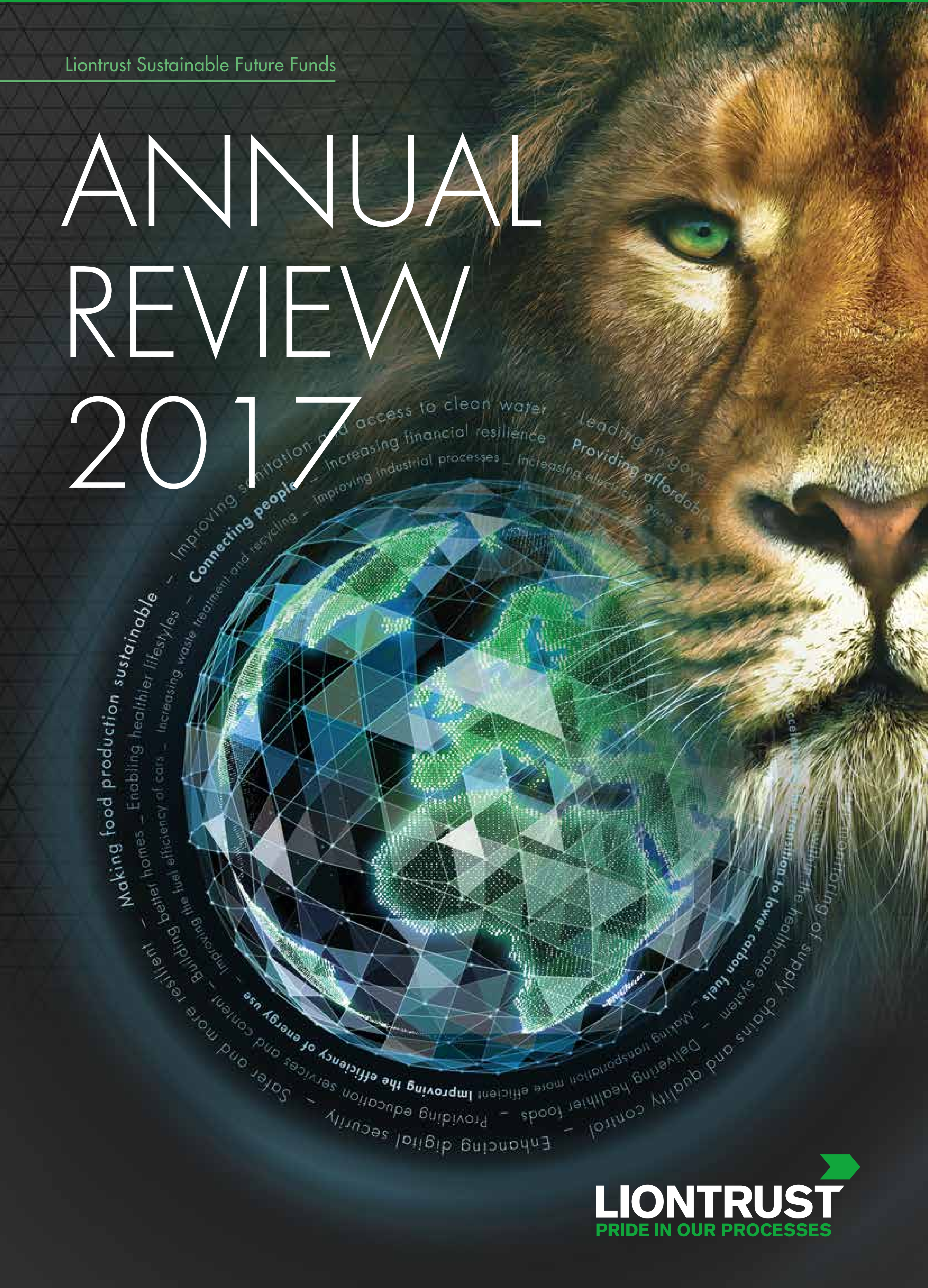
Liontrust Sustainable Future Funds

ANNUAL REVIEW 2017



LIONTRUST
PRIDE IN OUR PROCESSES

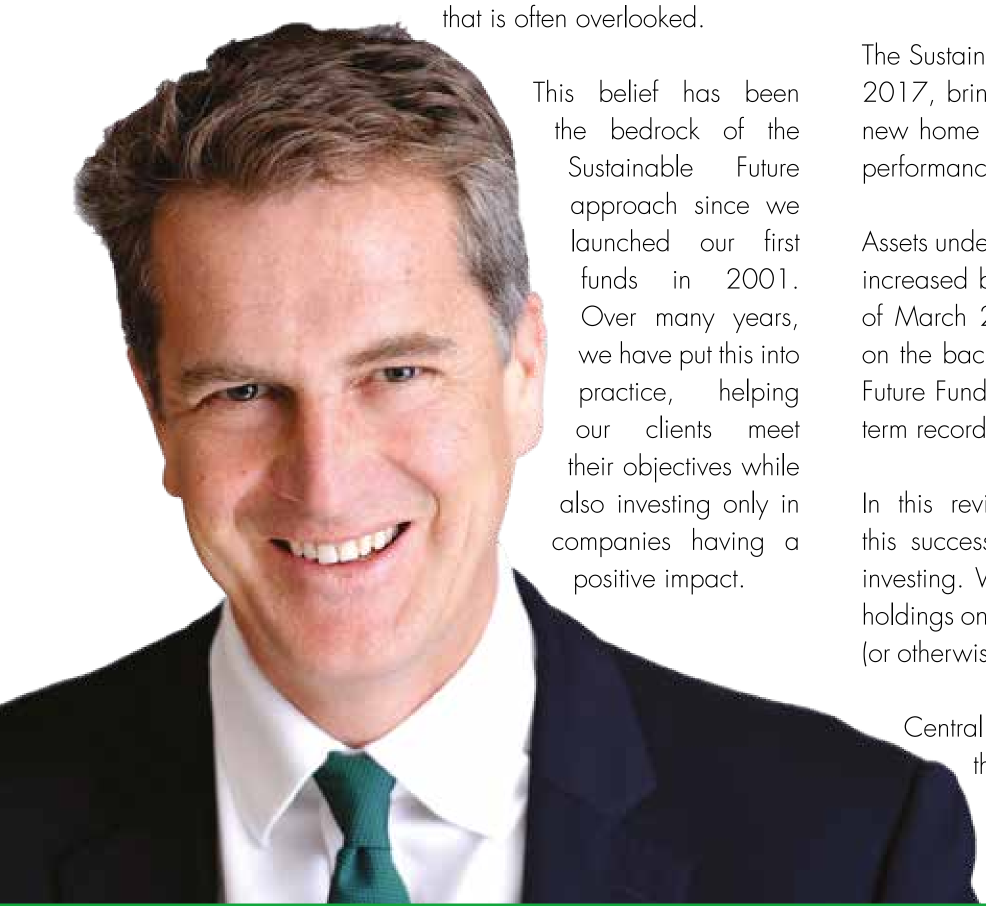
Governance
affordable healthcare globally
Improving auto safety
Better monitoring of supply chains and
Increasing electricity generation from renewable sources
Accelerating the transition to lower carbon fuels
Enabling innovation within the healthcare system
Making transport
Delivering

Contents

Executive summary

- We maintain a strong long-term performance track record to the end of 2017.
- All our funds (equity, fixed income and managed) outperformed their IA sector average over three, five, seven and 10 years to the end of 2017. Six out of eight were first quartile over five years.*
- 2017 was also a strong year in performance terms, with all our funds first quartile versus their IA sector average.*
- Impact analysis shows our Funds are focused on companies having a positive effect on people and the environment, evidenced by exposure to themes, United Nations Sustainable Development Goals (SDGs) and other indicators. Our funds, for example, continue to emit significantly less CO_2 – 70% on average – from their operations than their benchmarks.
- In 2017, our team had 226 face-to-face meetings to discuss key engagement issues.

We have always believed there is no trade-off between investing in companies doing good and delivering good investment returns. Indeed, we believe companies producing goods and services that have a positive impact on people and our planet have a competitive advantage that is often overlooked.



This belief has been the bedrock of the Sustainable Future approach since we launched our first funds in 2001. Over many years, we have put this into practice, helping our clients meet their objectives while also investing only in companies having a positive impact.

We are pleased to observe there are a number of factors driving a growing interest in and demand for sustainable investment, both in the UK and internationally.

Consumers increasingly want what they wear, eat and drive to benefit themselves and have a positive impact on the world around them. In the food and clothing industries, for example, sustainability is becoming synonymous with quality (and so it goes in investment).

