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Global Fundamental

Q4 2023

Liontrust Balanced Fund

Tom Hosking
Co-Fund Manager

Hong Yi Chen
Co-Fund Manager

Q4 2023 review

- **Falling inflation was key macro trend in Q4, spurring confidence in base rate cuts.**
- **Exposure to information technology and consumer discretionary contributed the most to relative performance; materials was only sector exposure to weigh.**
- **MercadoLibre delivered gains for second quarter in succession.**

The Liontrust Balanced Fund returned 7.3% over the quarter, outperforming its average peer in the IA Mixed Investment 40-85% Sector, which returned 5.8%.*

The key macro trend in Q4 was falling headline and core inflation around the world, which led to investors becoming more confident that leading central banks would cut interest rates significantly in 2024. US treasury yields fell from above 5% to less than 4% and this drove inflows to equities, providing stronger support for rate-sensitive stocks such as consumer discretionary, small and mid-cap and higher beta stocks.

The quarter had begun, however, with ongoing concerns that interest rates would remain higher for longer to tackle stubborn inflation. The S&P 500 officially corrected in October, breaching a level more than 10% below its high earlier in the year. Conflict in the Middle East also weighed

Past performance does not predict future

on sentiment. Uncertainty over the future trajectory of interest rates was exacerbated by Q3 US GDP data showing surprisingly strong annualised growth of 4.9%. Yields on global government bonds rose amid a sell off, including a 16-year high for US treasuries as questions were also raised over the US's credit quality and the extent of its debt issuance. But by November, the overall picture had changed to one of ebbing inflation and the tone of markets switched to risk-on into the end of the year.

We anticipate that inflation will continue falling provided the oil price does not spike up, giving leading central banks the scope to cut rates in 2024. The beneficiaries of this will be rate-sensitive stocks, including consumer discretionary and higher growth companies.

We are cautious about the global economy. The US has held up well post Covid, helped by the unwinding of the excessive savings that were built up. The pent-up demand resulting from the pandemic supply chain problems has also been supportive, with companies such as aircraft and car manufacturers ramping up production to meet the backlog of demand. This has now been largely converted, so the positive impact is dissipating. We continue to monitor the macro indicators and if the balance tips in one direction or the other we could change the direction of our portfolio. The fact that the European and UK economies are materially weaker than that of the US adds to our caution.

In Asia, Japan's balancing act between continuing to lift its economy out of decades-long deflation with ultra-loose monetary policy while preventing rising inflation from becoming a major problem took a turn in Q4 when it ended its seven-year policy of capping long-term interest rates at 1%. Japanese equities have rallied significantly in 2023, having benefited from relatively cheap valuations, a weakening currency, robust economic growth and loose monetary policy.

Elsewhere in the region, China's economic recovery post the pandemic has been disappointing. This has been a product of too much debt, over-reliance on capital infrastructure as a route to growth and a falling and aging population. State intervention can prevent a market bust, but it will also engender a slow decline. Although the government has announced new spending measures to boost the economy, doubts remain about its budgetary firepower. Significant bad debt at the local government level, and issues in its property sector, which accounts for around 25% of its economy, have yet to be resolved. Our exposure to China is limited to the discretionary growth sector, which we believe will do well even if one half of the Chinese economy flags.

From a sector perspective, our holdings in information technology and consumer discretionary contributed the most to relative performance, while our exposure to materials was the only detractor from returns.

Positive stock attribution

The most significant contributor to performance over Q4 2023 was **MercadoLibre,** the Latin American online commerce and fintech platforms provider, which extended gains for a second quarter in succession. MercadoLibre has been a stellar performer for some years and a leading contributor to our performance in the second half of 2023. Its Q3 results beat analysts' expectations and it has continued to deliver good execution and advances in Mexico continue at pace. Earlier in 2023, there had been some concerns around the state of the Argentinean economy and in particular the high level of inflation and depreciating peso. The impact of this on MercadoLibre, which has a lot of costs in Argentina, was not a large negative, and it also benefited from the bankruptcy of a retail competitor.

Our second strongest contribution to performance over Q4 2023 was **Installed Building Products** (IBP), one of the two dominant suppliers and installers of insulation in the US, particularly in new build homes. IBP is sensitive to expectations for mortgage rates, so it reacted positively to markets becoming increasingly confident about base rate cuts. Moody's, the credit ratings agency, also upgraded its rating for IBP in December, adding that it expected the company to continue to perform well.

Another leading contributor to performance was our underweight exposure to Microsoft, the technology giant. We were underweight Microsoft after it had performed strongly in the first three quarters of the year. Microsoft underperformed in Q4 as small and mid-cap stocks rebounded with falling bond yields.

Negative stock attribution

The stock that weighed the most on performance in Q4 was **Wuxi Biologics**, the Chinese biotechnology company. It had performed well for us in Q3, but in Q4 it was the most significant detractor from returns. Wuxi fell substantially in December after it downgraded revenue guidance for 2023 and 2024. Its sector has been under pressure from weaker biotech funding in a higher interest rate environment. In addition, there has been a temporary delay in the approval process for three of its major late-stage drugs. However, we remain long-term holders of Wuxi due to its growth potential. In fact, in January the company has already upgraded guidance for 2024 signalling a turning point. Having worked through different scenarios, we feel the risk/reward is still skewed in our favour given the company has invested beyond China to grow its international presence and address the risks it faces.

Hasbro, the toymaker, was the second most significant detractor from returns. Its Q3 results missed expectations and it cut full-year guidance due to continued retailer destocking.

Largest transactions

The changes in the portfolio over the last quarter have been more stock- than macro-driven.

During the quarter, we bought new positions in **Novozymes**, **Aramark** and **Global Payments**. And we exited positions in **Crown Holdings** and **Softbank**.

We initiated a new position in Novozymes, the global leader in the niche markets of microbes and enzymes. The company reported good results recently where it was encouraging to see volume growth picking up, i.e. the revenue growth was not just down to the pricing changes it had enacted in the last year. Pressure eased in the household and care division and the bioenergy division continues to grow strongly on the back of new innovative products. Structurally, Novozymes is in a good position to benefit from the long-term change from chemical solutions to biological ones.

We bought a new position in Aramark, the food service company, to replace our sale in Crown Holdings. Aramark has similar defensive characteristics and it should also benefit from continued margin recovery post-Covid as inflation moderates.

We started a new position in Global Payments, the payments company, because we wanted to diversify our payments exposure from **Fiserv**, which we trimmed back in the quarter. Global Payments continues to exhibit robust growth but is on a very low valuation, similar to Fiserv.

We exited our position in Crown Holdings as we were concerned about their exposure to carbonated soft drinks and the risk of GLP-1 weight loss drugs affecting demand for sugary drinks in the future.

We sold our position in **Softbank** in full because we have lower conviction after several catalysts have played out without reducing the discount to net asset value. The partial IPO of ARM has occurred, and the company has sold almost all its stake in Alibaba. While lower rates should be a tailwind for Softbank, further deterioration in the market for IPOs remains a risk.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Balanced C Acc	20.4%	-22.9%	16.5%	20.2%	14.7%
IA Mixed Investment 40-85% Shares	8.1%	-10.0%	10.9%	5.3%	15.8%
Quartile	1	4	1	1	3

Source: FE Analytics as at 31.12.23

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 does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments 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 the Fund.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result

The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments or have significant sector or factor exposures. If one of these investments or sectors / factors fall in value this can have a greater impact on the Fund's value than if it held a larger number of investments across a more diversified portfolio.

The Fund 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.

The Fund will invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

Outside of normal conditions, the Fund 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.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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