

Fundamentals with Russ Mould

March 2017

Welcome to the latest edition of Fundamentals. This time around I'm going to look at what is currently the single most popular funds on the AJ Bell Investcentre platform, namely Liontrust Special Situations.

[CAPTION - Liontrust Special Situations I (Inc) ISIN - GB00B57H4F11 SEDOL – B57HF41]

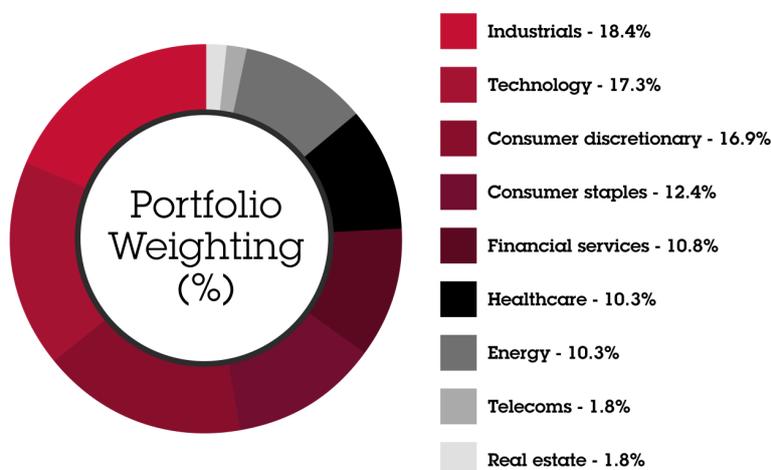
The fund's mandate is to provide long-term capital growth for advisers and clients and it seeks to deliver this by building a concentrated portfolio of UK stocks.

The well-known Julian Fosh and Anthony Cross are the lead managers and they work as part of Liontrust's Economic Advantage team, alongside Victoria Stevens and Matt Tonge.

To even qualify for potential inclusion, a company is screened according to a proprietary process to determine whether it has an Economic Advantage or not. Fosh and team look for strong intellectual property, a powerful distribution channel or repeat business as starting points, giving companies a score. That initial short-list is then whittled down further to provide a portfolio that currently contains 50 stocks.

The biggest holdings in the £2.5 billion fund include professional publisher RELX, pharmaceutical firms GlaxoSmithKline and AstraZeneca, drinks giant Diageo and oil producers BP and Shell.

By sector, industrials, technology and consumer cyclical are the three biggest weightings, as we can see here. Utilities and Miners have no presence at all. Telecoms barely gets a look-in, either.



Source: Morningstar, Liontrust factsheet

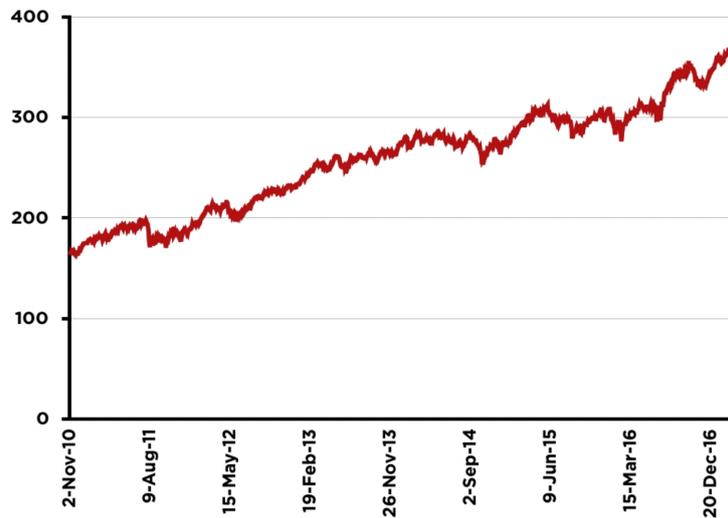
Large caps currently represent 40% of the assets, mid caps 30% and small and micro caps the rest and the overall result of the Economic Advantage screening process is a fund with a Sharpe Ratio of 1.13 and a beta of just 0.85 over the last three years.

The fund is eligible for SIPP, ISA and dealing accounts and currently comes with a yield of 1.7%. Dividends are paid annually. The ongoing charge figure is 0.88% and for those of you who set store by such things the fund comes with a five-star ranking from Morningstar.

So - those are the mechanics. The question to address next is why would advisers and clients be buying right now?

Well, I think there may be three possible reasons:

- The first is that Economic Advantage process. Advisers and clients know exactly what they are getting when they invest in this fund.
- The second is the strong long-term performance record of Fosh and Cross at Liontrust and their previous employers, as well as the returns generated by the Liontrust Special Situations Fund since its inception in November 2010. The chart here shows how the fund has done:



Source: UBS factsheet, Morningstar

- The third is that the UK market, as benchmarked by the FTSE 100 and FTSE 250, trades at pretty much all-time highs. Confidence seems to be returning after summer 2015's China growth scare and 2016's US growth scare and then the EU referendum vote, while returns on cash remain anchored near zero and Government bond yields remain low. As such, advisers and clients will be looking for ways to generate the best risk-adjusted returns for their needs and funds which provide suitable exposure.

The key word there is 'suitable'. There are always risks, whether they relate to the broader UK market or more specifically to the managers and their process. As such, advisers and clients should consider whether this fund fits with their overall investment strategy, target returns, time horizon and appetite for risk before putting any capital to work.

Thank you for watching and I look forward to seeing you next time.

The information in this video and transcript is for the use of professional advisers only.

The value of investments can go down as well as up and your client may not get back their original investment.

Past performance is not a guide to future performance and some investments need to be held for the long term.

This promotion does not offer advice about the suitability of our products or services.

AJ Bell Management Limited (company number 03948391), AJ Bell Securities Limited (company number 02723420) and AJ Bell Investments LLP (OC355313) are authorised and regulated by the Financial Conduct Authority. All companies are registered in England and Wales at Trafford House, Chester Road, Manchester M32 0RS. See website for full details.