



Liontrust Global Alpha Fund

Q2 2022 review

Fund manager: Robin Geffen & deputy Will Geffen

The Liontrust Global Alpha Fund returned -20.9% over the quarter, versus the MSCI AC World Index, which returned -8.6% and its average peer in the IA Flexible Investment sector which returned -6.9% (both comparator benchmarks).

The Liontrust Global Alpha Fund continues to invest 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 allocation is driven by a very substantial overweight in the mid-cap area of the market, as well as a smaller allocation to appropriate large and mega caps to balance the portfolio in areas where we do not see attractive mid-cap companies. This overweight of mid-cap companies, that range between \$10bn-\$30bn market capitalisation is designed to help identify those stocks that can grow quickly to a \$50bn-\$250bn and beyond. The Fund does not have direct holding in small cap stocks, those below \$10bn and invests solely in equities, having zero allocation to bonds or property.

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 664.2% since its launch versus the IA peer group 344.1%.

Over the more recent term, 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 stocks and longer duration relative to the market.

Among the notable positive contributors was multinational pharmaceutical and biotechnology company Pfizer. 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.

In addition, China's Covid-19 lockdowns and the war in Ukraine weighed on Nvidia's sales forecast. The outlook reflects the continuing supply-chain chaos in China, where Covid-19 lockdowns have disrupted production and transportation lines. That has made it harder for companies like Nvidia to capitalize on still-growing demand for chips. Nvidia also cited Russia, which invaded Ukraine and drew widespread sanctions earlier this year, for hurting its outlook.

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.

Despite posting solid results over the quarter, Cloudflare fell sharply. For the quarter ended March 31, Cloudflare reported a profit before costs of \$3.5 million, or one cent per share, compared with a loss of \$9.3 million, or three cents per share, in the same quarter of 2021. Revenue jumped 54%, to \$212.2 million.

Looking forward, Cloudflare predicts adjusted earnings of breakeven to a loss of a penny a share in the second quarter on revenue of \$226.5 million to \$227.5 million. The stock's share price decline comes as the market is rerating growth stocks like Cloudflare lower. However, we believe the company continues to execute at an impressive rate on its promise to build a better internet with incredible speed of product innovation in areas ranging from website DDOS protection to Cloud Deployment tool and its prospects remain fairly unchanged, however its market rating (multiple) has been severely hammered in this environment.

We continue to be positive on the outlook for high quality growth stocks over the next year. We are especially positive as the mid cap area of the market continues to give considerable scope for further 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 Global Alpha C Acc	-25.0%	33.0%	24.5%	4.4%	22.5%
MSCI AC World	-4.2%	24.6%	5.2%	9.7%	8.9%
IA Flexible Investment	-7.1%	19.5%	0.3%	3.0%	5.0%
Quartile	4	1	1	2	1

***Source: FE Analytics as at 30.06.22**

****Source: FE Analytics as at 30.06.22. Quartile 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 Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

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