



## Liontrust Balanced Fund

### Q2 2022 review

Fund manager: Robin Geffen, assisted by William Geffen, Clare Pleydell-Bouverie and James O'Connor

**The Liontrust Balanced Fund returned -14.1% over the quarter, versus its average peer in the IA Mixed Investment 40-85% Sector, which returned -7.4%\*^.**

The Liontrust Balanced Fund invests in high quality growth stocks that we believe can future proof an investor's portfolio using the 5 key drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision. The portfolio is driven by large and mega cap stocks and does not have direct holdings in small and mid-cap stocks. We continue to believe that active and disciplined stock selection can deliver sustained outperformance, shown by the long-term performance of the Fund, which has returned 859.0% since its launch versus the IA peer group 192.6%.

Prevailing conditions continue to offer considerable headwinds for our investment approach, with central banks around the world still raising interest rates to curb inflation. For companies where the market expects growth for years to come, a large proportion of the valuation is attributed to cash flows in the future (known as long duration); conversely, for stocks with lower expectations, less value is ascribed to future growth and the bulk of the value is in near-term cash flows.

Companies with strong growth expectations, therefore, have higher sensitivity to interest rate changes than those with lower growth prospects, with the market discounting future earnings more heavily and bringing down their present valuation as a result. This shift has hit the fund hard given its bias to high quality growth and longer duration relative to the market.

Among the notable contributors for the period was UnitedHealth. When it comes to corporate healthcare insurance, UnitedHealth offers the best quality/price ratio in the business. For slightly above average cost of healthcare coverage, an employer can insure its workforce with comprehensive high-quality care.

The company is funding its long-term AI aspirations in Optum from its core healthcare insurance offering. Longer term, the opportunity for the company is significantly lowering the healthcare costs for the expensive and inefficient US healthcare system. Almost 10 years ago, the company launched this initiative and has built an insurmountable industry position.

Multinational pharmaceutical and biotechnology company Pfizer was also among the notable contributors over the quarter. In terms of company news over the three months, Pfizer announced it will acquire Biohaven Pharmaceutical Holding Co. for \$11.6 billion in cash to gain an approved treatment for migraine headaches. With billions in hand from sales of its Covid-19 vaccine and treatment, Pfizer has the resources to diversify beyond pandemic products that may have limited demand as the outbreak winds down.

Brown-Forman was another contributor in a difficult period for the Fund, with the American wine and spirits business posting robust financial results for fourth quarter and fiscal year ended 30 April 2022. For the fourth quarter, the company's reported net sales of \$996 million increased 23%, with reported operating income also increasing 46% to \$246 million and diluted earnings per share increased 26% to \$0.31. For the full year, the company's reported net sales increased 14% to \$3,933 million.

Like the rest of technology, shares in Nvidia have been hurt as the fastest rise in inflation in decades is triggering a global cycle of higher interest rates. That has hit first and foremost, the high-growth, high-multiple tech companies, in software and consumer services. But the stock selloff is also affecting the more cyclical chip business, on the perceived view that demand for industrial and consumer goods will suffer as rising rates threaten to tip the economy into a recession. Also among the impacted semiconductor stocks was ASML, which sells the machines that make semiconductors and is the world's largest supplier of photolithography systems, the standard method of printed circuit board (PCB) and microprocessor fabrication.

PayPal has been a major performer for the portfolio over recent years but, earlier in 2022, the company missed analyst expectations for growth and earnings, downgraded guidance for 2022, and, most concerningly, provided new information that calls into question the growth algorithm investors had modelled. Management explained the business operates on a Pareto Principle – the concept that around 30% of customers drive the majority of revenues and profits.

Microsoft pared its forecasts for the current quarter, signalling that the surging US dollar will eat into revenue more than it previously expected and underscoring the threat of inflation and tighter economic policy for an industry that's already been pummeled by a market rout. Microsoft issued the new guidance in a securities filing "to help investors understand the impact of unfavourable foreign exchange rate movement in the fourth quarter of fiscal 2022 since the forward-looking guidance provided on April 26 Microsoft said the impact of currency fluctuations reduced revenue and earnings, though both still rose from a year earlier.

We continue to be positive on the outlook for quality growth stocks over the coming years. We are especially positive as the large and mega cap area of the market continues to give considerable scope for outperformance as the world continues to recover from the Covid-19 pandemic. Our emphasis on the drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision will, we believe, guide the Fund towards those companies that will change the world as we adapt going forward.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Balanced C Acc	-11.8%	16.3%	15.5%	4.3%	13.1%
IA Mixed Investment 40-85% Shares	-7.2%	17.3%	-0.1%	3.6%	4.8%
Quartile	-7.2%	17.3%	-0.1%	3.6%	4.8%

\*Source: FE Analytics as at 30.06.22

\*\*Source: FE Analytics as at 30.06.22. Quartiles were generated on 06.07.22

For a comprehensive list of common financial words and terms, see our glossary at:  
<https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms>

---

### **Key Risks**

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. Bond markets may be subject to reduced liquidity. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

### **Disclaimer**

This document should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. It contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust. Always research your own investments and if you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. [22/540]

