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## Liontrust GF SF Multi-Asset Global Fund: Q4 2022 review

Fund managers: Peter Michaelis and Simon Clements

**The Fund returned 0.0% over the quarter, versus 0.1% from the comparator benchmark, a blend of 50% MSCI World, 35% Markit iBoxx EUR Overall and 15% ESTER\*<sup>†</sup>.**

2022 has been the most challenging year since the inception of the Sustainable Future range of funds in 2001. We are continually challenging our conviction in our companies, and we are pleased with how our portfolio companies are navigating an extremely difficult period where supply chains have been disrupted and customer demand has been extremely difficult to forecast. So, despite the sharp decline in valuation multiples, we remain confident in the Fund's prospect over the next five years with sustainable growth drivers, high quality companies and attractive valuations.

A legitimate challenge to our approach would be to ask whether our sustainable investment themes have run their course. This would only be the case if we had solved every problem and satisfied every need; we are a long way from that! There is still plenty of growing to do for sustainable companies.

We are now operating in a very different environment to the past decade, with higher interest rates in place to try and contain runaway inflation. This abrupt change in macroeconomic backdrop has sent markets into a tailspin, with all asset classes falling to a greater or lesser extent in response to a higher cost of capital. Our job in these turbulent times is to focus resolutely on the long term and on our investment process which has delivered strong performance until the past year.

We also want to take the opportunity in these periods of extreme market dislocation to add to our holdings with the most conviction and highest risk-adjusted upside, as well as take the opportunity to buy businesses we have long admired but were not previously attractively valued.

Asset allocation for the quarter was marginally negative. The key detractor was our overweight position in infrastructure, which underperformed as an asset class over the quarter. In addition, our underweight to cash and overweight credit position were all positive contributors over the period.

In terms of changes, we did not adjust our asset allocation over the period. After reducing our Gilt underweight in late September, we continued to run our overweight to corporate bonds, overweight infrastructure, underweight cash and underweight Gilts (although this has been halved as discussed). We maintain our neutral position on equities.

Looking at our top performers over Q4, Intuitive Surgical is once again leading the way. Held under our *Enabling innovation in healthcare* theme, Intuitive Surgical is committed to advancing patient care in surgery and other acute medical interventions. The company is focused on innovating to enable physicians and healthcare providers to improve the quality of and access to minimally invasive care, with Intuitive's products all relating to minimally invasive robotic surgery, a clear growth theme with better outcomes for patients.

Over the quarter, Intuitive Surgical posted strong third quarter results and lifted its forecast for procedure growth this year. The company announced Q3 revenue of \$1.56 billion, an increase of 11% compared with last

year's comparable, driven by volume growth for its da Vinci surgical system procedure, though this was partially offset by a decline in system placements.

Announcing strong Q3 results was Swedish investment platform Avanza Bank, which is held under our *Saving for the future* theme. Avanza is an investment platform helping people save for their retirement in a cost-effective manner. The company is particularly proactive on sustainable investment, which it offers as default options that users can opt out of. Despite a fall in the value of assets on the platform, and thus a fall in its platform fees, the company is now benefitting from higher interest rates which it earns on uninvested cash.

Ringkjøbing Landbobank (Rilba) is a long-term outperformer and was again among the notable contributors over the fourth quarter. The company is exposed to our *Increasing financial resilience* theme, a theme we believe is crucial to ensuring a stable economy. You only have to go back to September 2008 to see the impact that weak financial institutions, inadequate regulation and supervision, and a lack of transparency had on the global economy. Businesses that provide simple products that consumers need, like current accounts and mortgages, contribute to a more resilient financial system – we believe Rilba, as one of the best-run banks in the industry, is doing just that.

The Danish bank performed strongly into the close of the year after raising its pre-tax profit forecast for the full year at the start of December; it now sees profit between Dkr1.70 billion to Dkr1.95 billion, compared with Dkr1.55 billion to Dkr1.80 billion previously. The company cited the primary reasons behind this upward adjustment as continued levels of positive activity, higher interest rates and growth in lending for the first three quarters of the year.

Danish wind turbine manufacturer, Vestas Wind Systems, a recent addition to the portfolio, was also among the top performers despite cutting its 2022 forecast in Q3 results, as upbeat pricing comments overshadowed profit margin pressures. Exposed to our *Increasing electricity from renewable sources* theme, the Danish wind turbine manufacturer highlighted that while the energy crisis incentivises a faster transition to an energy system built on renewables, project development remains impeded by uncertainties in the energy market and red tape.

German chipmaker Infineon Technologies was another riser, performing strongly after the announcement of its full-year earnings, most notably raising its expected average rate of revenue growth to above 10% from c.9%. It stated that growth will in particular be driven by electromobility, autonomous driving, renewable energies, data centres and IoT, with growth also being accompanied by a significant improvement in profitability.

