Global Innovation

Q4 2023 Review

Liontrust Global Dividend Fund

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The Liontrust Global Dividend Fund returned 10.4% in Q4, ahead of the IA Global Equity Income sector average of 5.7% and the MSCI World Index return of 7.3%. Year-to-date, the Fund returned 17.9%, ahead of the IA Global Equity Income sector average of 9.2% and the MSCI World Index return of 16.8%.

In 2023, the Fund returned to income growth by generating 10% year-on-year uplift, albeit lumpier than usual, outpacing the MSCI World Index of 6% – this returns the Fund's income distribution growth to our long-term average. Looking forward, we expect to generate income growth of 10% in 2024, representing the underlying dividend growth of our investment holdings.

In this update, we will focus on the major contributors and detractors to returns over this period. The contributors include **Lifco** (+33%), **Broadcom** (+29%) and **Vitec Software** (+18%) while the detractors include **Lonza** (-13%) and **Oracle** (-9%).

Lifco (+32%) and Vitec Software (+18%) performed strongly after a period of weak price performance. These two Swedish compounders are exceptional capital allocators that have a long track record of successfully acquiring niche industrial (Lifco) or software companies (Vitec). Importantly, the de-centralised nature of this capital allocation and a clear strategy enable the companies to consolidate attractive fragmented markets.

Both companies were negatively impacted by large moves in the Swedish krona and tightening rates in Q3. When these macro headwinds reversed in Q4, the fundamentals of the companies started to drive their stock prices. In the longer term, these exceptional innovators compound shareholder value at over 20% a year but unfortunately, in the shorter term, macro conditions can have an outsized impact.

Lonza (-9%) suffered alongside life science peers as the Covid vaccine demand boost unwound significantly. When making new investments in innovative Global Leaders, we wait for a cyclical downturn before investing. In this case, we invested too early, with Lonza's share price creating a significant headwind for the Fund in 2023. However, Lonza offers a compelling investment opportunity over the long term as Lonza is the TSMC of the biologic industry. Lonza uses its scale and intellectual property to drive down the cost of manufacturing biologics with a long runway for growth as large pharmaceutical companies seek to outsource these capabilities.

This structural growth profile is further enhanced by the high growth of the biologic industry as new medications are approved by the FDA. Biologics are drugs made from complex molecules manufactured using living microorganisms, plants, or animal cells. Biologics are changing the way healthcare providers treat common conditions. For certain conditions, biologics are becoming more commonly prescribed than traditional drugs. Rheumatoid arthritis, certain cancers, and diabetes have the greatest number of dedicated biologic treatments. The latest update from the industry suggested green shoots are appearing across the value chain so we expect 2024 to be a better year than 2023 for Lonza.

On the other hand, Oracle experienced a 9% decline following its earnings report, even though the results were largely in line with expectations. The company has indicated a forthcoming period of significant capital investment which, while likely to impact underlying earnings in the short term, is crucial for its transition into a major competitor in the hyper-scaler market.

This strategic shift is underscored by the announcement of a partnership with Microsoft and the commencement of a substantial data centre buildout, involving 100 centres over the next three years. With these developments, the strategic direction of the company has become very clear and at this stage we are uncertain of the strength of Oracle's competitive advantage as the company pivots its strategic focus away from enterprise software towards hyperscale computing.

Broadcom (+29%) finally gained approval for its VMWare takeover proposal – this, combined with its growing exposure to higher growth AI compute infrastructure buildout, provided a catalyst for the stock in Q4. Over the last decade, Broadcom has been busy consolidating the semi-conductor market but largely flies under the radar because of its difficult-to-understand product suite.

Broadcom provides the nuts and bolts for the datacentre and is a critical supplier for AI computing with leadership positions in switches and application-specific integrated circuits (ASICs). As the semiconductor market returns to growth after a sharp downturn, Broadcom has positioned itself for a long runway for growth in key markets set to benefit from the return in demand from traditional computing plus the new buildout in AI computing.

CEO Hock Tan has 18 years at the helm of Broadcom and has generated an annual return for shareholders of 36% and grown its dividend per share from $1.13 per share in 2014 to $18.4 in 2023 – an exceptional achievement and a track record we expect the company to extend now it is providing critical semiconductor chips for AI compute infrastructure.

As we enter 2024, we expect the macro headwinds from rates to turn to tailwinds. While technology companies have driven a good proportion of the performance of the Fund in 2023 after dragging on performance in 2022, we expect this to broaden out as other sectors emerge from cyclical downturns.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Global Dividend C Acc GBP	17.9%	-7.8%	16.1%	16.7%	34.0%
MSCI World	16.8%	-7.8%	22.9%	12.3%	22.7%
IA Global Equity Income	9.2%	-1.2%	18.7%	3.3%	18.6%
Quartile	1	4	3	1	1

*Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and 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 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.

This 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 the Fund's value than if it held a larger number of investments.

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.

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 level of income is not guaranteed.

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.