LIONTRUST

GLOBAL EQUITY

Please note: The Liontrust Global Equity team became part of the Liontrust Global Fundamental team on 8 February 2023. It was announced at the same time that Robin Geffen, Head of the Global Equity team, will be leaving Liontrust in due course and that Tom Record had replaced him as manager of this Fund from 8 February 2023.

Liontrust Global Smaller Companies Fund

Q2 2023 review

The Liontrust Global Smaller Companies Fund returned 6.8% over the quarter, versus the MSCI ACWI Small Cap Index and IA Global sector respective returns of 0.8% and 2.4% (both comparator benchmarks)*.

Global equities mostly moved higher for the third quarter in a row in Q2, with the UK and China the notable exceptions. The US drove global returns yet again, despite the ongoing fallout from its regional banking crisis. There were market jitters in May over the periodic political standoff regarding the US debt ceiling, but these subsided by the end of the month when the House of Representatives passed the required bill.

Monetary tightening in the US and Europe continued, as core inflation remained stubbornly high. The Federal Reserve hiked by a quarter-point in May, its 10th in just over a year and bringing it to its highest target range since 2007, then paused in June. The US looks to be further ahead than other developed markets in terms of tackling inflation, especially the UK, where the Bank of England hiked rates by 75bps over the quarter and still appears to be behind the curve.

The debt ceiling issues have impacted US money supply, however, and M2 growth (yoy) is now negative and at its lowest in around 60 years. The restricted liquidity is raising funding costs for the regional banks, causing knock-on effects for the real estate sector. On the positive side, there are signs that the drivers of inflation are weakening, including a slight cooling in the tight US jobs market, while new developments in Generative AI should boost the economy in the short to medium term by increasing productivity and in turn, wages.

Elsewhere, there were hopes earlier this year that a resurgent China re-opening post-lockdown would stimulate the world economy. That recovery has faltered, which has global implications, but the Chinese government has moved back into a pro-stimulus phase of managing its economy.

From here, the US economy has an almost equal chance of slipping into recession or working through a period of shallow weakness. Real estate is likely to be a potential weak point, as it has the potential to feed through with leverage into issues around the regional banks. The real estate sector is seeing some high vacancy and capitalisation rates, which together with mark to market losses in the fixed income portion of the held-to-maturity asset side of some of the smaller banks' balance sheets, could lead to a hiatus in lending. It feels like now is not a time to take major sectoral or positioning bets, although there are plenty of reasons to be optimistic, too. We are more balanced in our approach, having tempered the positivity that we had at the beginning of the year.

The strongest contributor to performance in Q2 was Molson Coors, the US-listed brewer with brands such as Coors and Miller Lite. The company reported strong Q1 results, which made its full-year guidance look conservative. Better than expected pricing and volumes nudged gross margins up, leading to a significant beat to consensus profits. In the short term, Molson Coors is benefitting from branding issues at its biggest rival, ABI. In the long-term, we think it is making sensible investments in brands to drive profitable growth.

Other strong contributions came from Vertiv Holdings (provider of equipment and services for data centres), Advanced Drainage Solutions (n industry leader in making high-performing, durable pipe built to provide you with innovative stormwater management solutions) and Installed Building Products (an installation contractor for insulation for residential and commercial builders).

On the other side of the ledger, notable detractors were Envista (developer and manufacturer of a wide variety of dental products), Calix (a telecommunications company that specialises in providing software platforms, systems, and services to support the delivery of broadband services) and Sabre (a travel technology company).

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Global Smaller Companies C Acc GBP	14.0%	-26.1%	31.3%	20.0%	6.1%
MSCI ACWI Small Cap	8.0%	-11.1%	37.8%	-2.7%	0.7%
IA Global	10.8%	-8.8%	25.9%	5.4%	7.5%
Quartile	2	4	1	1	3

***Source: FE Analytics as at 30.06.23**
****Source: FE Analytics as at 30.06.23. Quartiles generated on 06.07.23**

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. 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. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

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