LIONTRUST

GLOBAL FUNDAMENTAL PROCESS

Liontrust Income Fund

Q4 2022 review

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The Liontrust Income Fund returned 8.90% in Q4 2022, in line with the 8.90% returned by the FTSE All-Share Index but marginally behind the 10.82% average return of the IA UK Equity Income sector, placing it in the third quartile for the period. The Fund distributed 5.4 pence per share for the year, resulting in a dividend yield of around 4.2%. This beat the FTSE All Share yield of 3.6%*.

Global financial markets were more settled during the last quarter after the turmoil seen throughout most of the year. Several markets even delivered positive returns, mainly in October and November. UK equities rose over the quarter, with sterling and gilts recovering from the nadirs they reached after the disastrous September 2022 mini-budget.

In 2023, the UK economy is likely to slow, in line with much of the rest of the world, and life will get tougher for consumers as housing-related costs rise. But a deep recession is not a certainty, especially if the jobs market can remain robust. Inflationary pressures are subsiding as commodity prices come off their highs and supply problems are also easing, not least with China re-opening and freight rates falling substantially.

With UK bond yields currently below those in the US and a fiscal plan that is comforting to gilts' owners who have allowed the UK to term out its debt longer than any other G7 country, sterling looks very cheap. By implication, UK equities are also looking cheap to foreign investors. We believe the outflows from UK equities that accelerated post both Brexit and the recent UK mini-budget disruption could reverse.

It is unlikely that there are many markets that have companies across the size spectrum with such strong leadership positions in their industries as the UK – many on a global basis. The UK's strong science and technology base is supported by successive governments. Overlay this with the many secular trends from which these companies benefit and the significant UK valuation discount versus international peers, and it is easy to get excited about the number of investment opportunities that we now see in UK equities.

We believe the geopolitical and economic environment will favour well invested, well managed and innovative businesses going forwards. The UK has many such businesses and we strongly believe that they have never held before the competitive advantages at the scale they now enjoy. As a result, we see their revenue and profit growth expectations as being too low, so they are materially undervalued.

We have been increasing our exposure to such investments, particularly where cyclicality has been weighing on the share price as we enter a tougher economic environment. Share prices have, in many instances, fallen a long way as investors have become cautious. We see this as an opportunity to buy great businesses at deep discounts.

Over Q4, the Fund's overweight positions to financials was the greatest contributor to performance on a sector basis, bolstered by overweight positions in private equity investor 3i, domestic bank NatWest Group, and insurers Phoenix Group, Aviva and Admiral, which rebounded following the political and economic turmoil surrounding the September mini-budget.

The Fund's overweight position to the Consumer Discretionary sector also proved a positive performance driver as consumer optimism held up better than feared in the UK. Home interior business Dunelm - a stock we added early in the quarter at a very attractive valuation – was the single strongest stock contributor to performance over the period.

A near-neutral Materials sector position proved a slight positive for the Fund's performance over the period, which was a relative success given that Glencore, one of the strongest performing FTSE stocks of 2022 because of its coal mining exposure, is not held. A key detractor to relative performance in Q4 was an underweight exposure to the Consumer Staples sector, particularly tobacco and supermarket stocks, which are also not held.

The Fund's slight underweight position in Healthcare also proved detrimental, especially its underweight in AstraZeneca, which rebounded strongly over the period.

An overweight exposure to the Financials sector proved the key detractor to performance for the year, largely due to positions held in abrdn PLC and Intermediate Capital Group (both of which we exited over the period), and an underweight position in HSBC, which overcame US-China tensions to rebound strongly on optimism about China's re-opening after it lifted its Covid lockdown restrictions.

The Fund faced headwinds from an underweight position in Energy stocks – specifically Shell -- that benefited from rising oil prices and strong shareholder distributions, and a relatively neutral position in Materials stocks, primarily due to Glencore's significant contribution to index performance.

The Fund's overweight exposure to the Technology sector has proven a positive driver of performance in the past, but the rising inflation and interest rate backdrop meant this became a headwind toward the latter part of the year. We took the opportunity of low dollar-sterling exchange rates to exit several of our US technology positions throughout Q4, recycling profits into attractively valued UK positions, which helped bolster performance over the period.

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Income C Acc	0.9%	17.6%	-8.5%	15.2%	-3.4%
FTSE All Share	0.3%	18.3%	-9.8%	19.2%	-9.5%
IA UK Equity Income	-1.7%	18.4%	-10.7%	20.1%	-10.5%
Quartile	2	2	2	4	1

***Source: FE Analytics as at 31.12.22**

****Source: FE Analytics as at 31.12.22. Quartiles generated on 07.07.23**

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.

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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