



Global Equity

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For professional investors and advisers only



Investment process

- Global sector research
 - Team-based idea generation engine
 - Each fund manager covers a global sector for the team; research presented and debated at weekly global research meeting
- Culture of conviction
 - Portfolios exercise conviction in implementing the team's research ideas
 - Concentrated, active portfolios with long holding periods
- “Three silo” portfolio construction
 - Portfolios are constructed to be “style-free” so that stock selection, rather than factors, drives performance
 - Aim to deliver outperformance over the economic cycle

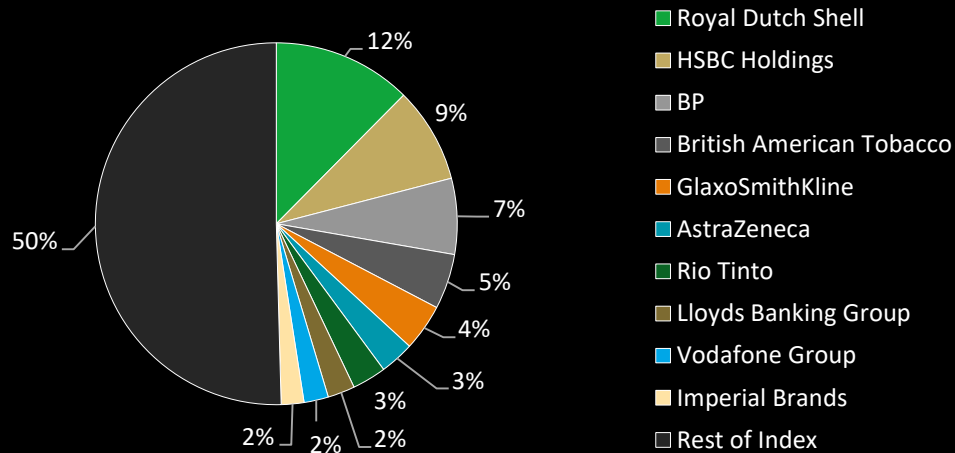


The importance of dividend
cover to UK income investors

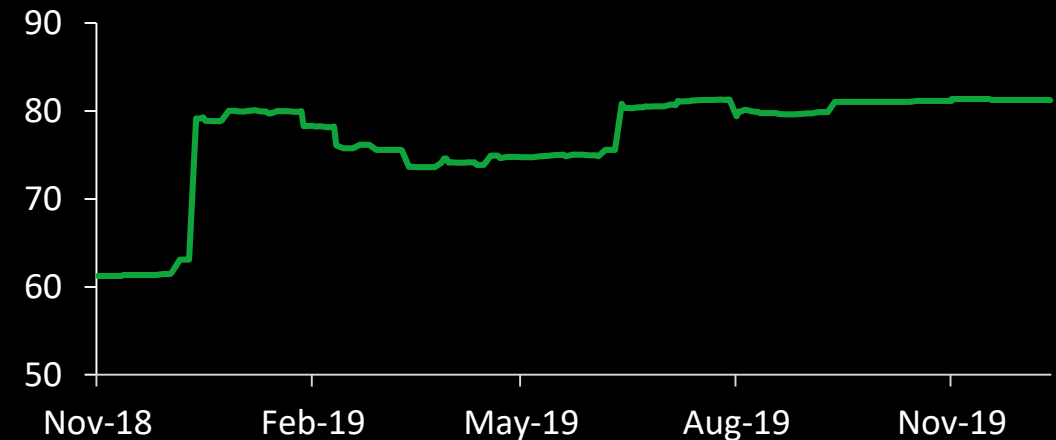


The major challenge facing UK income investors

FTSE All-Share yield generation



FTSE All-Share payout ratio

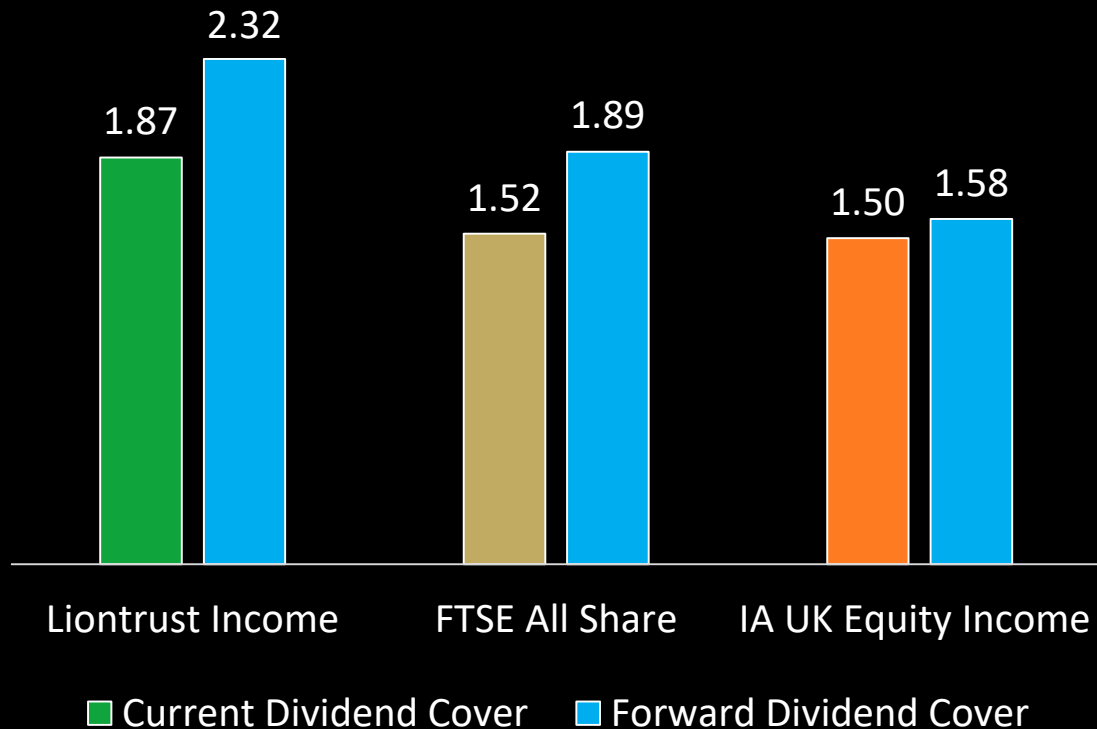


- UK equity income market is highly concentrated: 10 stocks account for c.50% of the Index's yield
- Slowing earnings yet desire to increase dividends means dividend coverage across the market is running thin
