



Liontrust Income Fund

Q1 2023 review

Fund managers: Chris Field & Dan Ekstein

The Liontrust Income Fund returned 4.1% over the quarter, which was ahead of the 3.1% increase in the FTSE All-Share Index and the 1.9% increase in the IA UK Equity Income sector, placing it in the first quartile for the period (C Acc share class, net of fees).*

3i, the investment company, delivered excellent results with its largest investment, Action, the European discount store chain, beating already high expectations. Some of the more recent purchases such as **Howden**, **Dunelm** and **Rentokil** were also positive contributors as the businesses continued to demonstrate strong trading and market share gains. Detractors from performance were a number of the financial positions that suffered post the demise of the Silicon Valley Bank (SVB) such as **HSBC**, **Legal & General** and **Phoenix Group**, as credit spreads widened. In addition, slightly weaker activity levels from IG Group saw some softness in the share price.

UK equities rose for the second quarter in succession in Q1, although there was significant volatility over the period. Investors were convinced in January that there was a good chance of a recession in 2023 in the UK, the US and Europe, but the macro-economic news subsequently improved. GDP estimates for 2023 increased through the quarter. Investors' confidence grew, thanks to collapsing gas prices, easing global supply chains leading to lower costs for freight, and China's lifting of Covid restrictions. Cyclical rallied hard versus more defensive companies.

Then the US regional banking crisis shook confidence. Customers withdrew money from (SVB) with striking rapidity, a phenomenon facilitated by digital banking. Although the US authorities' quick guarantee to depositors of the failing banks resolved the issue near-term, investors became cautious, given the significance of these institutions in providing funding to smaller and medium-sized companies. Tighter regional banking regulation and paying depositors higher rates of interest to prevent deposit flight may impact credit availability in the US, which could crimp economic activity. In Europe, Credit Suisse was a high-profile casualty of the crisis, but was saved in a takeover by UBS.

In the UK, cyclical stocks gave up much of their gains from earlier in the quarter with banks, insurers and property suffering significantly. With reduced confidence and the prospect of greater economic uncertainty, investors in March sought out the more defensive shares. The steady growth and less economically-sensitive companies recovered well, boosted by expectations of lower interest rates.

Inflationary pressures remain, especially in labour markets. The US, UK and European central banks have stressed that curbing it remains a priority. However, forward yield curves are now indicating that rates will peak sooner - and fall to levels lower - than was expected at the start of 2023 because of the US regional banking crisis. GDP forecasts for 2024 have been reduced for the US and Europe.

We believe it is too early to say whether this crisis has further to run and will impact the real economy. A lot of consumer and corporate debt needs to be refinanced at the highest interest rate levels seen

for over 15 years. Tighter credit conditions are likely to have a greater impact in the second half of this year. Consequently, we have become more cautious in the near term which has been reflected in some of the activity in the Fund.

We increased positions in defensive stocks such as **Diageo**, **GSK** and **London Stock Exchange**. We also established several new holdings such as **B&M**, the discount retailer that is well positioned to benefit from the cost of living crisis. In addition, we also started a position in **Pets at Home**. As we all know, pet ownership has grown strongly during and post the pandemic. What is less well known is that the business is capturing over 40% market share of new pet owners, which compares to its market share of about 24% across the market today. The veterinary part of the business has grown strongly and is highly complementary to the retail stores. Its scale and unique hybrid offering allows the business to generate very attractive returns and we would expect the growth in the business to drive strong dividend growth over the coming years.

4imprint is another company that is market leader but in the field of branded promotional goods in North America. With a market-beating 20-year management team partnership in the company, the business has emerged from the pandemic having invested in its brand throughout that period, accelerating its market share gains and driving up profits and returns to new highs. Its highly cash-generative and capital-light business model will, we believe, drive strong growth in both capital and income. To fund the new holdings, we sold the positions in **Halma** and **Sage** given the very high valuations and opportunities emerging elsewhere. **Mondi** was sold and **Howden** reduced as we were keen to reduce the Fund's exposure to the more economically-sensitive investments. We also reduced the size of the positions in **BAE Systems** and **3i** following strong share price performance. **CME**, the US exchange company, and **Reckitt Benckiser** were also sold.

The thread that runs through the investments within the Liontrust Income Fund is quality. The common characteristics of good returns on capital, clean financials, prudent balance sheet, attractive markets and strong management teams help us define quality. Such companies, however, have these positive attributes as a result of their Competitive Powers,* which are a by-product of a business's strong strategic position. We are monitoring macro events closely and may gently shift the emphasis in the portfolio if appropriate but in the meantime, the companies in which we invest that have competitive powers are managing the inflationary pressures well and we continue to see evidence from most of them that they are gaining market share. Consequently, we look into the future of the Fund with optimism.

*Hamilton Helmer's 7 Powers Framework

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Income C Acc	1.9%	13.2%	26.8%	-19.1%	7.8%
FTSE All Share	2.9%	13.0%	26.7%	-18.4%	6.4%
IA UK Equity Income	0.2%	10.8%	32.6%	-20.6%	3.6%
Quartile	2	1	3	2	1

*Source: FE Analytics as at 31.03.23

**Source: FE Analytics as at 31.03.23, total return, net of fees, income reinvested

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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