The company, which produces efficient power management chips and is exposed to our theme of *Improving the efficiency of energy* use, also provided a positive outlook, stating that decarbonisation and digitalisation are causing structurally increasing demand for semiconductors.

Advanced Drainage Systems was among our weaker names over the period after cutting its net sales guidance for the full year. It expects net sales of between \$3.10 billion - \$3.20 billion, a drop from the previous guidance of \$3.25 billion - \$3.35 billion. At the start of the fourth quarter, the company began to see the impact of the uncertain macroeconomic environment in isolated pockets across some regions and product lines. In particular, its infiltrator and retail businesses began to feel the impact of channel destocking as well as some project slowdowns within its non-residential business.

Shares in PayPal also fell as the company trimmed its forecast for annual revenue amid a slowdown in spending volume on its platform. Payments volume increase 14% to \$337 billion in the third quarter, which was below the average estimates. PayPal now expects revenue for the year to increase 10% to \$27.5 billion, which is a downgrade of an earlier forecast of \$27.8 billion. In response, the company has vowed to reduce expenses – including job cuts and the shuttering of offices across the US – which it has said will result in \$900 million in savings this year and \$1.3 billion next year.

Home REIT was also among the detractors over the quarter with the company's share price falling sharply after the release of a short-selling report by Viceroy Research LLC.

Following the allegations made in the report and the full response from Home REIT on 30 November, Liontrust is continuing to engage with the management of Home REIT and are awaiting more information from and discussions with Home REIT before taking any decisions.

Over the two decades that the Sustainable investment team have been managing the Sustainable Future funds, a key lesson that we have learned is that 'sustainable' should not be taken to mean perfect. Investing involves making predictions about the future, which is extremely difficult. Therefore, we have to expect occasions – albeit rare – when the future does not turn out as predicted and the companies we hold become embroiled in a controversy that may challenge the initial assessment of their sustainability.

As soon as we are aware of any controversy, the next stage is to analyse the situation in detail, investigating to ascertain the involvement of the company in question, the seriousness of allegations made and how the business is responding.

	Dec-22
Liontrust GF Sustainable Future Multi Asset Global A5 Acc EUR	-19.4%
50% MSCI World, 35% Markit iBoxx EUR Overall, 15% ESTER	-12.3%

*\*Source: FE Analytics, as at 31.12.22, primary share class (A5), in euros, total return, net of fees and income & interest reinvested. 10 years of discrete data is not available due to the launch date of the fund.*

### Key Features of the Liontrust GF SF Multi-Asset Global Fund

<b>INVESTMENT OBJECTIVE &amp; POLICY<sup>1</sup>:</b>	<p>The Fund aims to achieve capital growth over the long term (five years or more) by investing globally in sustainable securities.</p> <p>The Fund will only invest in equity and debt securities issued by global companies that provide or produce sustainable products and services, as well as equity and debt securities of issuers that have a progressive approach to the management of environmental, social and governance issues.</p> <p>The Fund may also invest in cash and Money Market Instruments.</p> <p>Allocations to equities, bonds and cash will vary over time depending on market circumstances. Asset allocation limits will, in normal circumstances, remain in line with the following ranges: Equity securities – 40-60%, Debt securities – 20-50%, Cash – 0-20%.</p> <p>While the Fund will invest predominantly in developed markets, it may also invest up to 20% in emerging market securities.</p> <p>At times the Investment Adviser may decide to hold a more concentrated portfolio, and it is possible that a substantial portion of the Fund could be invested in cash or cash equivalents.</p> <p>The Fund is permitted to use derivatives for the purposes of efficient portfolio management, investment and hedging purposes.</p>
<b>RECOMMENDED INVESTMENT HORIZON:</b>	5 years or more
<b>SRRI<sup>2</sup>:</b>	4
<b>ACTIVE / PASSIVE INVESTMENT STYLE:</b>	Active

<b>BENCHMARK:</b>	The Fund is actively managed in reference to its benchmark comprising 50% MSCI World / 35% Markit iBoxx EUR Overall Index / 15% ESTER by virtue of the fact that it uses the composite benchmark for performance comparison purposes. The benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the benchmark.
<b>SUSTAINABILITY PROFILE</b>	The Fund is a financial product subject to Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: <sup>1</sup>. As specified in the KIID of the fund; <sup>2</sup>. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

For a comprehensive list of common financial words and terms, see our glossary at: [liontrust.co.uk/benefits-of-investing/guide-financial-words-terms](https://liontrust.co.uk/benefits-of-investing/guide-financial-words-terms)

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#### Key Risks and Disclaimer

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