People expect the companies they use to be socially responsible and this is fundamentally changing businesses, from high street retailers to industrials and even commodity producers.

Meanwhile, the political climate continues to change, with environmental and related social impacts now regarded as mainstream issues and policy increasingly decided with sustainability in mind.

Given these developments, we believe interest in and demand for sustainable investment will only continue to grow.

A further factor driving increasing sustainable investing – and a key one for us at Liontrust – is the growing realisation that people do not need to sacrifice financial returns to meet their values.

The Sustainable Investment team joined Liontrust in April 2017, bringing 11 funds with us. The first year in our new home has been a great success, both in terms of performance and sales.

Assets under management in our sustainable range have increased by £500 million over 12 months to the end of March 2018 to reach nearly £3 billion. This was on the back of another strong year for the Sustainable Future Funds in performance terms, building on a long-term record.

In this review, we explain what has been behind this success and the emerging themes in sustainable investing. We also examine the positive impact of our holdings on society and the environment and the success (or otherwise) of our engagement with these companies.

Central to our approach to sustainable investing is the fact that all these elements are integrated within a single team. We do not have separate fund management and environmental, social and governance (ESG) divisions. Instead, every team member is responsible for all aspects of financial and ESG relating to an investment decision.

Because of this approach, our team engages with companies across a broad range of issues relating to steps in our investment process, including screening criteria, sustainable investment themes and company-specific ESG issues.

We have developed this approach over more than 17 years as we believe it is the best way to deliver investment performance. Our track record strongly supports this view and this review is designed to provide an insight into our process, impact and engagement.

We conclude this review by looking to the future and what we expect to see over the coming years.

