Liontrust SF Cautious Managed Fund: Q2 2023 review

Fund managers: Peter Michaelis and Simon Clements

The Fund returned -0.2% over the quarter, versus the 0.2% IA Mixed Investment 40-85% Shares sector average (the comparator benchmark)*.

Across the portfolios, we continue to concentrate on where we have expertise and confidence in our predictions, namely the 20 sustainable themes that identify companies set to benefit making our world cleaner, healthier and safer. We continue to manage our portfolios in alignment with the themes, which themselves sit within three broader categories of *Better resource efficiency, Improved health and Greater safety and resilience*.

Within *Better resource efficiency*, the growth of renewables is accelerating for a market that's estimated to be worth half a trillion dollars, while the advent of the war in Ukraine has shown how security of supply is another essential attribute of renewable energy.

Under *Improved health*, there has been dramatic innovation in the development of diagnostic tools to aid early diagnosis, cancer and other diseases through the advances that we've seen in gene sequencing. Finally, within *Greater safety and resilience*, with water quality making the headlines, our theme around better monitoring of supply chains and quality control is focused on companies which provide equipment and services that undertake the essential analysis of our water, air and food.

All these areas are important to solving key sustainability challenges and should also deliver growth that is relatively independent of overall economic growth. While 2022 was a tumultuous year for almost every asset class, we believe that the foundations for our key themes – *Better resource efficiency*; *Improved health*; and *Greater safety and resilience* – are stronger than ever.

From an asset allocation perspective, we base our positioning on our views of economic conditions, risk and the likely returns from each asset class. Given where we are in the economic cycle, we maintain our overweight position in corporate bonds, which we feel can achieve good returns with relatively low risk.

On UK and global equities, we remain neutral. While we are positive on the returns from equities, the uncertainty of economic trajectory, and the associated volatility with that, holds us back from being overweight the asset class at this stage. Otherwise, we have reduced our overweight to infrastructure, recently taking profits from the strong performance from electricity generators, and we have moved to an underweight cash position, trimming down this asset class in order to help narrow the underweight that we have had to gilts.

In terms of Q2 performance, positive performance on the Fund's equity exposure as global markets rallied was offset by losses on its bond portfolio. Much of the equity market strength stemmed from the technology sector and quality growth-style stocks of the type the Fund typically owns, despite the ongoing presence of rising interest rate expectations – a factor which in 2022 led to a significant de-rating for quality, growth stocks. Rising rate expectations led to losses within the Fund's bond exposure, particularly in government bonds where yield curves shifted higher and prices fell. A 0.5 percentage point increase from the Bank of England in June represented a re-acceleration from March and May's increases of 0.25 percentage points. This decision came following stronger-than-expected UK jobs market numbers, wage growth and core inflation readings. All of this indicated that the BoE remained some way off getting inflation under control, which resulted in a sell-off in UK gilts over the period. The impact of rising benchmark rates within the Fund's corporate bond allocation was offset somewhat by a tightening of credit spreads.

In terms of performance drivers in the equity portfolio, our best performing stock over the quarter was global life sciences company **Abcam**. Exposed to our *Enabling innovation in healthcare* theme, the company reported robust first quarter revenue figures, driven by double-digit growth in Americas and EMEA, while China returned to growth in the high-single digits.

Abcam is focused on identifying, developing and distributing high-quality reagents and tools for its customers. These customers are academic and commercial researchers studying biological pathways, critical for an understanding of disease and the progression of diagnostics and drug discovery. By offering a broad catalogue of high-quality products, combined with excellent customer support, the company aims to be the number one partner for researchers. The quality of the reagents provided should enable quality in research and thus the good progression of scientific breakthroughs.

US healthcare company **Intuitive Surgical** was another top performer. Exposed to our *Enabling innovation in healthcare* theme, shares in the manufacturer of products linked to minimally-invasive robotic surgery jumped after reporting procedure growth figures for the first quarter that were ahead of average estimates.

