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Liontrust GF SF Multi-Asset Global Fund: Q3 2022 review

Fund managers: Peter Michaelis and Simon Clements

The Fund returned -1.9% over the quarter, underperforming -1.5% from the comparator benchmark, a blend of 50% MSCI World, 35% Markit iBoxx EUR Overall and 15% ESTER*†.

The focus for the market over the early part of the quarter shifted away from macroeconomic drivers and focused back on how individual companies were faring in an increasingly challenging economy. Earnings season in July was closely watched, and we were pleased with the way in which the majority of our companies performed. This led to strong Fund performance over the early part of the quarter.

As we moved into September, macroeconomic factors once again began to dominate equity market performance, and relative style performance drove stock markets. Inflation across the world, and particularly in the US, continues to surprise to the upside, and this drove further rises in bond yields. Yields had moved from around 3% at the beginning of the quarter in the US to above 3.8% by the quarter end.

We view a slowing of economic growth in the UK, US and Europe as inevitable as we move towards 2023, and the evidence is emerging that this slowdown is well underway. The question now is what that recession looks like; given the strong labour market, a deep recession still feels unlikely. Our base case remains a long-drawn-out period of sluggish growth, rather than the deep recession of the type we saw in 2009. Inflation remains the key issue for financial markets, and the impact of a slowing economy, higher interest rates and pure base effects as we move towards 2023 should all provide some hope that core inflation may start to normalise. The US is likely to see core inflation as slightly more problematic, and we expect the Fed to have scope to push rates up further to combat this (given the economy is so strong in US, relative to Europe).

The Fund's bond allocation experienced a negative return as the market sell-off saw yields rise across the board. The market action was particularly severe in the UK market, where gilts tumbled following the UK Government's poorly received budget announcement. However, following these the extreme movements over the third quarter in fixed income markets, we now view UK gilts as attractive. They now offer a 4% yield and the risk of capital loss has receded given the losses already experienced year to date. We view gilts as better value than cash, given you now get a reasonable yield.

Our global equity portfolio fared better over the quarter due to stronger equity markets and particularly strong currency support from US dollar holdings.

Among the top performers was Schwab, a long-term holding under our *Saving for the future* theme as the largest investment platform in the US, offering low-cost products to the mass market. Schwab reported strong Q2 numbers in July, with net income coming in ahead of the average estimates at \$1.8 billion, compared with \$1.4 billion for the first quarter. While Schwab reported lower trading revenue, it more than made up for that with interest generated from holding clients' money – its biggest source of revenue. Net interest revenue rose 31% to \$2.5 billion as trading revenue slid 7% to \$885 million.

PayPal bounced back strongly in the third quarter having seen its share price halve this year as the company has faced pressures in recent quarters from supply-chain disruptions and once-in-a-generation levels of inflation that has hindered e-commerce spending.

PayPal said earlier this year it was pivoting away from a previous strategy of trying to add millions of new users and instead is seeking to encourage existing customers to use its app more frequently. The firm showed progress on that front, reporting in its Q2 earnings that payment transactions per active account climbed 12% to 48.7 in

the quarter. In addition, the company boosted its forecast for adjusted earnings per share for the year to a range of \$3.87 to \$3.97, compared with earlier guidance of \$3.81 to \$3.93.

Also among the top performers was Cadence Design Systems, following the release of robust Q2 earnings. Cadence reported revenue of \$858 million, compared to revenue of \$728 million for the same period in 2021, attributing the results to the company's relentless focus on innovation, continued strong execution and emblematic of the megatrends of the long-term strength of semis, systems companies investing more in silicon, and the convergence of system and chip designs.

Cadence continues to broaden its chip design software offering to new customers, as the likes of Amazon, Google and even Tesla invest in chip design teams. Cadence's software offering is essential to this design, and demand from these businesses, as well as more traditional chip manufacturing customers, will drive growth over the short and long term. This type of innovation delivers better efficiency, which is key to our *Improving the efficiency of energy use* theme.

On the other side of the ledger, shares in Adobe fell over the quarter after the company announced it had entered into a definitive merger agreement to acquire Figma, a leading web-first collaborative design platform, for approximately \$20 billion in cash and stock. While the market reacted badly to the acquisition price, the combination of Adobe and Figma is said by Adobe to "usher in a new era of collaborative creativity".