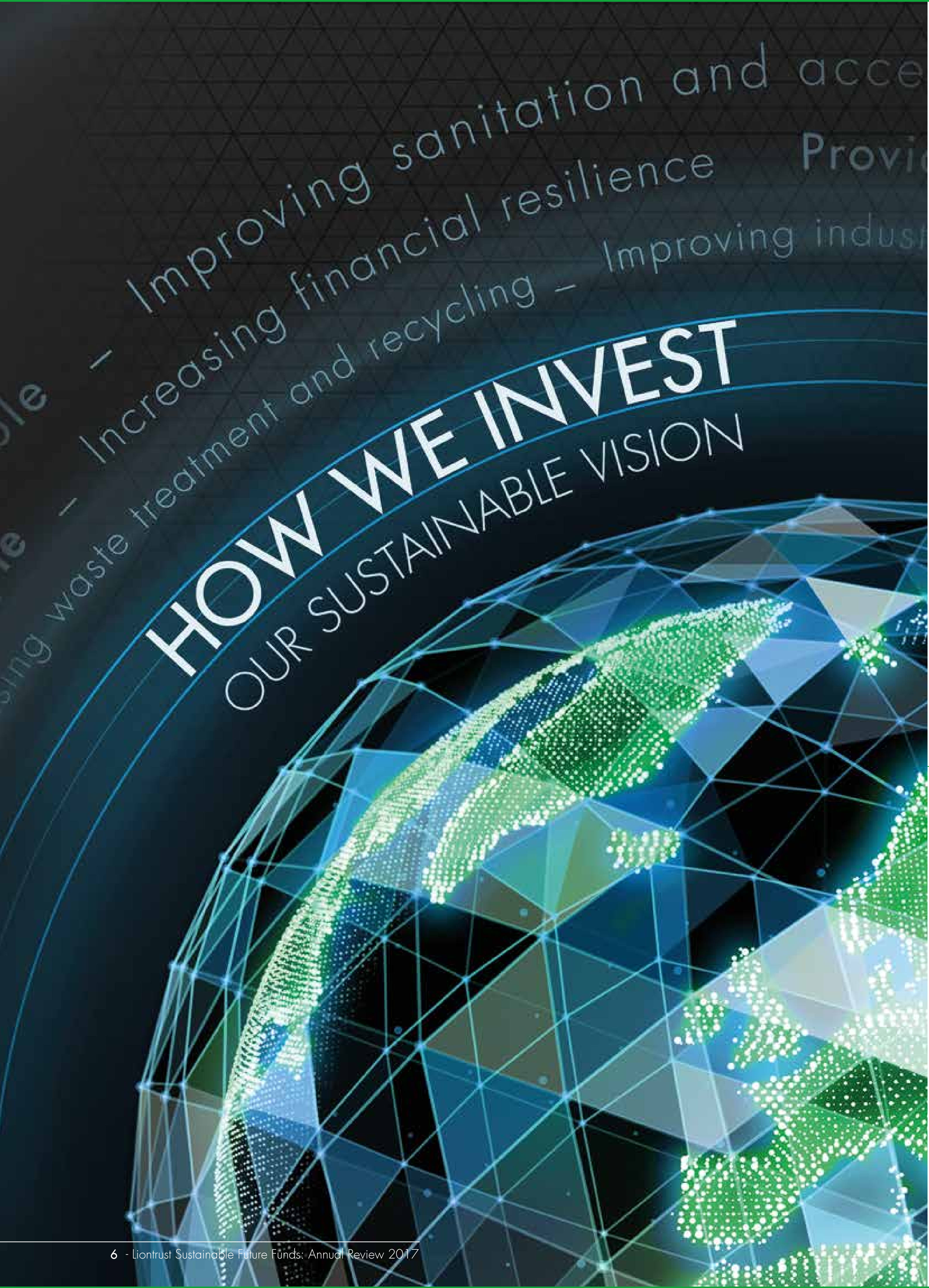
Peter Michaelis, Head of Sustainable Investment

Ratings

	Rayner Spencer Mills SRI Rated	Morningstar Sustainability Rating	Morningstar Rating	3D Investing Rating	Money Facts Ethical and SRI Rating	FE Crown Rating
SF Global Growth			3 ★			
SF European Growth			4 ★			
SF UK Growth			4 ★			
SF Absolute Growth			4 ★			
SF Managed			5 ★			
SF Cautious Managed			5 ★			
SF Defensive Managed			5 ★			
SF Corporate Bond			4 ★			
UK Ethical	-		3 ★			
Monthly Income Bond	-		4 ★	-	-	

*Source: Financial Express, as at 31.12.17, total return (net of fees, income and interest reinvested), primary share class, in GBP. Five year data is not available for Sustainable Future Cautious Managed Fund and Sustainable Future Defensive Managed Fund due to the launch date of the portfolio.

Past performance is not a guide to future performance. Do remember that the value of an investment and the income generated from them can fall as well as rise and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital.



HOW WE INVEST

OUR SUSTAINABLE VISION

Sustainable investing is not only for those who want their assets to "do good"; there is a compelling case for all investors taking this approach. In a fast-changing world, we believe the companies that will thrive are those that focus a) on improving people's quality of life, be it through medical, technological or educational advances, b) on driving efficiency in the use of increasingly scarce resources and c) on building resilient, prosperous and stable societies.

Identifying emerging trends and long-term themes is the cornerstone of our process. From the development of personalised medicine to the transition to lower carbon fossil fuels, we are fascinated by the wide-ranging trends that are changing the world and the opportunities they create. 30 years ago, the IBM PC XT was the pinnacle of technology for example; today, we have the iPhone, which is not only much more powerful but can also fit into your pocket and is half a million times more energy efficient.

We can also point to advances in healthcare that have led to dramatic improvements in life expectancy. For instance, if a man was diagnosed with prostate cancer 30 years ago, he had a less than 50% chance of living more than five years; today the odds are around 90%.

Investment performance

How does this translate into an approach with potential to outperform mainstream funds over the long term?

Stocks in our portfolios exhibit three characteristics: excellent management and core products or services that are making a positive contribution to society; strong growth prospects; and a business model that enables them to grow profitably from these trends and generate competitive returns.

Well-run companies whose products and operations capitalise on transformative changes can benefit financially. In short, we believe that identifying these powerful trends and investing in exposed companies can make for attractive and sustainable investments.

Our team scours the globe for the best investments exhibiting these qualities. We then construct resilient portfolios of these with the aim of delivering strong returns while minimising volatility.

