LIONTRUST

GLOBAL EQUITY

Liontrust Balanced Fund

Q4 2022 review

Fund manager: Robin Geffen and Deputy William Geffen

The Liontrust Balanced Fund returned -4.4% over the quarter, versus its average peer in the IA Mixed Investment 40-85% Sector, which returned 2.0%*^. Part of the Fund's underperformance relative to the sector can be attributed to a weaker sterling recovering 8% versus the dollar over the quarter.

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 814% since its launch versus the IA peer group 195%.

Equity markets stabilised and showed some signs of recovery this quarter, with hopes of an earlier than expected fed pivot, or "soft landing" easing the market as early signs show US inflation beginning to ease. Many companies, however, are still bracing for a slowdown and Q4 2022 earnings and forecasts in late January and February 2023 will provide some good guidance.

In terms of Fund attribution, Intuitive Surgical was the top performer after posting strong third quarter results and lifting its forecast for procedure growth this year. The company, best known for its da Vinci systems which introduced robotic assisted surgery to the world, announced Q3 revenue of $1.56 billion, boosted by an increase in procedure volume from its surgical system.

Private equity company 3i Group was another notable positive contributor after announcing a total return of £1.77bn in its first half earnings report, or 14% on opening shareholders' funds. The company's holding of discount retailer Action was a significant contributor to overall performance, with 3i also seeing strong earnings growth and momentum in a number of its portfolio companies in the consumer, healthcare, specialty industrial and business and technology service sectors.

Pfizer was also among the top performers over the quarter. Pfizer emerged from the Covid-19 pandemic as the world's most visible drugmaker with its Covid vaccine doubling its revenue in just one year. Despite its incredible success, the pharmaceutical giant explained in its Q3 release that it is making important strides outside of its Covid-19 products, explaining that they expect to have 19 new products in the market over the next 18 months – this news was received well by the markets, with nearly all new indications being outside of Covid-19.

Nvidia notched a positive gain over the quarter largely as a result of an easing of concerns over the current status of the "Semis Cycle". These cycles are a recurring theme for those in the semiconductors ecosystem, from equipment manufacturers to the end designers and distributors like Nvidia. In these cycles, spikes in demand (like the one triggered by Covid and people working from home) strain supply chains and inventories, driving up prices and capital investment. Unfortunately, due to the complexity of the supply chain and ecosystem, there is long lead time with this lag often leading to overinvestment and oversupply exacerbated by deliberate excess orders from end hardware manufacturers keen to secure orders ahead of the pinch.

There are, however, countervailing forces that look to hold up and propel the industry in the near future, such as the ongoing growth in demand for cloud computing leading to consistent data centre build out, increasing interest in AI technology such as the recent ChatGPT3 and increasing IOT connected devices. As shorter-term supply/demand issues begin to settle, we should see more come out of this complex but incredibly lucrative industry.

Looking at the detractors to performance, mega-cap technology stocks endured another tough quarter, drawing a line under a difficult year for these giants, most notably Alphabet, Amazon and Apple – all positions within the Balanced Fund. These companies have faced a range of headwinds and pressures – from slowing e-commerce, to difficulties in advertising post Identifier for Advertisers (IDFA) and a host of regulatory investigations and fines. We maintain the view, however, that they remain outright leaders in their respective fields (or range of fields!) with unique scale advantages and economic moats that make them incredibly profitable and resilient – even in the face of these pressures. Importantly, we continue to believe they still offer ample future return for patient investors.

Palo Alto Networks was also among the detractors to overall Fund performance following a negative read-across following the disappointing results of fellow cybersecurity firms. Palo Alto subsequently released robust first quarter 2023 results, highlighting total revenue growth for the period of 25% to $1.6 billion, with growth driven by the increase in customer commitment to Palo Alto's security platforms. However, following an initial bounce after the release of the results, the company's share price fell towards the close of the year.

While it is disappointing to underperform over the quarter, we believe the shorter-term performance of the Fund has not been caused by any fundamental changes to the stocks in our portfolio and we are still confident about the long-term outlook of these companies. Whilst performance has been disappointing over 2022 as a whole, the indiscriminate and widespread nature of the sell-off in high quality businesses has thrown up opportunities to invest in great quality growth companies, and at undemanding valuations. Over the long term, this has allowed us to make some changes to the Fund, and further improve the quality of the portfolio.

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 recovers 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:**

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Balanced C Acc	-22.9%	16.5%	20.2%	14.7%	-1.0%
IA Mixed Investment 40-85% Shares	-10.0%	10.9%	5.3%	15.8%	-6.1%
Quartile	4	4	1	1	1

***Source: FE Analytics as at 31.12.22**
****Source: FE Analytics as at 31.12.22. Quartiles were generated on 06.01.23**

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.