



Liontrust SF Managed Fund: Q1 2023 review

Fund managers: Peter Michaelis and Simon Clements

The Fund returned 2.0% over the quarter, underperforming the 2.2% IA Mixed Investment 40-85% Shares sector average (the comparator benchmark)*†.

Global equities started 2023 on a strong footing as signs of easing inflation in most major economies and China's re-opening supported positive market sentiment. However, sentiment turned in February as resilient economic data suggested that any pause in interest rate rises may still be some way off, with the Federal Reserve, European Central Bank and Bank of England all continuing with rate rises. The collapse of Silicon Valley Bank (SVB) in March led to a major sell-off in the US and European financial sectors, though this market turbulence was short-lived and did not prevent investor optimism leading global equities higher towards the end of the quarter.

As we have stated previously, we do not attempt to forecast or anticipate the macroeconomic developments that we have experienced in the last two years. Our focus is resolutely on our 20 sustainability themes that over the long term should provide strong and stable growth, relatively independent of economic cycles, and on finding those rare companies that harness this positive growth and which generate persistently high returns on capital. In the more muted economic years we expect to have ahead of us, we believe the strength of our sustainable themes and the quality of the businesses we invest in will allow for strong performance.

In terms of asset allocation, we reduced our overweight to infrastructure over the quarter, and used the proceeds to add to government bonds, reducing our underweight to this asset class. The repricing of government bonds over 2022 means they now represent a more attractive return, with yields of around 5%, and the risk of capital loss has been mitigated to a large degree. We still view infrastructure as attractive, given it also yields in excess of 5% and also tends to benefit from inflation pass-throughs which are written into the majority of contracts.

Our asset allocation overall remains the same: overweight corporate bonds, underweight government bonds, neutral equities, underweight cash and overweight infrastructure.

Asset allocation returns for the quarter were negative, as the overweight in infrastructure was hurt by the performance of Home REIT. Our underweight cash was a positive contributor, as was the underweight government bonds as yields continue to rise. The overweight credit was a marginal negative for the period.

Looking at our top performers over Q1, Spotify led the way during a period in which a number of our holdings released trading updates. The audio-streaming platform released a strong Q4 update, reporting fourth quarter subscriber growth and gross margin improvement that was ahead of average consensus. Paid subscribers grew 14% year-on-year to 205 million, with the company stating that this was 3 million ahead of consensus. Looking forward, Spotify said that it sees premium subscribers increasing to 207 million in the first quarter and that monthly active users are expected to grow by 11 million to 500 million.

Spotify fits perfectly into our *Encouraging sustainable leisure* theme as we believe music has been an important component of leisure time and culture for millennia. Listening to music is a fundamentally positive pastime and is key to the human experience; it brings people together and can also be enjoyed alone.

Ansys, the global leader in complex multi-physics real-world simulations, was another strong performer over the quarter following the release of upbeat fourth quarter results and a full-year adjusted revenue forecast of \$2.24 billion - \$2.32 billion that was ahead of average estimates.

Exposed to our *Improving the resource efficiency of industrial and agricultural processes* theme, Ansys's simulation software is essentially a computer programme that allows the user to observe an operation through simulation without physically performing that operation. The virtual testing and monitoring enables higher safety and quality standards in the design, development and maintenance of our products.

Long-term performer Cadence Design Systems put in another strong quarter, making gains following the release of impressive fourth quarter earnings that beat forecasts and contained upbeat outlook comments. Held under our *Improving the efficiency of energy use* theme, Cadence provides electronic design automation, technology that designs and optimises semiconductor chips, which facilitates innovation behind many of our themes related to the digitalisation of the global economy.

