Liontrust Balanced Fund

Q3 2022 review

Fund manager: Robin Geffen, assisted by William Geffen

The Liontrust Balanced Fund returned -0.2% over the quarter, versus its average peer in the IA Mixed Investment 40-85% Sector, which returned -1.9%*^.

The Liontrust Balanced 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. 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 857% since its launch versus the IA peer group 187%.

After a rally in July, both equities and bonds turned lower and registered negative returns for Q3. Any hopes of interest rate cuts were dashed as the Federal Reserve, European Central Bank and Bank of England all opted to raise in the quarter, reaffirming their commitment to fighting inflation. In the UK, the poorly received budgetary announcement by Chancellor Kwasi Kwarteng in September accelerated a sell-off as investors questioned the credibility of the government's fiscal framework. With the gilt market suffering huge losses, the BoE intervened by announcing that it would temporarily be buying long-dated gilts. Sterling hit an all-time low versus the dollar in the closing days of the quarter, before recouping some of its losses at the close.

In terms of Fund attribution, Amazon, one of our highest conviction stocks, led the positive performers over the quarter, experiencing a share price bounce after reporting Q2 results. Earnings per share (EPS) was reported at -$0.20, below average analyst expectations for a positive figure. It was the second consecutive quarter in which Amazon reported a net loss, and only the second such quarter in over four and a half years. However, AWS, Amazon's high-margin cloud computing business, grew by 33.3% year-over-year to reach $19.7 billion, beating analyst predictions. Amazon said that AWS received new commitments and migrations from companies across a wide variety of industries, including Delta Air Lines, Jefferies Financial and energy company Eni.

Apple also performed strongly in the wake of its results release, announcing record revenue for the quarter to 30 June of $83.0 billion, up 2 percent year-over-year. In addition, the company reported nearly $23 billion in operating cash flow, returning over $28 billion to shareholders, and continued to invest in its long-term growth plans.

With headwinds coming from every direction at the moment, namely recession fears, a strong dollar, shrinking advertising budgets and inflation, the company stated that its strong results continued to demonstrate the company's ability to manage its business effectively despite the challenging operating environment.

Arthur J. Gallagher, an American global insurance brokerage and risk management services firm, posted strong Q2 numbers, reporting that its core brokerage and risk management segments combined to post 22% growth in revenue, including nearly 11% organic revenue growth and approximately $240 million of acquired rollover revenues.

Turning towards the detractors, the Fund's government bond allocation was a significant drag on performance over the quarter as the bond market sell-off saw yields rise across the board. The market action was particularly severe in the UK - where we retain our fixed income allocation - with gilts falling sharply following the UK Government's poorly received 'mini-budget' announcement. However, the Fund's low fixed income allocation relative to the sector allowed it to generate good relative returns.

Within our equity portfolio, Pfizer led the detractors for Q3. Pfizer, along with other big pharma shares, fell due to increasing worries over litigation risk around the now-withdrawn Zantac heartburn drug. While news of the litigation is public knowledge, the release of a series of reports during the quarter highlighted the potential exposure Pfizer faces and awoke investors to the risks. This prompted Pfizer to release a statement explaining that the company only sold Zantac for a limited time and has not sold it for 15 years.

Shares in Adobe, the global leader in digital media and digital marketing solutions, fell sharply in September after the company announced a $20 billion deal to acquire privately held Figma and reported earnings that revealed a soft fourth-quarter outlook. Figma is a fast-growing software company that offers collaborative design tools for businesses, directly competing with and taking market share from Adobe. Commenting on the acquisition, Adobe states that, 'the combination of Adobe and Figma is transformational and will accelerate our vision for collaborative creativity'.

Shares in Nvidia continue to fall as the fastest rate of inflation in decades is triggering a global cycle of higher interest rates. First and foremost, this has hit 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.

With the US market having reset earnings expectations lower after Q1 and Q2 results, we look forward to the Q3 and Q4 earnings seasons, which we believe now have more sensible and realistic expectations.

We continue to be positive on the outlook for quality growth stocks over the coming years. We are especially upbeat regarding the large and mega cap area of the market, which, in our opinion, continues to offer considerable scope for outperformance as the world recovered 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:**

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust Balanced C Acc	-13.9%	13.7%	16.4%	6.3%	12.3%
IA Mixed Investment 40-85% Shares	-10.2%	16.6%	-0.2%	4.2%	5.3%
Quartile	4	4	1	1	1

***Source: FE Analytics as at 30.09.22**
****Source: FE Analytics as at 30.09.22. Quartiles were generated on 07.10.22**

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.

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