- Most popularly-held stocks in sector are those with the most challenged dividends
- 10 largest contributors to the Index's yield have an average dividend cover of just **1.1x**

Hugely concentrated market yet deteriorating dividend cover

How we mitigate this risk

Dividend cover

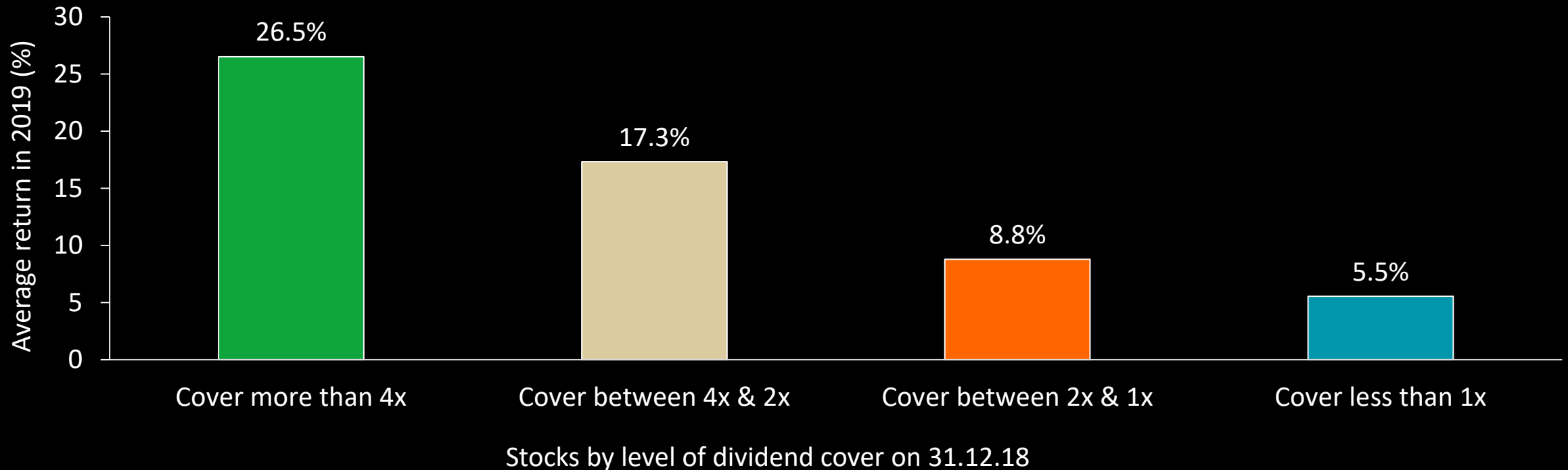


- Dividend cover is key to our investment process
- Many funds focus more on generating a high yield...
- ... But at the expense of capital and income growth
- Chasing yield has proven to be very dangerous

Dividend cover is the main precursor to sustainable dividend growth

Why dividend cover is important

Price performance of FTSE 100 stocks (+4% yield) in 2019 by dividend coverage



Stocks with lowest dividend cover produced the worst capital returns

Imperial Brands: a perfect example of investors chasing yield but ignoring fundamentals

Imperials Brand's share price and dividend yield in 2019



- Dividend cover of less than 1x in Dec 2018
- Yield rose 39% from 7.9% to 11.1% in 2019
- Dividend growth was just 10%
- Higher yield was driven by 22% share price fall
- Cover remains below 1x and management have warned about future dividend growth
- But the stock remains highly popular...

