LIONTRUST
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Global Fundamental

Q1 2024

Liontrust Balanced Fund

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The Liontrust Balanced Fund returned 7.6% over the quarter, outperforming its average peer in the IA Mixed Investment 40-85% Sector, which returned 4.2%*.

Global equities posted a positive return in Q1, driven by strong contributions from IT companies as enthusiasm around artificial intelligence (AI) drove the technology sector higher. In addition, expectations of interest rate cuts also boosted shares, though the pace of these cuts is likely to be slower than the market had hoped for at the beginning of the year.

Positive stock attribution

The most significant contributor to performance over Q1 2024 was Nvidia, the global chipmaker specialising in AI. The company saw its shares more than double in 2023 as it delivered rapid earnings growth. Despite significant subsequent upgrades to analysts' earnings expectations, Nvidia continues to benefit from the bullish sentiment around AI. It still managed to exceed consensus with Q4 revenues of $22.1billion and EPS of $4.93, beating forecasts of $20.4 billion and $4.59 respectively. The shares continue to ride a wave of AI excitement, with incremental data points from early AI adopters such as Klarna showing strong productivity gains.

Installed Building Products was once again among the top contributors to portfolio performance, also rising on the back of Q4 results. The company recorded a 5% increase in net revenues to $721 million, with adjusted gross profit margins expanding to 34.1%, up from 31.7% a year earlier.

Danish pharmaceutical company Novo Nordisk was another strong performer over the quarter after announcing that sales and profit are likely to surge following the success of its anti-obesity drug *Wegovy* and diabetes drug *Ozempic*. The company announced that full-year operating profit increased by 37% to DKK103 billion, while the company also said it expects sales growth this year of between 18-26%, driven by increased demand in Wegovy and Ozempic.

Negative stock attribution

The stock that weighed the most on performance in Q1 was **WuXi Biologics**, the Chinese biotechnology company. WuXi has been hit over the past six months, first by a reduction in biotech funding and secondly this quarter by the proposal of a bill by US lawmakers that aims to block certain Chinese biotech companies from accessing federal contracts. They contend that these companies pose a national security risk, but Wuxi have pushed back stating that, as a pharmaceutical manufacturer, they have no ties with the Chinese military. The stock is now trading at a valuation that implies that it will lose complete access to the US market. We believe this represents an overly pessimistic outcome.

Adobe was another to finish the quarter in negative territory as competition concerns were revived after it abandoned the Figma deal. It is also suffering somewhat from a shift in perceptions from AI winner to AI loser after the release of OpenAI's Sora for AI generated video.

Outlook

Central banks on both sides of the Atlantic hinted in March at rate cuts this year, to which equity and bond markets reacted positively. However, the signals will likely change if the inflation trend inflects. We stated last month that we were pivoting from our previous expectations of lower inflation and interest rates, thanks largely to economic data.

While we had expected the tailwind from lower shelter inflation to come through in the US, inflation has proven to be sticky the last few months. If anything, inflation on a month-on-month basis has started to accelerate. If inflation continues to be stubborn, then this will weaken the Federal Reserve's wish to cut interest rates in 2024. US and global economic data point to strengthening growth, which will add further upside pressure to inflation and reduce the likelihood of rate cuts.

Given this change in our outlook, we have trimmed our positions in interest rate sensitive sectors such as housing. These stocks have performed very well, so are now pricing in positive outcomes, while the macro interest rate environment may begin to deteriorate for them. Instead, we are reallocating capital to more later cycle sectors such as cybersecurity, that may benefit as accelerating growth comes through. The valuation of some of these stocks are also much less demanding relative to their history.

Making macro forecasts is a hazardous pursuit. Instead, we prefer to diversify our portfolio broadly, focusing more on idiosyncratic risks and opportunities. However, we must also remain aware of what scenarios are priced into the stocks, which drives our risk/reward framework. This has helped inform some of the recent rotations in our holdings.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust Balanced C Acc	18.6%	-10.6%	13.1%	23.3%	4.2%
IA Mixed Investment 40-85% Shares	10.2%	-4.5%	5.2%	26.4%	-8.0%
Quartile	1	4	1	3	1

* Source: FE Analytics, as at 31.03.24, total return, net of fees and income reinvested

** Source: FE Analytics, as at 31.03.24, 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.

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.

Disclaimer