Liontrust Global Alpha Fund

Q3 2022 review

Fund manager: Robin Geffen & deputy Will Geffen

The Liontrust Global Alpha Fund returned 0.9% over the quarter, versus the MSCI AC World Index comparator benchmark return of 1.4% and its average peer in the IA Flexible Investment sector, also a comparator benchmark, which returned -1.0%.

The Fund continues to invest in high quality growth stocks that we believe can future-proof an investor's portfolio using the five 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 $50bn-$250bn and beyond. The Fund does not have direct holdings 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 671% since launch versus the IA peer group 181%.

After a rally in July, both equities and bonds turned lower and registered negative returns for both August and September. 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.

Cloudflare shares performed strongly in the wake of the content distribution network and security provider announcing second-quarter results and full-year guidance that exceeded average estimates. The company reported that revenue climbed 54% from a year earlier to $235 million, maintaining its growth rate from three months earlier, despite a slowdown in other parts of the technology industry. In addition, the company stated that it added a record number of customers paying over $100,000 per year, with management raising its forecast for 2022, calling for about 48% growth.

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.

Focusing on the detractors, 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'.

Nvidia's share price continued 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.

Last among the notable detractors, **Horizon Therapeutics** posted lower-than-expected Q2 results and full-year sales guidance that was below estimates, hurt by lower sales from its inflammation segment. The company said it now expects full-year net sales to be in the range between $3.53bn - $3.60bn, from the previous guidance range of $3.9bn - $4.0bn. Thyroid eye treatment Tepezza is now expected to achieve full-year net sales percentage growth only in the high-teens, compared to the previous guidance of mid-30s percentage growth.

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 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 in future.

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

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust Global Alpha C Acc	-26.5%	25.7%	35.1%	1.1%	20.5%
MSCI AC World	-4.2%	22.2%	5.3%	7.3%	12.9%
IA Flexible Investment	-9.2%	18.3%	0.9%	3.2%	5.4%
Quartile	4	1	1	4	1

***Source: FE Analytics as at 30.09.22**

****Source: FE Analytics as at 30.09.22. Quartile 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 Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.