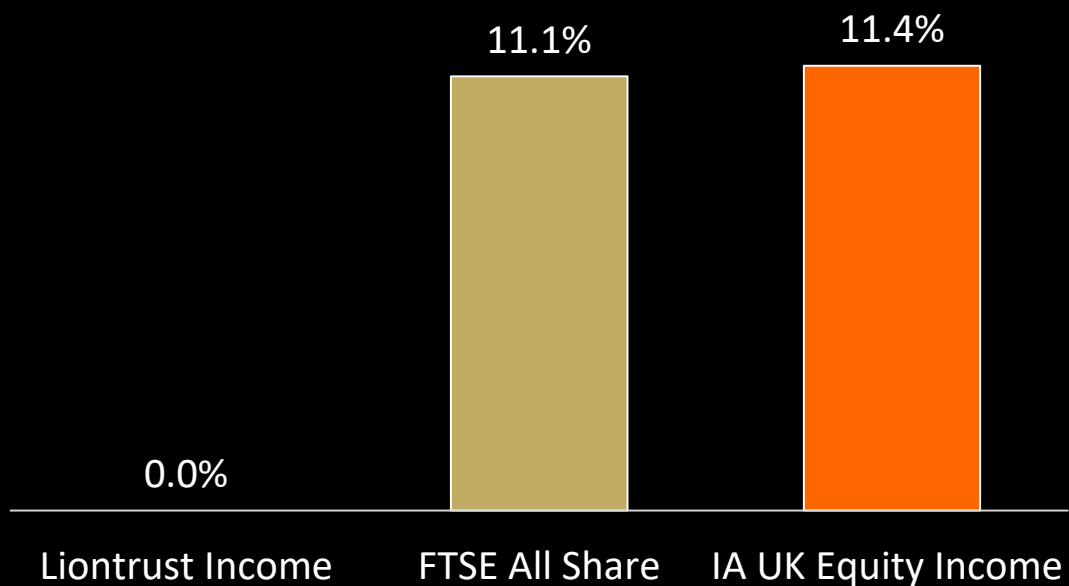
Popularity of Imperial Brands among IA UK Equity Income Funds

Name	% of Funds that hold it	% of sector yield
November 2018	74.6%	4.8%
November 2019	70.0%	4.8%

But many have not learnt from this experience...

Funds continue to ignore the importance of dividend cover

% of yield generated by stocks with less than 1x forward dividend cover

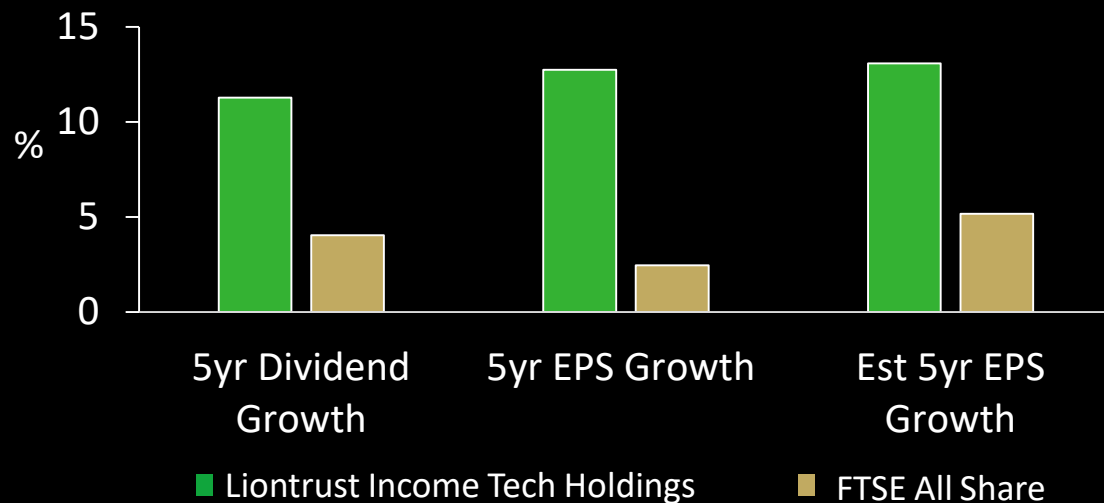


- Despite dividend cuts and significant share price falls from popular UK income stocks, many funds continue to hold inherently challenged companies
- Many UK stocks are under pressure due to a lack of investment, disruption within their industries and already high payout ratios
- **No stock in the Liontrust Income Fund has forward dividend cover of less than 1x**

Current yields across the UK market are an illusion

Technology – the income fund of the future

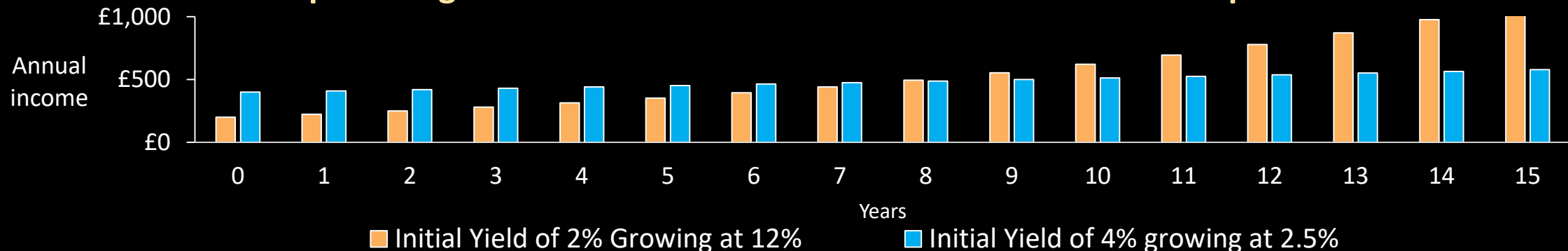
Fund tech holdings vs. Index



Overweight technology

- Strong structural drivers
- High-margin, cash-generative business models
- Increasing propensity for shareholder returns
- Largest weighting to technology within the IA UK Equity Income Sector at **20.2%**
- Lower yields, but much stronger earnings and dividend growth vs the UK market