Semiconductor firm ASML was another notable performer as strong sub-sector performance combined with a robust earnings release to push the company's share price higher. ASML remains at the forefront of improving semiconductor fabrication through extreme ultraviolet (EUV) development and holistic lithography. Smaller process nodes means more chips per wafer in manufacture and smaller, cheaper, more reliable, more energy efficient and more powerful end products. The company reported net sales in the fourth quarter of €6.4 billion, which was around the midpoint of the company's guidance, while gross margin exceeded previous guidance due to additional upgrades and an insurance settlement from last year.

In terms of detractors over the quarter, the collapse of Silicon Valley Bank (SVB) in March (the second largest banking failure in US history) led to a major sell-off in the US and European financial sectors and a few of our holdings were impacted by the subsequent contagion. Banks in 2023 are very different to those in 2008 – they are better capitalised, better regulated and tend to have more diversified sources of funding. For the SF funds we look to invest in only those banks which demonstrate strong *Financial Resilience* – we did not invest in SVB in any of our Funds.

We note though that First Republic, which we did hold, has seen its shares impacted. First Republic started the year with a stronger credit rating than JP Morgan, and was the envy of the US banking sector. Unfortunately, it was swept up in the turmoil associated with Silicon Valley Bank, given its deposit base was primarily in the San Francisco bay area, as was SVB's. Panic ensued as reports of the collapse of SVB hit the news, which saw First Republic's deposit base fall from \$155bn to around \$70bn over a few days. While the solvency of First Republic was sound, the sharp fall in its deposit base led to higher funding costs, and hurt profitability. We exited the position over the quarter.

Exposed to our *Saving for the future* theme, Charles Schwab was another one of our positions to be negatively impacted by concerns around the collapse of SVB. Shares in the US investment firm fell amid a crisis of confidence in the banking sector with these concerns being further amplified after UBS announced that it was to buy out struggling Swiss lender Credit Suisse.

The market turbulence following the SVB collapse serves as an important reminder of how vital it is to invest in companies with strong balance sheets and good business models; and also to have good diversification across portfolios. Both are key features of the Sustainable Future approach.

Away from the banking sector, our position in Agilent Technologies – a leading provider of instruments, software, services, and consumables for laboratories – was a notable detractor. Exposed to our *Better monitoring of supply chains and quality control* theme, Agilent's products help us ensure the air we breathe, the water we drink and the food we eat is not affected by dangerous impurities. It also has a growing diagnostics business which enables

innovation in areas such as gene therapy. Over the period, the company's earnings forecast for the second quarter came in below average estimates.

Also among the detractors was life sciences company Abcam after a 2022 trading update outlined revenue of around £360m, missing average analyst consensus. The company cited Covid-19 restrictions in China as well as disruption from its implementation of a new enterprise resource planning system in Q4

Held under our *Enabling innovation in healthcare* theme, Abcam provides high quality research tools to enable the progression of life science research. By continually refining its product portfolio to be the highest quality, Abcam ensures scientists get the best out of their research work. It also provides supporting documentation and guidance to ensure it is used and interpreted correctly. This ensures that the original researcher and others then know they and others can trust the validity of the insights gained.

In terms of portfolio activity, we initiated a position in Morningstar under our *Saving for the future* theme. Morningstar provides both quantitative and qualitative research to the investment industry, with databases and analytical tools covering private markets, ESG, credit ratings, equity valuation, and more. On the client side, it provides software and investment management services to financial advisors and institutions.

We also added medical products and technologies company Convatec. Held under our *Enabling innovation in healthcare* theme, Convatec manufactures medical devices for people living and managing chronic disease. Its mission is to pioneer trusted medical solutions to improve lives.

**Discrete years' performance*, to previous quarter-end:
Past performance does not predict future returns**

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Sustainable Future Managed 2 Inc	-8.5%	1.4%	35.6%	0.0%	13.6%
IA Mixed Investment 40-85% Shares	-4.5%	5.2%	26.4%	-8.0%	4.3%
Quartile	4	4	1	1	1

*Source: FE Analytics, as at 31.03.23, primary share class, total return, net of fees and income & interest reinvested.

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

Key Risks and Disclaimer

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