We always compare the performance of our strategies to conventional sectors and where applicable to relevant mainstream indices and 2017 was a strong year in this regard, as all our funds (equity, fixed income and managed) were first quartile versus their IA sector average.

Among the equity funds, for example, the SF Global Growth delivered 18.8% versus 11.8% from the MSCI World Index and 14.0% from the Investment Association's Global sector.* Longer term, our funds across the asset classes have outperformed their IA sector average over three, five, seven and 10 years to the end of 2017. Six out of eight were first quartile over five years.**

Sustainability is also at the heart of the investment process used to manage our fixed income portfolios. This approach has been key to the strong investment returns and lower levels of volatility produced by both fixed income funds managed by the team.

Specifically, our analysis helps to avoid areas of the market where risk is underestimated. For example within the utility sector, we favour power networks over large incumbent power generators and companies with significant exposure to nuclear power as both are exposed to the headwinds of increased regulation.

Our investment process identifies high-quality names within the banking sector, whereby we select banks that focus on retail banking (Coventry Building Society, Lloyds, BNP Paribas) and avoid those that generate a significant proportion of their revenues from investment banking (Deutsche Bank and Goldman Sachs).

This approach serves to reduce the risk and volatility within our bond funds, while also adding to performance. Deutsche Bank has underperformed over recent years, for example, as fixed income investors continue to demand a premium for the added risk associated with its strategy.

*Source: Financial Express, 31.12.16 - 31.12.17, primary share class, total return, net of fees and income reinvested. **Five year data is not available for Sustainable Future Cautious Managed Fund and Sustainable Future Defensive Managed Fund due to the launch date of the portfolio.

Past performance is not a guide to future performance, investments can result in total loss of capital. Please refer to the Key Risks section for more information.

Our funds

	Peer Groups	Quartile Rankings to 31.12.2017				
		1 Year	3 Years	5 Years	7 Years	10 Years
Liontrust Sustainable Future Global Growth	IA Global Equities	1	2	2	2	3
Liontrust Sustainable Future European Growth	IA Europe ex UK	1	1	2	2	2
Liontrust Sustainable Future UK Growth	IA UK All Companies	1	1	1	1	2
Liontrust Sustainable Future Absolute Growth	IA Flexible Investments	1	1	1	1	2
Liontrust Sustainable Future Managed	IA Mixed 40% - 85% Equities	1	1	1	1	1
Liontrust Sustainable Future Cautious Managed	IA Mixed 40% - 85% Equities	1	2	-	-	-
Liontrust Sustainable Future Defensive Managed	IA Mixed 20% - 60% Equities	1	1	-	-	-
Liontrust Sustainable Future Corporate Bond	IA Sterling Corporate Bond	1	1	1	1	2
Liontrust UK Ethical	IA UK All Companies	1	1	1	1	2
Liontrust Monthly Income Bond	IA Sterling Corporate Bond	1	1	1	1	-

Discrete performance (%)

	12 months ending				
	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Liontrust Sustainable Future Global Growth	18.8	17.3	6.5	7.7	24.9
MSCI World	11.8	28.2	4.9	11.5	24.3
IA Global	14.0	23.3	2.8	7.1	21.7
Liontrust Sustainable Future European Growth	19.8	16.0	12.4	-2.6	26.1
MSCI Europe ex UK	15.8	18.6	5.1	-0.7	25.3
IA Europe Excluding UK	17.3	16.4	9.3	-0.9	26.1
Liontrust Sustainable Future UK Growth	20.7	8.0	9.8	1.9	34.6
MSCI UK	11.7	19.2	-2.2	0.5	18.4
IA UK All Companies	14.0	10.8	4.9	0.6	26.2
Liontrust Sustainable Future Absolute Growth	18.1	15.0	5.4	6.1	23.5
IA Flexible Investment	11.2	13.8	2.0	4.9	14.5
Liontrust Sustainable Future Managed	16.1	11.8	6.1	6.0	22.1
IA Mixed Investment 40-85% Shares	10.0	12.9	2.7	4.9	14.5
Liontrust Sustainable Future Cautious Managed	13.4	9.7	4.9	-	-
IA Mixed Investment 40-85% Shares	10.0	12.9	2.7	-	-
Liontrust Sustainable Future Defensive Managed	11.9	9.3	3.7	-	-
IA Mixed Investment 20-60% Shares	7.2	10.3	1.2	-	-
Liontrust Sustainable Future Corporate Bond	7.2	10.5	0.5	9.8	1.8
iBoxx Sterling Corporate	5.0	11.8	0.6	12.3	1.9
IA Sterling Corporate Bond	5.1	9.1	-0.3	9.8	0.6
Liontrust UK Ethical	22.5	4.5	10.6	2.0	35.5
MSCI UK	11.7	19.2	-2.2	0.5	18.4
IA UK All Companies	14.0	10.8	4.9	0.6	26.2
Liontrust Monthly Income Bond	8.9	9.4	1.4	7.4	2.6
iBoxx Sterling Corporates 5-15 years	5.7	10.8	1.2	12.6	1.9
IA Sterling Corporate Bond	5.1	9.1	-0.3	9.8	0.6

Source: Financial Express, as at 31.12.17, total return (net of fees, income/interest reinvested), primary share class, in GBP. Discrete data is not available for five full 12 month periods for Sustainable Future Cautious Managed Fund and Sustainable Future Defensive Managed Fund due to the launch date of the portfolio. *Manager inception date of the SF Corporate Bond is 20.08.2012

Past performance is not a guide to future performance, investments can result in total loss of capital. Please refer to the Key Risks section for more information.