Compounding of income on £10k investment – theoretical example



Source: Morningstar, 31.12.2019. The FTSE All Share Is a comparator benchmark

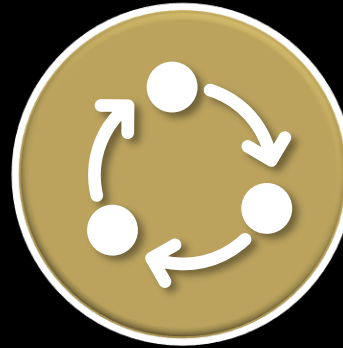
Past performance is not a guide to future performance, investments can result in total loss of capital. Please refer to the Key Risks slide for more information

The Liontrust Income Fund – the basics



A portfolio of 33 equally weighted dividend-paying stocks

Approach to portfolio construction minimises unforeseen risks to both income and capital



Three-silo process, with 11 stocks in each silo

Creating a blend of value and growth stocks, allowing the fund to perform across the market cycle due to reduced style risk



Pure large and mega-cap focus

Historical and continued preference for large caps leaves a highly liquid portfolio

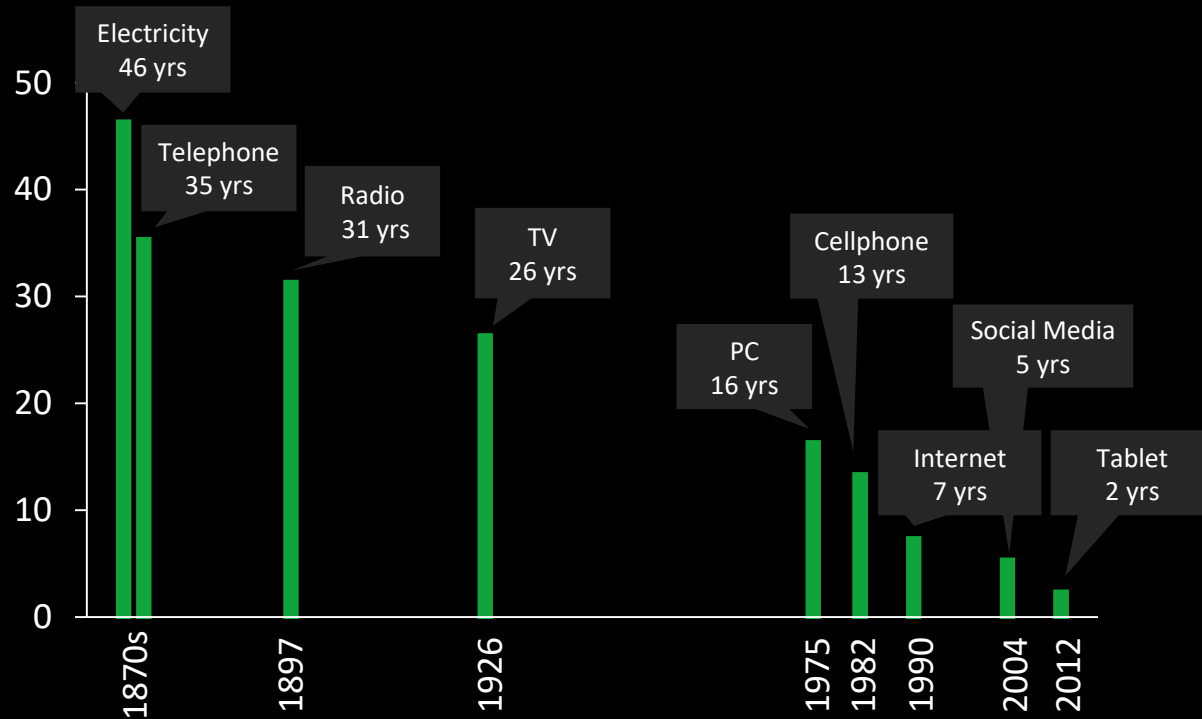


Investment implications of
Artificial Intelligence (AI):
Five principles

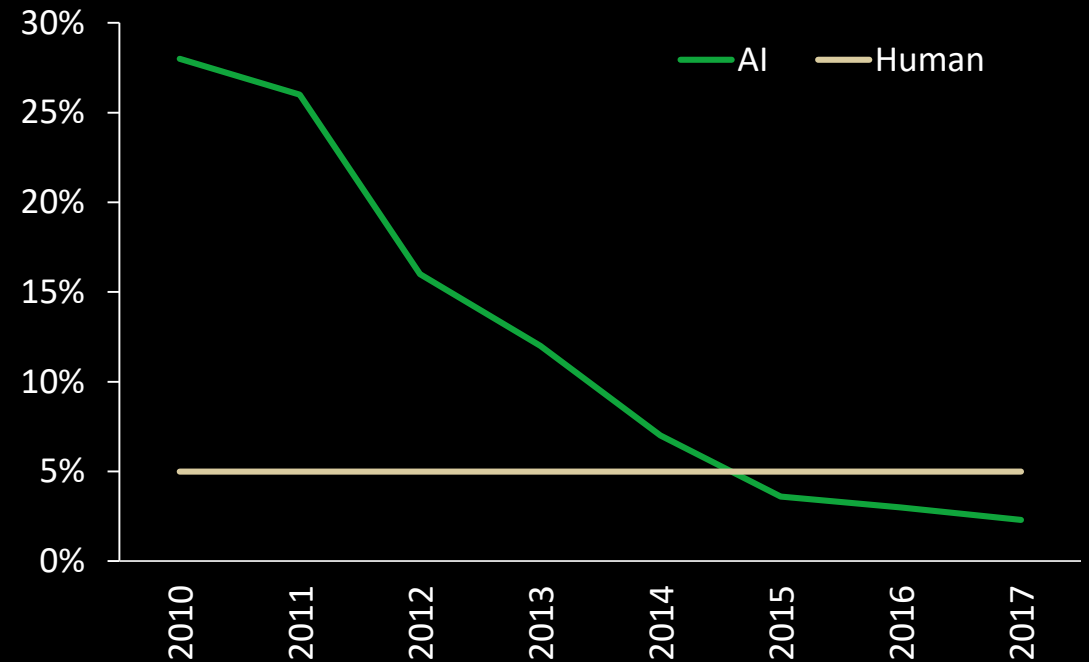


1. AI's impact could come sooner than expected

Technology adoption speeds are accelerating
(years until adopted by 25% of US population)

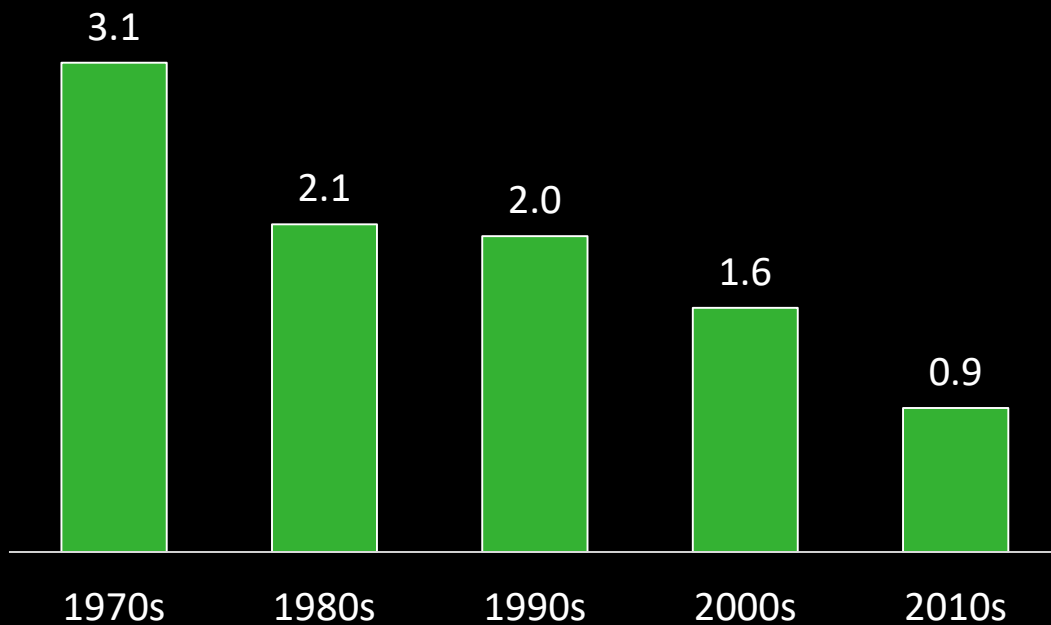


AI image recognition error rates recently fell below those of humans (% error rate)

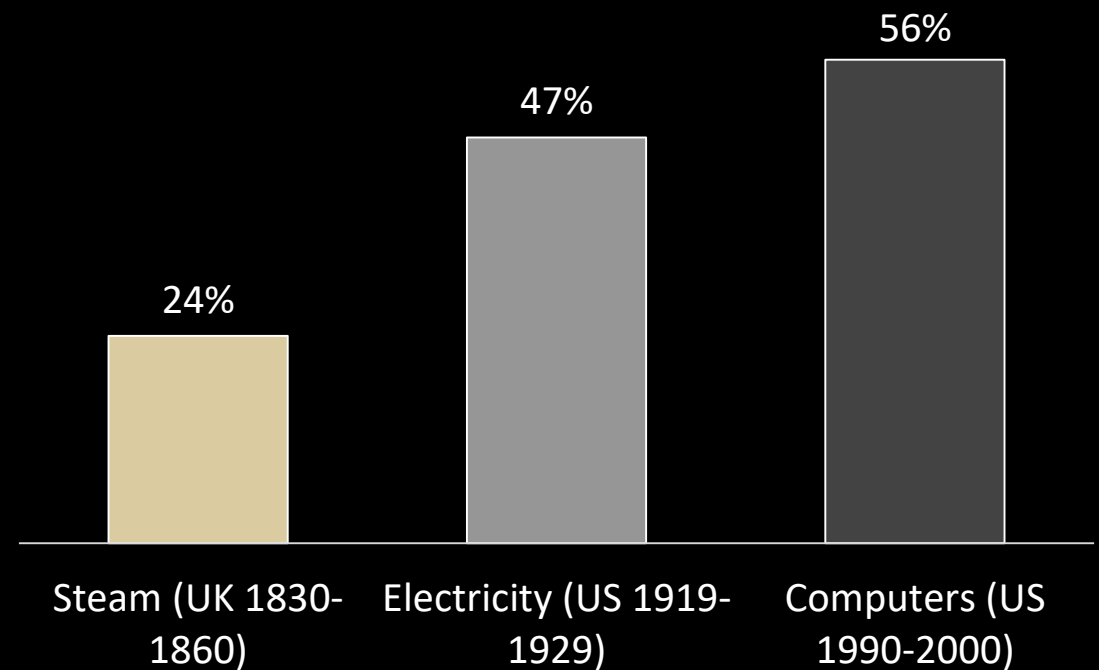


2. Big new technologies have a big impact on economic growth

Developed World GDP per person growth has declined in recent decades (average annualised % rate by decade)



