Liontrust Global Alpha Fund

Q4 2022 review

Fund Manager: Robin Geffen & Deputy Will Geffen

The Liontrust Global Alpha Fund returned -6.4% over the quarter, versus the MSCI AC World Index comparator benchmark return of 1.9% and its average peer in the IA Flexible Investment sector, also a comparator benchmark, which returned 2.5%. Part of the Fund's underperformance relative to the sector can be attributed to a weaker sterling recovering 8% versus the dollar over the quarter.

The Fund continues to invest in high quality growth stocks that we believe can future-proof an investor's portfolio using the five key drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision.

The portfolio allocation is driven by a very substantial overweight in the mid-cap area of the market, as well as a smaller allocation to appropriate large and mega caps to balance the portfolio in areas where we do not see attractive mid-cap companies. This overweight of mid-cap companies that range between \$10bn-\$30bn market capitalisation is designed to help identify those stocks that can grow quickly to \$50bn-\$250bn and beyond. The Fund does not have direct holdings in small cap stocks (those below \$10bn) and invests solely in equities, having zero allocation to bonds or property.

We continue to believe that active and disciplined stock selection can deliver sustained outperformance, shown by the long-term performance of the Fund, which has returned 621% since launch versus the IA peer group 188%.

Equity markets stabilised and showed some signs of recovery this quarter, with hopes of an earlier than expected fed pivot, or "soft landing" easing the market as early signs show US inflation beginning to ease. Many companies, however, are still bracing for a slowdown and Q4 2022 earnings and forecasts in late January and February 2023 will provide some good guidance.

In terms of Fund attribution, Horizon Therapeutics led the top performers over the quarter. The company, which focuses on researching, developing, and commercialising medicines that address critical needs for people impacted by rare and rheumatic diseases, jumped after it disclosed in talks with a trio of potential suitors about the possible sale of the company – with Amgen, Johnson & Johnson and Sanofi all separately engaging in preliminary discussions.

Subsequently, it was Amgen that agreed an offer that was a 20% premium to Horizon's closing price on the day of agreement. The Fund benefitted from this acquisition greatly, having initiated a position well below the offer price. We believe that this kind of corporate activity has been brought about by the depressed valuations following the market sell off and we expect that there will be more to come in the mid-cap information technology and healthcare space, benefitting the Fund greatly.

Intuitive Surgical was also among the top performers after posting strong third quarter results and lifting its forecast for procedure growth this year. The company, best known for its da Vinci systems which introduced robotic assisted surgery to the world, announced Q3 revenue of $1.56 billion, driven by growth in procedure volume in its da Vinci system.

Nvidia notched a positive gain over the quarter largely as a result of an easing of concerns over the current status of the “Semis Cycle”. These cycles are a recurring theme for those in the semiconductors ecosystem, from equipment manufacturers to the end designers and distributors like Nvidia. In these cycles, spikes in demand (like the one triggered by Covid and people working from home) strain supply chains and inventories, driving up prices and capital investment.

It is important to remember that there are a number of positive forces that look to hold up and propel the industry in the near future, such as the ongoing growth in demand for cloud computing leading to consistent data centre build out, increasing interest in AI technology such as the recent ChatGPT3 and increasing IoT connected devices. As shorter-term supply/demand issues begin to settle, we should see more come out of this complex but incredibly lucrative industry.

CrowdStrike had a good year up to Q4 as most cybersecurity stocks held up in the face of a strong drawdown in technology equities – largely due to the resilience of both corporate IT spend and cybersecurity’s share within that. Unfortunately, CrowdStrike released a relatively disappointing Q3 earnings report pointing to the economic downturn putting pressure on smaller companies (CrowdStrike’s key consumer group) to delay further purchases and “right size” deals which had been previously allowed to be wider in scope and spend. We are looking through the Q3 report into Q4 and beyond believing that cybersecurity spend is a critical expenditure for smaller companies who cannot risk the reputational damage of cyber-attacks and ransomware demand. We remain confident, however that the core products and business remain strong and stands to benefit from the aforementioned ongoing steady growth trend in cybersecurity spend.

Palo Alto Networks was also among the detractors to overall Fund performance following a negative read-across from fellow cybersecurity firms. Palo Alto subsequently released robust first quarter 2023 results, highlighting total revenue growth for the period of 25% to $1.6 billion, with growth driven by the increase in customer commitment to Palo Alto’s security platforms. However, following an initial bounce after the release of the results, the company’s share price fell towards the close of the year.

Mega-cap technology stocks endured another tough quarter, drawing a line under a difficult year for these giants, most notably Alphabet and Amazon – both positions within the Global Alpha Fund. These companies have faced a range of headwinds and pressures – from slowing e-commerce, to difficulties in advertising post Identifier for Advertisers (IDFA) and a host of regulatory investigations and fines. We maintain the view, however, that they remain outright leaders in their respective fields (or range of fields!) with unique scale advantages and economic moats that make them incredibly profitable and resilient – even in the face of these pressures. Importantly, we continue to believe they still offer ample future return for patient investors.

Another detractor for the quarter was communications software provider Twilio. A deteriorating macro-economic environment is having a greater impact than expected in the near-term for Twilio. Twilio, which provides programmable communication tools for making and receiving phone calls, sending and receiving text messages, is an example of a company that has invested heavily for growth over the past decade and we believe its core market remains in tact and has the potential for long term growth.

While it is disappointing to underperform over the quarter, we believe the shorter-term performance of the Fund has not been caused by any fundamental changes to the stocks in our portfolio and we are still confident about the long-term outlook of these companies. Whilst performance has been disappointing over 2022 as a whole, the indiscriminate and widespread nature of the sell-off in high quality businesses has thrown up opportunities to invest in great quality growth companies, and at undemanding valuations. Over the long term, this has allowed us to make some changes to the Fund, and further improve the quality of the portfolio.

We continue to be positive on the outlook for high quality growth stocks over the next year. We are especially positive as the mid cap area of the market continues to give considerable scope for further outperformance as the world continues to recover from the Covid-19 pandemic. Our emphasis on the drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision will, we believe, guide the Fund towards those companies that will change the world as we adapt in future.

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Global Alpha C Acc	-33.6%	19.9%	43.6%	15.5%	-1.0%
MSCI AC World	-8.1%	19.6%	12.7%	21.7%	-3.8%
IA Flexible Investment	-9.0%	11.3%	6.7%	15.7%	-6.7%
Quartile	4	1	1	3	1

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

****Source: FE Analytics as at 31.12.22. Quartile generated on 07.01.23**

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 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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