and developed the process, and Julian Fosh who joined Liontrust in 2008.

The fund is a flexible blend of companies from throughout UK stock market indices and is around 50 holdings. There are no punchy over weights, holdings range from 1, 2, or 3% depending on the risk grade with a maximum holding of 4%.

We discussed some of the lumpy stocks like Glaxo. Their process focuses on cash flow returns on capital against cost of capital. Over a 15 year period there are periods where the cash flow of UK companies is below the cost of capital and in most cases the spread above is only around 2 to 3%. Over a 15 year period Glaxo has significantly covered its cost of capital although this has slightly dipped in recent years.

The question is whether this decline will continue or whether there can be an upturn. The key for the managers that Glaxo has two over looked assets – intellectual property and distribution. Although the patent cliff is what is seen by many what is being missed is the pipeline business coming through. So in their view this stock is an attractive long term holding for the fund.

Another example we talked about was Unilever. This company has struggled to live up to its potential and with a new management team in place it should benefit from the proposed restructure. BP is another company which has not really moved in any direction but the argument is around the strength of the intellectual property and all parts of the proposition and you have a strong business which is currently not living up to its potential.

Their approach is about avoiding the “who knows” because we don’t but about getting the companies right and then blending them together. It is also important that they don’t have a top ten of best ideas rather it is seen as a team so different stocks will perform at different times but overtime they will deliver consistent long term out performance.

For both managers this is about having a long view, it is a buy and hold strategy. They will cut back and buy more if they feel it is right, effectively they believe it is easier to make money out of what you own rather than trying to chase returns from things you don’t want to own.

In summary this is a long term buy and hold strategy it is not as volatile as some of the other UK funds we have but it has an excellent long term track record and we believe this different approach to investing makes it a great fund to include in the portfolios.

Conclusion

When we consider the more adventurous portfolios and in particular the Standard Life UK Equity Unconstrained Fund we believe this acts as a good counter balance without compromising on performance.

The source of information in this note has been provided by Liontrust and is correct as at 9 May. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.