Major breakthrough technologies' share of overall GDP per person growth



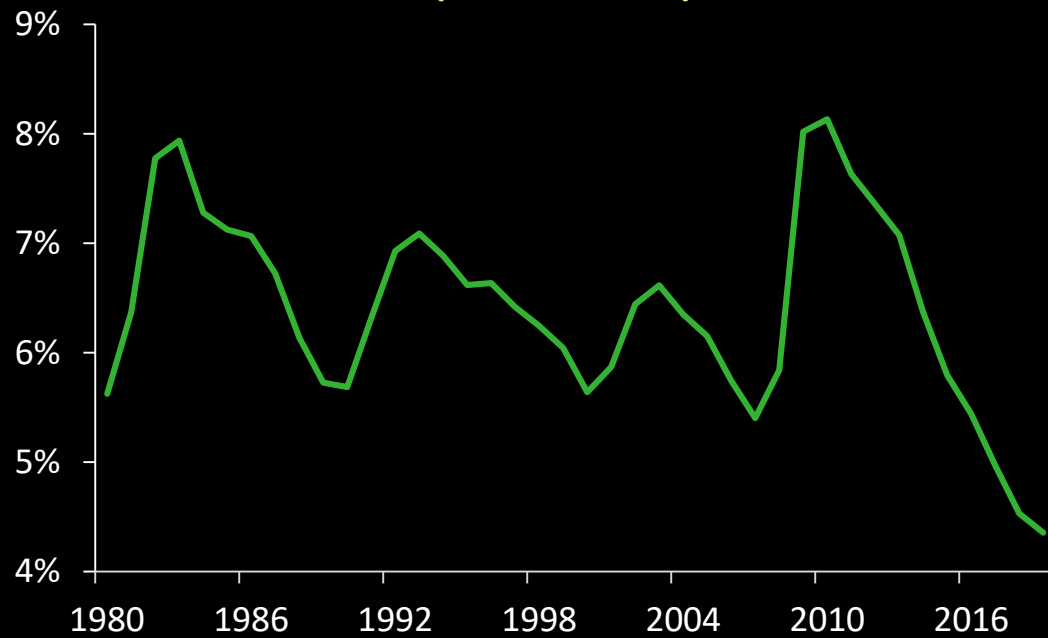
3. Politics is becoming more of a tailwind than a headwind for AI

DOMESTIC POLITICS

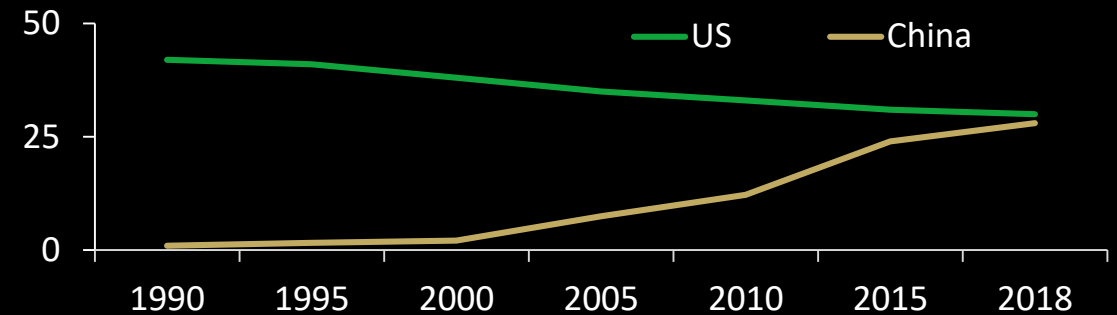
VS

GEO-POLITICS

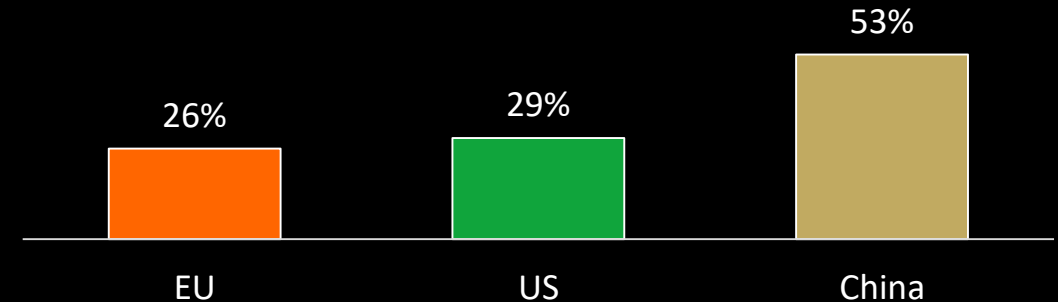
Domestic politics is predominantly a headwind for AI but Developed World unemployment rates are currently historically low (1980-2019, %)



Geo-politics is a tailwind, and the “AI race” is intensifying – share of top 10% cited AI papers, US vs China