2015, Investment Week Best Sustainable Investment Fund, Liontrust SF Managed Fund

2015, Investment Week Best Sustainable Investment Management Group, Liontrust SF Team

2017, Camradata Asset View Awards 2017, UK Growth Funds, Liontrust SF UK Growth Fund

Meet our team

The Funds are managed by the Sustainable Investment team. This integrated team covers global, UK and European equities, corporate bonds, and managed portfolios. The equity team is based in London and fixed income in Edinburgh.

Equities

Peter Michaelis, Simon Clements and Neil Brown are the lead managers of a team of experienced investment professionals. They transferred to Liontrust from Alliance Trust Investments (ATI) in April 2017 and were previously running the Sustainable Future Fund range at Aviva Investors. Peter, with 16 years' experience in investing, was previously Head of SRI at Aviva Investors and has been running the funds since their launch in 2001. Simon has been in fund management for 18 years and was previously Head of Global Equities at Aviva Investors. Neil has 14 years' experience in financial markets and was an SRI Fund Manager at Aviva Investors.

Fixed Income

Stuart Steven, Kenny Watson and Aitken Ross are the lead fixed income fund managers and have more than 50 years of combined investment experience in managing fixed income. They also transferred to Liontrust from Alliance Trust Investments (ATI) in April 2017. Stuart has 25 years of fixed income investment experience and was previously Investment Director at Scottish Widows Investment Partnership. Kenny has 26 years of fund management experience and was formerly at Ignis Asset Management where he was responsible for the sub investment grade bond portfolios. Aitken has six years of financial experience and started his career in the graduate scheme at ATI.

A focused, well-resourced and experienced team

Harriet Parker
Investment Manager
Telecommunications

Hannah Jones
Investment Analyst

Mike Appleby
Investment Manager
Energy & Utilities

Laurie Don
Investment Manager
Healthcare

Chris Foster
Investment Analyst
Financials

Sinead Lennon
Corporate Governance Manager

Martyn Jones
Investment Analyst
Consumer Staples & Consumer Discretionary

Jack Willis
Assistant Investment Manager
Fixed Income

Our investment themes identify positive and persistent structural trends within the global economy and we believe companies aligned with these will see strong and predictable growth. Overall, we have 22 themes split into three broad groups, More efficient, Healthier and with higher quality of life, and Safer and more resilient.

Thematic analysis

More efficient

- Improving the efficiency of energy use
- Improving sanitation and access to clean water
- Increasing electricity generation from renewable sources
- Improving industrial processes
- Increasing waste treatment and recycling
- Improving the fuel efficiency of cars
- Accelerating the transition to lower carbon fuels
- Making transportation more efficient

Healthier and with higher quality of life

- Providing affordable healthcare globally
- Connecting people
- Delivering healthier foods
- Building better homes
- Providing education services and content
- Enabling innovation within the healthcare system
- Enabling healthier lifestyles

Safer and more resilient

- Increasing financial resilience
- Leading in governance
- Improving auto safety
- Enhancing digital security
- Better monitoring of supply chains and quality control
- Reducing pollution from cars and industry
- Making food production sustainable

More efficient

More efficient focuses on companies helping the world make better use of scarce resources, driving improvements in areas as diverse as energy, industrial processes and transport. Key contributors to returns over the last three years across our efficiency themes have included:

- Kingspan (Increasing the efficiency of energy use)
- Arm, Equinix and ASML (energy efficiency in technology)
- Kyudenko (Increasing energy generation from renewable sources)

Case study:
KYUDENKO

- The Japanese company specialises in the outsourcing of electrical engineers and is benefiting from demand for contractors in infrastructure and large-scale renewable energy projects.
- This demand is supported by the need to rebuild Japan's energy infrastructure system in the wake of the 2011 nuclear disaster, replacing nuclear capacity with safer and cleaner solar and wind.
- Kyudenko has a strong competitive advantage, as it sources graduates from Kyushu University and trains them through its internal programme, supplying labour into a market that remains in need of skilled contractors.

Case study:
ASML

- Dutch business ASML sells the machines that make semiconductors and is the world's largest supplier of photolithography systems. Current estimates claim the Internet of Things will connect 50 billion devices by 2020, each containing at least one chip.
- Faster, smaller, greener are ASML's guiding principles, continuing Moore's Law towards smaller, cheaper, more powerful and energy-efficient semiconductors.
- We believe its focus on next generation EUV (extreme ultraviolet lithography) technology puts the company in a dominant position out to 2030.

Healthier and with higher quality of life

Within *Healthier and with higher quality of life*, we are seeking to invest in companies helping to extend life expectancy and enabling people to be fit and healthy enough to reap the benefits of an improving world.

Among our best-performing stocks are three linked to Delivering healthier foods: Kerry, Whitewave (known as DanoneWave since last year) and Wessanen. The consumption of calorie-dense food and lower levels of physical activity have led to a global obesity epidemic, tripling since 1975 and set to rise further still. The World Health Organisation (WHO) projects that by 2030 more than one billion adults around the world will be obese.

