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Liontrust Global Dividend Fund: Q3 2023 review




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The Liontrust Global Dividend Fund returned -0.2% in Q3, slightly behind the IA Global Equity Income sector average of 0.3% and the MSCI World Index return of 0.6%. Year-to-date, the Fund has returned 6.6%, ahead of the IA Global Equity Income sector average of 3.7% and behind the MSCI World Index return of 9.5%*.

The Fund remained more robust in Q3 than we expected as there was a parabolic upward move in longer-term interest rates expectations. In particular, the US 20-year yield moved from 4.1% at the end of June to above 5.2% at the close of the quarter.

Importantly, most companies' fundamentals are improving after a difficult 2022 and the market is starting to reward this improvement rather than aggressively reacting to moves in longer-dated interest rates.

We are on track to generate 10% year-on-year (yoy) income growth for 2023, albeit lumpier than usual as some income payments were pushed from Q3 into Q4. In 2022, we did not achieve income growth as rising interest rates and falling global markets caused some high quality global leading businesses to exercise some caution in their dividend payments.

In this update, we will focus on the major contributors and detractors to returns over this period. The contributors include Eli Lily (+28%), Adobe (+14%) and Intuit (+16%) while the detractors include Estee Lauder (-23%) and Lonza (-19%).

Eli Lily's stock price surged after reporting its experimental drug helped patients lose about 26% of their weight on average following extended use and combined with intensive lifestyle changes. It's the highest weight reduction seen in a late-stage clinical trial to date, the company said. The injectable drug *Tirzepatide*, otherwise known as *Mounjaro*, alone resulted in up to 22.5% weight loss in a previous phase three trial.

The data further bolsters Eli Lilly's position in the budding weight-loss drug market and establishes the company as a formidable competitor to Novo Nordisk, the Danish manufacturer of the blockbuster *Ozempic* and *Wegovy* treatments.

One trial, called Surmoun-4, evaluated more than 600 people over two periods. Patients took Mounjaro for 35 weeks and achieved 21% weight loss on average. Those who continued Mounjaro lost an additional 6.7% of their body weight on average after 52 weeks. Patients who switched to a placebo regained 14.8% of their weight on average over the same period.

The findings of the trial “reinforce that obesity should be regarded like other chronic diseases where chronic therapy may be needed to maintain treatment benefits,” Dr Jeff Emmick, Eli Lilly’s senior vice president of product development, said in a statement.

Preliminary evidence suggests that Mounjaro and Wegovy could also treat heart disease and sleep apnoea, bolstering the case for these two weight loss drugs to become the first ever super drugs.

We exited **Adobe** (+14%) in the quarter after the company’s stock price reached our three-year price target. The company’s stock price extended its recent strength after its new Adobe Firefly product gained traction in the marketplace. Given the pace of Adobe’s innovation, we would not be surprised if the stock price continues to rise, but we continue to lean on our process as some stocks start to dis-locate from the fundamentals.

Adobe recently announced that with Firefly 2, small and medium-sized businesses and enterprises can instantly generate design templates that they can be used in print, social media, and online advertising. Companies are harnessing this new technology to drive productivity, reduce costs and accelerate their content supply chains. This company, while executing, will move back onto our watchlist after the significant price appreciation in 2023.

Conversely, **Estee Lauder** (-23%) was one of the key detractors of Fund performance in the quarter. The company continued to lag in a difficult operating backdrop, exacerbated by two key factors: 1) travel retail has remained woeful; and 2) the company has higher exposure to (Covid-impacted) China relative to peers.

The combination of these factors created the perfect storm for the company, which has historically seen Asia travel retail as a key driver of performance. In particular, inventory visibility in Hainan (a key pinch-point for the company in travel retail) has been incredibly poor, leading management to take remedial steps including making significant investments to support retailers and improve supply chain efficiency.

We continue to view this as a business cycle correction following a period of extreme growth, and see Estee’s long-term investment case still intact. Importantly, the company continues to take share in prestige beauty outside of China, driving the 10%+ organic sales growth for the business when excluding travel retail.

This is a continuation of the dynamic that drove the share price lower in the first half of 2023 but we starting to see green shoots in recent Chinese consumer data points.

Lonza (-19%) extended its recent stock price weakness as this high quality company continued to experience cyclical weakness from declining inventories across the industry. However, the structural case for Lonza has only strengthened.

Given the outlook for the life sciences industry over the next decade combined with a once in a lifetime productivity leap in the sector driven by generational AI – we believe these companies are deep value stocks.

Why? The rush to design, manufacture and deploy Covid vaccines, created a business cycle in an industry known for its predictable growth and stability. This post-Covid cyclical decline is obfuscating the structural growth opportunity of biologics.

However, with the recent departure of the third CEO in the space of five years, we have put this company under review and will make a decision about the investment after the capital markets day in October.

Intuit (+16%) launched Intuit Assist, a new generative AI powered assistant that will provide personalised, intelligent recommendations to help consumer and small business customers make smart financial decisions with less work, enabling them to put more money in their pockets.

Embedded across Intuit's platform and products with a common user interface, Intuit Assist will put the power of next-generation AI in the hands of its customers. Intuit Assist uses powerful and relevant contextual data sets spanning small business, consumer finance and tax to deliver personalised financial insights to its over 100 million business and consumer customers.

This data, combined with the power of Intuit's AI-driven expert platform and the accelerated investment the company has made in Generative AI, will deliver game-changing experiences. Intuit Assist will intuitively show, guide, help, and do the hard work for users, and connect customers to experts on our Live Platform to provide human assistance when needed.

Intuit CEO, Sasan Goodarzi, during the launch of Intuit Assist explained "leveraging our vast amounts of rich data and years of investment in AI and GenAI, we're unlocking the power of our platform to reimagine AI-assisted customer experiences".

What is the benefit to Intuit? Intuit Assist is currently available at no additional cost to Intuit customers and access to certain enhancements may be subject to Mailchimp plans. But we see this as further entrenching Intuit's products into customers workflows, initially increasing the switching costs for customers – ultimately leading to higher pricing power for Intuit.

As we move into the Q4, we believe our innovators will prosper in a slowing economic growth environment as they are growing faster than the market, are higher quality and have better balance sheets. We expect dividend growers to start outperforming slower growing, more defensive companies as we move into 2024.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Global Dividend C Acc GBP	10.9%	-5.8%	21.2%	8.1%	15.7%
MSCI World	11.5%	-2.9%	23.5%	5.2%	7.8%
IA Global Equity Income	9.4%	-0.6%	21.6%	-3.9%	7.0%
Quartile	2	4	2	1	1

***Source: FE Analytics as at 30.09.23. Quartile generated on 06.10.23**

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments

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 Funds managed by the Global Innovation Team:

- May hold overseas investments that may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of a Fund.
- May have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on a Fund's value than if it held a larger number of investments.
- May encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- Outside of normal conditions, may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.
- Do not guarantee a level of income.

The risks detailed above are reflective of the full range of Funds managed by the Global Innovation Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.