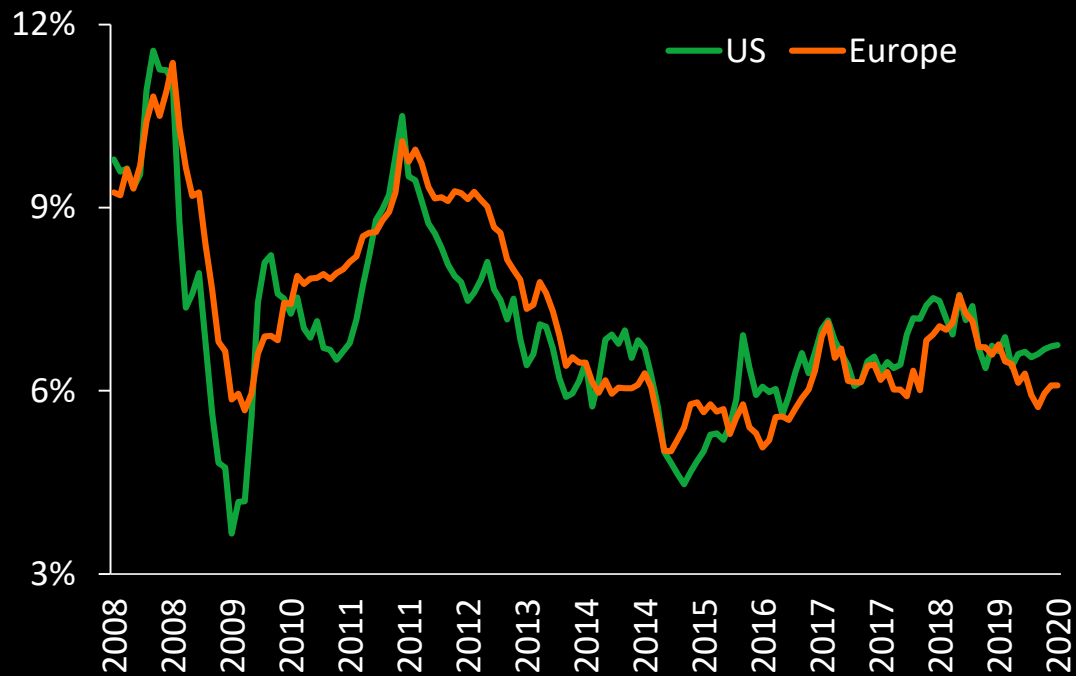


% of companies piloting AI in EU, US & China

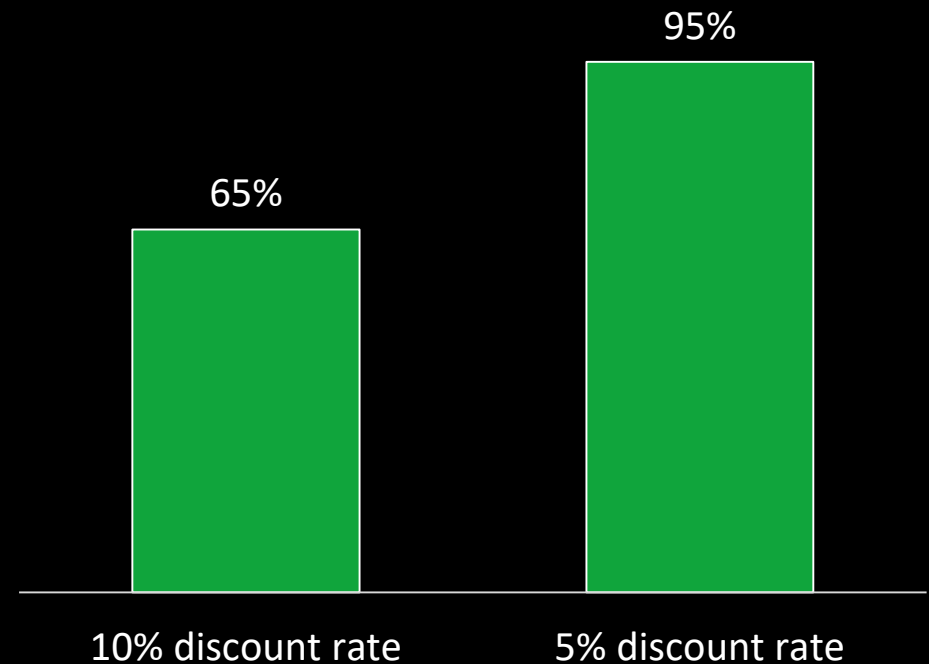


4. Low interest rates will magnify the impact of AI on stocks

US and European market implied average discount rates on public equities, 2008-2020 (%)