Over the period, Bright Horizons Family Solutions reported an 11% increase in Q2 revenue to \$490 million, primarily attributable to enrolment gains at its centres and expanded sales and utilization of back-up care services. However, its shares fell after the company announced that it would be trimming its 2022 guidance due to the ongoing impact of the Covid-19 pandemic.

Bright Horizons provides high-quality educational services, chiefly for 0-4 year olds, that are paid for by the employees but subsidised as part of benefits. This gives the opportunity for full-time working households to continue their careers, while ensuring their children are in the best possible setting. The company's share price was volatile during the pandemic, but we continue to believe that the aim of a better work-life balance and reducing stress for parents is a key long-term part of a more sustainable future when the world is able to look past the pandemic.

In terms of portfolio changes, we initiated a position in US firm Advanced Drainage Systems, the leader in the supply of plastic-based storm water drainage in the US. Fitting into our *Delivering a circular economy* theme, ADS's products are made from recycled plastics and replace concrete-based drainage systems, which are a poorer quality product as well as being more carbon intensive to manufacture.

We also added Agilent Technologies, a global leader in quality control and testing, ensuring the food we eat, the air we breathe and the water we drink does not contain harmful chemicals and contaminants. Exposed to our *Better monitoring of supply chains and quality control* theme, it is also a leader in the supply of Research & Development tools in the area of increasingly cutting-edge technology related to gene-editing.

Vestas Wind Systems was another new addition over the quarter under our *Increasing electricity from renewable sources* theme. This Danish firm, one of the three main players outside of China, is the quality leader in the supply of wind turbines globally, which are key to the transition away from Russian gas and fossil fuel dependency. Vestas' strategy to shift away from *just* turbine manufacturing towards turbine design, optimising connection to grid to yield highest cashflow and profitable service revenue look set to help them grow profitability for the next decade and beyond.

In terms of sells, we exited our position in Prudential, which has been a disappointing investment as its business fundamentals have weakened.

We also sold our position in US integrated waste services firm Waste Connections. The company has performed well, but with the majority of the waste it collects being diverted to landfill, rather than being recycled, we decided to use our position to focus on a better thematic fit for our *Delivering a circular economy* theme, namely Advanced Drainage Systems.

We sold Splunk over the quarter, as we were concerned that its technological lead in unstructured data and big data analysis is coming under pressure from new competitors. Splunk's technology is increasingly adopted as a

form of network digital security, and as this moves into the cloud, there is an increasing number of surveillance software competitors. We believe this may pressure pricing and returns for the business going forward.

**Source: FE Analytics, as at 30.09.22, primary share class (A5), in euros, total return, net of fees and income & interest reinvested. 10 years of discrete data is not available due to the launch date of the fund.*

Key Features of the Liontrust GF SF Multi-Asset Global Fund

INVESTMENT OBJECTIVE & POLICY¹:	<p>The Fund aims to achieve capital growth over the long term (five years or more) by investing globally in sustainable securities.</p> <p>The Fund will only invest in equity and debt securities issued by global companies that provide or produce sustainable products and services, as well as equity and debt securities of issuers that have a progressive approach to the management of environmental, social and governance issues.</p> <p>The Fund may also invest in cash and Money Market Instruments. Allocations to equities, bonds and cash will vary over time depending on market circumstances. Asset allocation limits will, in normal circumstances, remain in line with the following ranges: Equity securities – 40-60%, Debt securities – 20-50%, Cash – 0-20%.</p> <p>While the Fund will invest predominantly in developed markets, it may also invest up to 20% in emerging market securities.</p> <p>At times the Investment Adviser may decide to hold a more concentrated portfolio, and it is possible that a substantial portion of the Fund could be invested in cash or cash equivalents.</p> <p>The Fund is permitted to use derivatives for the purposes of efficient portfolio management, investment and hedging purposes.</p>
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRRI²:	4
ACTIVE / PASSIVE INVESTMENT STYLE:	Active
BENCHMARK:	The Fund is actively managed in reference to its benchmark comprising 50% MSCI World / 35% Markit iBoxx EUR Overall Index / 15% ESTER by virtue of the fact that it uses the composite benchmark for performance comparison purposes. The benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the benchmark.
SUSTAINABILITY PROFILE	The Fund is a financial product subject to Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: ¹. As specified in the KIID of the fund; ². SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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

Key Risks and Disclaimer

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