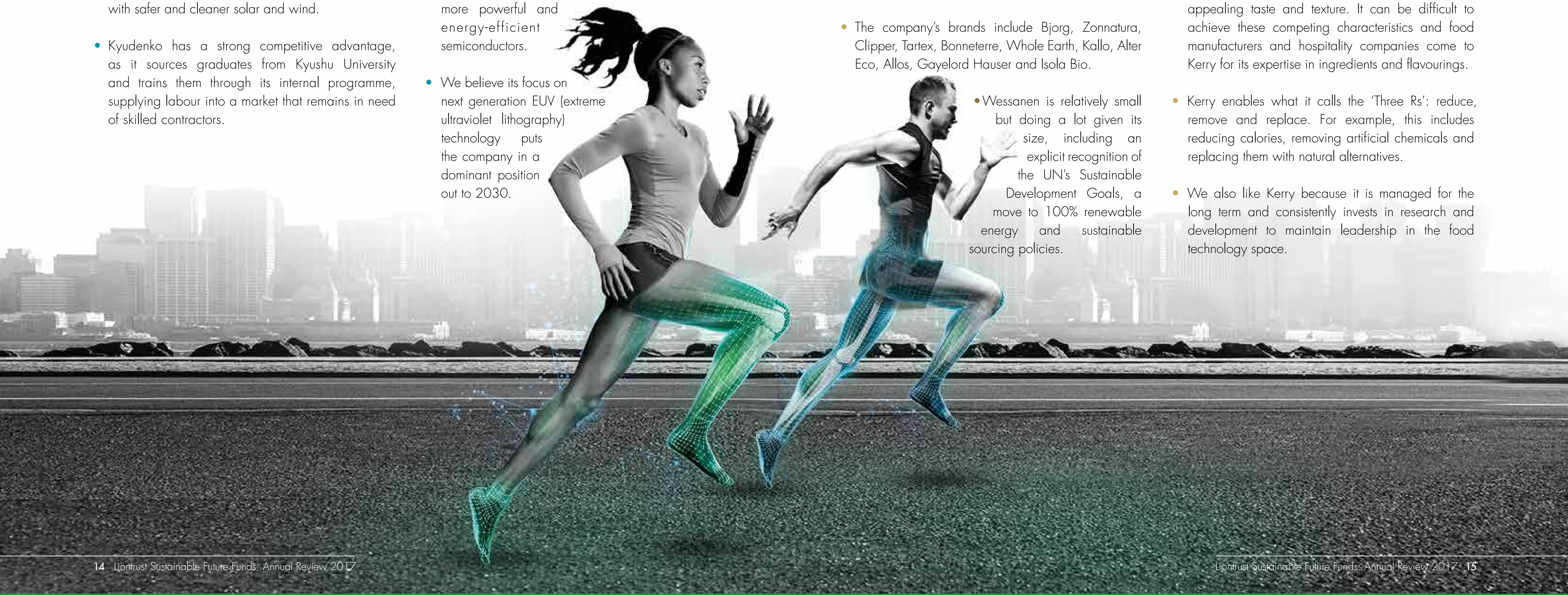
People are increasingly aware that the food we consume needs to better fit our lifestyles, with more natural and healthy characteristics, and we believe the theme of Delivering healthier food represents a significant investment opportunity.

Case study:
WESSANEN

- Wessanen manufactures and distributes organic food products. Its portfolio includes dairy alternatives, bread and biscuit replacers, vegetarian meals, breakfast cereals and hot drinks.
- The company's brands include Bjorg, Zonnatura, Clipper, Tartex, Bonneterre, Whole Earth, Kallo, Alter Eco, Allos, Gayelord Hauser and Isola Bio.
- Wessanen is relatively small but doing a lot given its size, including an explicit recognition of the UN's Sustainable Development Goals, a move to 100% renewable energy and sustainable sourcing policies.

Case study:
KERRY

- One of our key long-term holdings is Irish-based food technology company Kerry Group. Consumers are demanding more from their food, wanting healthier and more natural ingredients while still retaining an appealing taste and texture. It can be difficult to achieve these competing characteristics and food manufacturers and hospitality companies come to Kerry for its expertise in ingredients and flavourings.
- Kerry enables what it calls the 'Three Rs': reduce, remove and replace. For example, this includes reducing calories, removing artificial chemicals and replacing them with natural alternatives.
- We also like Kerry because it is managed for the long term and consistently invests in research and development to maintain leadership in the food technology space.



Safer and more resilient

Safer and more resilient focuses on companies making our lives safer and the systems we rely on more resilient. It covers themes such as Enhancing digital security, Improving auto safety, and Increasing financial resilience.

Top performers across these themes over the last three years include:

- Sophos (Enhancing digital security)
- Infineon (Improving auto safety)
- Visa (Increasing financial resilience)

Case study: SOPHOS

- Sophos, which benefits from our Enhancing digital security theme, has continued to perform well based on strong growth in new business for its cyber security software.
- As IT networks grow in complexity, the company has focused on keeping IT security simple and reliable. Its strategy is that a proper security strategy must include networks, servers and devices, managed easily through the cloud.
- Sophos sells to the SME market worldwide: cyber-attacks there may not attract the kind of headlines that recent assaults on WPP and Reckitt Benckiser received but are just as significant for the businesses in question.

Case study: INFINEON

- Accelerated by new developments and the electrification of vehicles, it is estimated the market for Advanced Driver Assistance Systems will reach €58bn by 2025, with Automatic Emergency Braking (AEB) expected to be standard on virtually all new cars by this date.
- This requires a significant increase in the semi-conductor material in a car. On average, there is £230 of semiconductor content in a current internal combustion engine car but this trebles to around £700 for a full electric vehicle.
- Infineon Technologies is a German analogue semiconductor manufacturer, playing a key role in providing the chips for auto safety systems.

The purpose of analysing these investment themes is to find structural growth.

This is integrated into our investment decisions to help us to identify companies that are undervalued and have the potential to outperform on a three to five-year time horizon.

The previous examples show how aligned strong investment performance can be with positive structural growth trends.

We have been challenged by clients to measure and disclose more of the extra-financial aspects of our Funds to help demonstrate how distinctive our approach is. In the following sections, we quantify the exposure to sustainable investment themes, how these are aligned with the UN's SDGs, and the environmental and some social characteristics.