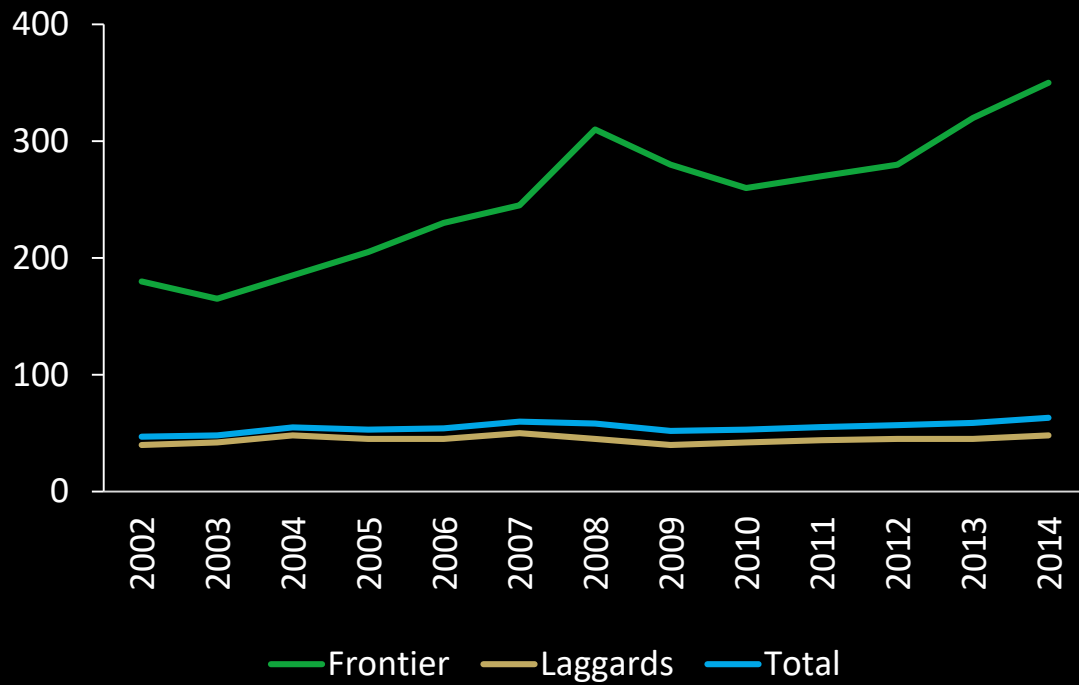


% of DCF value determined by cash flows beyond year 5, using discount rates of 10% and 5%

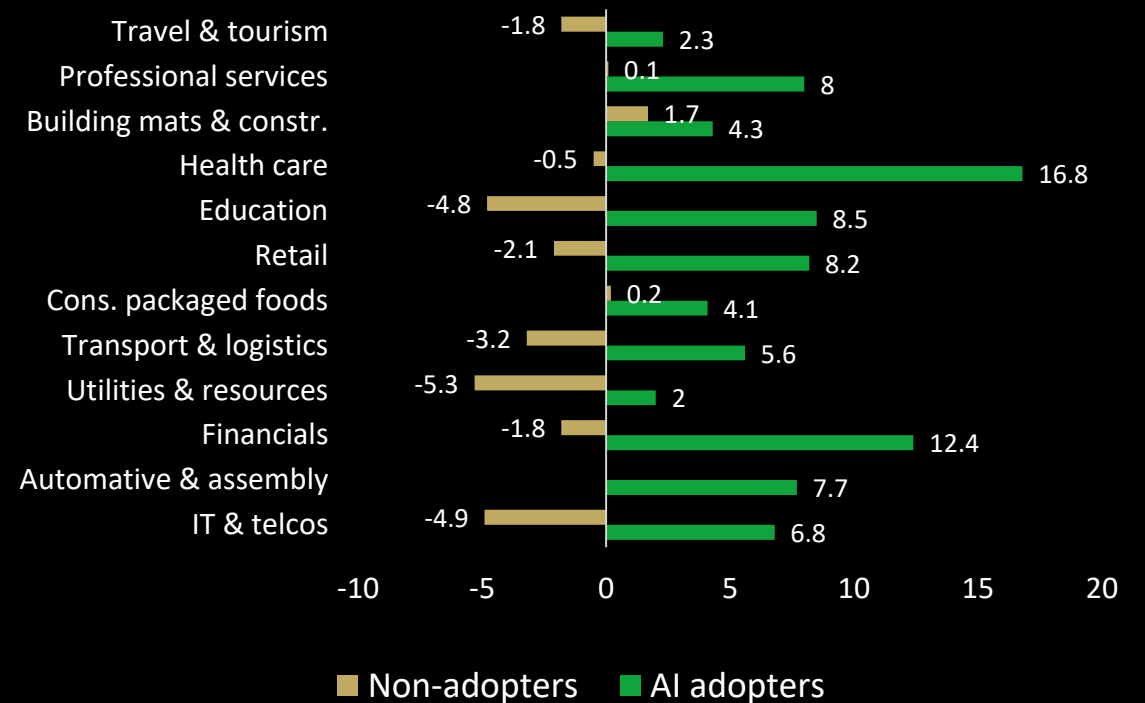


5. AI will increase the advantages of the best companies vs the rest

Productivity levels of UK firms 2002-2014, top 5% in each industry vs remaining 95% (Annual gross value added per worker, £ 000')



Operating profit margins of AI adopters and non-adopters (%)



Summary: five principles

1. AI's impact could come sooner than expected – *technology adoption rates speeding up and AI use cases now viable*
2. Big new technologies have a big impact on economic growth – *AI perhaps most important economic growth driver over coming years*
3. Politics is becoming more of a tailwind than a headwind for AI – *geopolitics will spur adoption*
4. Low interest rates will magnify the impact of AI on stocks – *structural change and disruption will dominate market performance*
5. AI will increase the advantages of the best companies vs the rest – *investors should back companies with strong technological capabilities*

Discrete performance

To previous quarter 12 months ending (%)	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
Liontrust Income C Acc	15.2	-3.4	11.6	14.5	6.3
FTSE All Share	19.2	-9.5	13.1	16.8	1.0
IA UK Equity Income	20.1	-10.5	11.3	8.8	6.2
Quartile	4	1	3	1	2

Source: FE Analytics as at 31.12.19, C Accumulation GBP share class performance, total return (net of fees, interest/income reinvested) versus comparator benchmarks

Past performance is not a guide to future performance, investments can result in total loss of capital. Please refer to the Key Risks slide for more information

Key risks

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