Intuitive 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 improve the quality of and access to minimally invasive care by striving to find less invasive ways to enter the body, provide clearer views of anatomy and more precise tissue interactions, and helping hone surgical skills.

Cybersecurity company **Palo Alto Networks** was another strong performer, reporting third-quarter results that beat average estimates, while also raising the lower end of its full-year revenue forecast. Within our theme of *Enabling digital security*, Palo Alto provides cyber security solutions for over 85,000 organisations. Almost every facet of our lives has some online exposure, whether personal information, finances, commercial interactions and simple communications. The same is true for businesses, governments and international institutions. Keeping this information secure and only accessible by the right people is essential for retaining trust in all these on-line interactions.

Palo Alto's strategy is to build on the leading firewall product and move to subscription-based firewall and security as a service. This is increasingly based on consumption of data, meaning the market for security solutions will grow as data increases and more of this data is shifted into the cloud.

Among the detractors from our equity portfolio was US biotechnology company **Illumina**. Exposed to our *Enabling innovation in healthcare* theme, Illumina's share price has fluctuated over the quarter as it has been locked in a proxy battle with activist investor Carl Icahn regarding the leadership at the company. A conclusion seems to have been achieved as, at the end of the quarter, Illumina announced that it had accepted Chief Executive Francis DeSouza's resignation.

All of Illumina's current revenues come from instruments, consumables and services that enable the genetic understanding of disease. We see huge positive opportunities to improve the way we treat disease coming out of better understanding of how disease works and, where genetics plays a key role, there is the opportunity to make personalised medicine that is very effective and cures disease. The current disease treatment system is very generalised with many people taking drug treatments that won't necessarily be effective for them. While there are serious ethical concerns about how these genetic technologies are used, we think there are many interesting opportunities to invest in companies that help us understand how disease works so we can make more effective treatments eventually.

Continuing with our *Enabling innovation in healthcare* theme, **ThermoFisher Scientific** was another detractor over the period. A key enabler of innovation within the healthcare and life science industries, ThermoFisher provides instruments, reagent and consumables, as well as software and services to those progressing science for academic, governmental and commercial purposes. At the start of the quarter, the company disappointed in its Q1 results release, announcing a 9% year-on-year decline in its top line revenue as sales in its life sciences segment softened.

With regards to portfolio activity, we initiated a new position in multinational plumbing and heating products distributor **Ferguson**, under our *Building better cities* theme. Sanitation is an area of sustainable development which offers a huge opportunity to improve over the coming decades. Clean water, decent toilets and good hygiene are basic human rights, and these also interact with other goals such as education, reducing inequalities and climate action.

We also added global information services company **Experian** under our *Increasing financial resilience* theme. As the world's largest consumer credit bureau, Experian plays a critical role financial stability through the provision of transparent and accurate credit information. Experian has also developed a number of free tools on the consumer side of the business aimed at improving financial inclusion and credit scores – Experian Boost and Experian Go – helping people establish a credit identity and improve their score, all free of charge.

We sold our position in **Puma** over the quarter. The recent departure of the CEO to a competitor was disappointing, given we rated his strategy and leadership highly. We had also hoped the sales of products directly related to wellness and exercise would outgrow the fashion-focused sales, which would have increased the thematic exposure, and seen an upgrade from C to B in terms of the product rating. This mix shift did not eventuate, as sportswear sales had disappointed. We therefore decided to exit the position.

Discrete years' performance8*, to previous quarter-end:
Past performance does not predict future returns

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Sustainable Future Cautious Managed 2 Inc	0.6%	-14.0%	15.2%	7.5%	9.0%
IA Mixed Investment 40-85% Shares	3.3%	-7.2%	17.3%	-0.1%	3.6%
Quartile	4	4	3	1	1

*Source: FE Analytics, as at 30.06.23, total return, net of fees and income & interest reinvested.
**Source: FE Analytics, as at 30.06.23, 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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