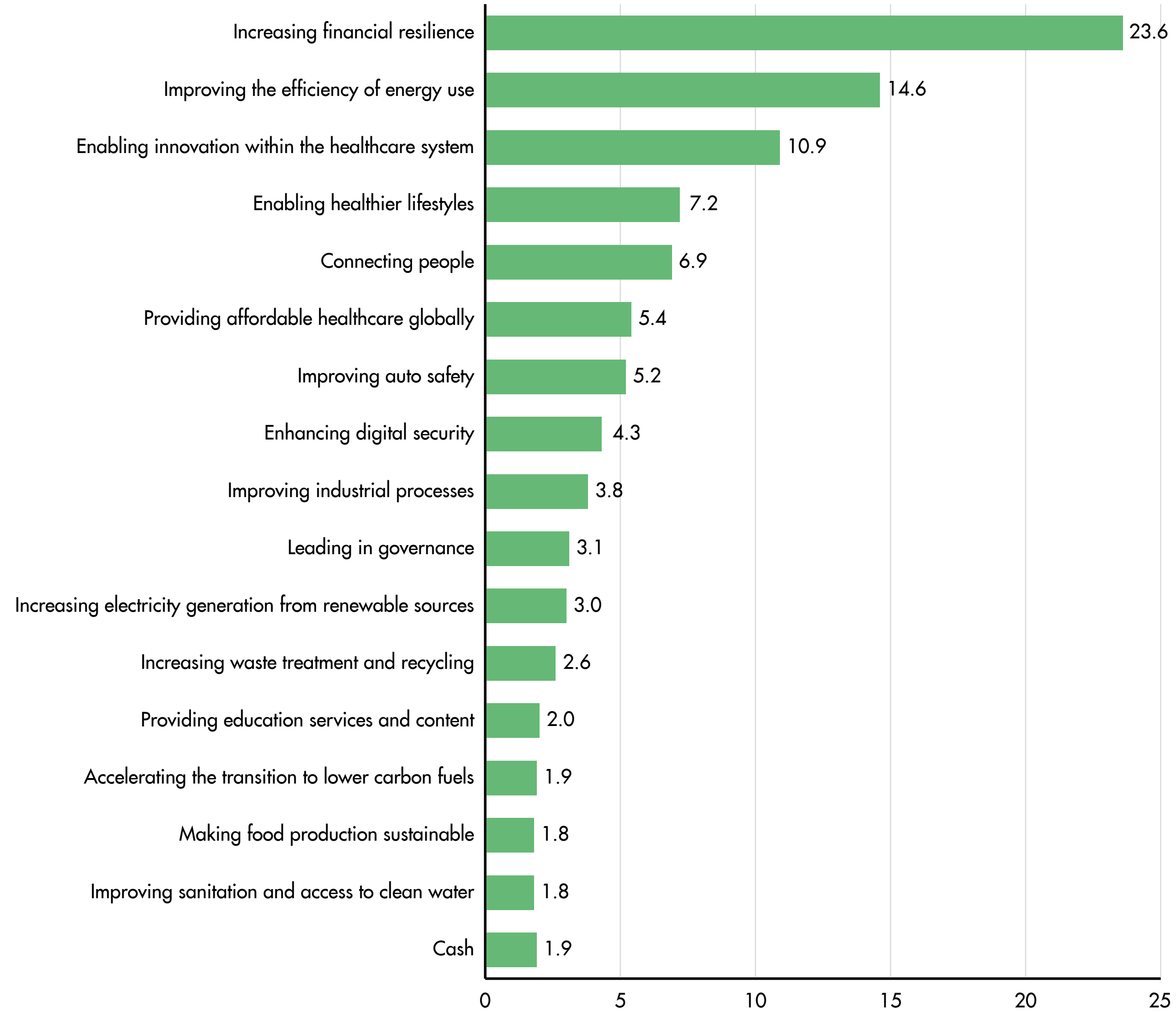
This is an evolving field as there are few complete data sets and, as yet, no agreed methodology but we have committed to show what we can. We expect this aspect of our reporting to improve over time as more meaningful data become available.

Impacts: Fund exposure to our investment themes

As stated, we look for companies that we anticipate will experience structural growth and have identified 22 themes, all of which are related to sustainable trends.

For a company to be associated with a theme, it must have more than 20% of its revenues exposed to the specific theme. For it to be strongly associated, the company must have greater than 50% exposure to the theme. This means the thematic exposure is an indication of the positive impact of the Fund through its investment in these companies.

Sustainable Future investment theme exposure: SF Global Growth (%)



Source: Liontrust as at 31.12.17. Thematic exposure for each Fund is available on request.

Impacts: investment themes and how they map to the Sustainable Development Goals

The SDGs are an internationally recognised set of goals to aim for by 2030, which will help the world develop in a more sustainable way. They replaced the United Nations' Millennium Goals and have captured many investors' interest as a comprehensive way of thinking about and reporting on sustainable investing.

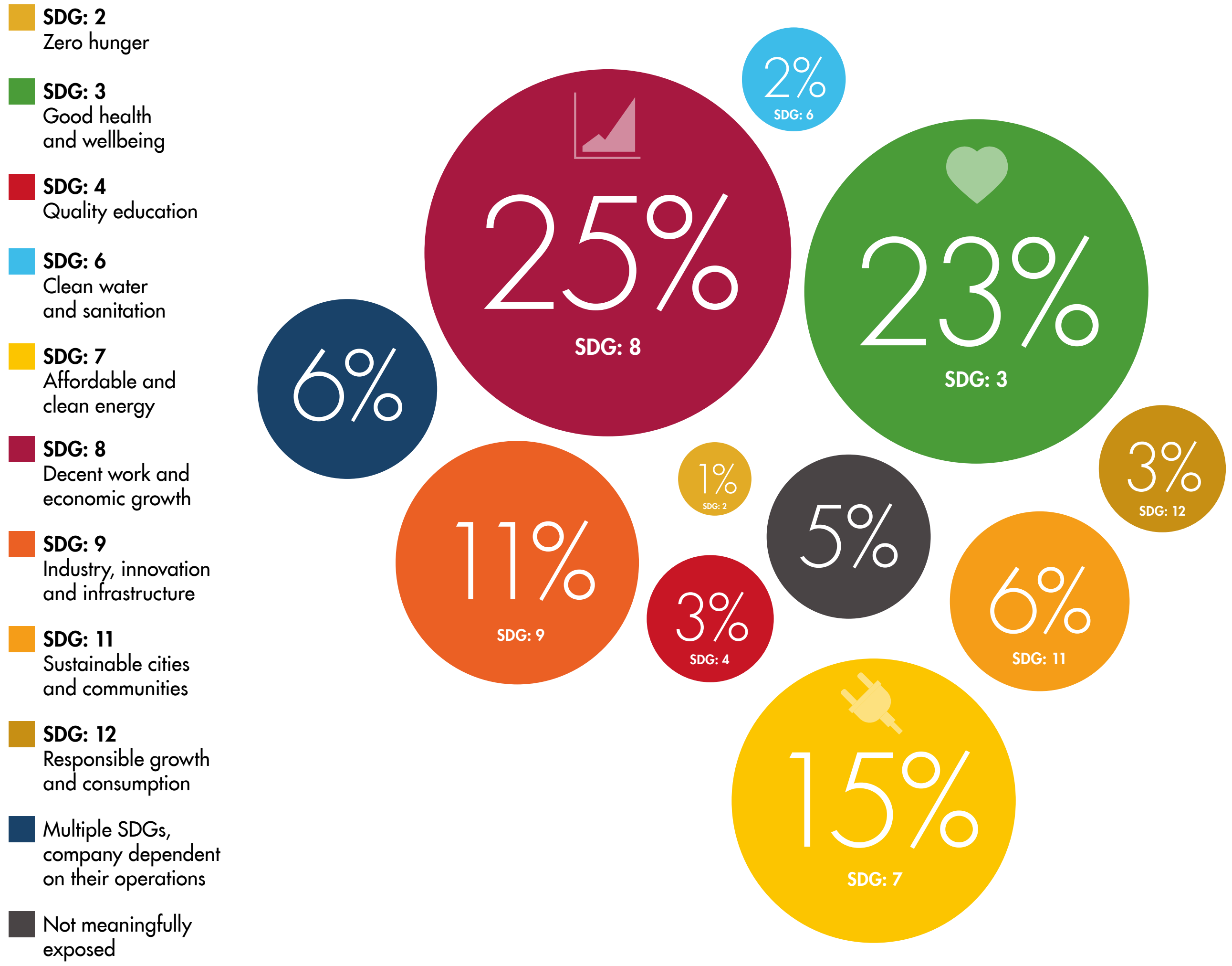
Our analysis shows how our themes are aligned with SDGs by identifying where each one is linked to Key Performance Indicators (KPI) in the SDG methodology. We have limited each of our themes to one main SDG, although there are overlaps and most companies are exposed to more than one goal.

Our investment theme	Sustainable Development Goal
Accelerating the transition to lower carbon fuels	7 Affordable and clean energy
Better monitoring of supply chains and quality control	12 Responsible consumption and production
Building better homes	11 Sustainable cities and communities
Connecting people	9 Industry, innovation and infrastructure
Delivering healthier foods	3 Good health and well-being
Enabling healthier lifestyles	3 Good health and well-being
Enabling innovation within the healthcare system	3 Good health and well-being
Enhancing digital security	9 Industry, innovation and infrastructure
Improving auto safety	3 Good health and well-being
Improving industrial processes	9 Industry, innovation and infrastructure
Improving sanitation and access to clean water	6 Clean water and sanitation
Improving the efficiency of energy use	7 Affordable and clean energy
Improving the fuel efficiency of cars	7 Affordable and clean energy
Increasing electricity generation from renewable sources	7 Affordable and clean energy
Increasing financial resilience	8 Decent work and economic growth
Increasing waste treatment and recycling	12 Responsible consumption and production
Leading in governance	20 Multiple SDGs, company dependent on their operations
Making food production sustainable	2 Zero hunger
Making transportation more efficient	11 Sustainable cities and communities
Providing affordable healthcare globally	3 Good health and well-being
Providing education services and content	4 Quality education
Reducing pollution from cars and industry	12 Responsible consumption and production

All 22 of the Sustainable Future investment themes are contributing in a positive manner to the SDGs and can be linked to Key Performance Indicators.

Source: Liontrust as at 31.12.17

Sustainable Future Funds' exposure to primary SDGs



Source: Liontrust as at 31.12.17

Our Funds have the largest exposure to the following SDGs:

Good health and well-being (SDG #3)

We have five investment themes aligned with this SDG to ensure healthy lives and promote well-being for all at all ages. These include:

Improving auto safety: We have identified companies whose products improve the safety of travel and reduce road traffic accidents, principally through active safety, which involves collision avoidance, active breaking and semi-autonomous driving.

Delivering healthier foods: We have identified companies that provide reformulation services to change the recipe of foods to make them healthier (such as less fat, sugars and salts) while maintaining the taste. This contributes to KPI 3.4, which is to reduce by one third premature mortality from non-communicable diseases through prevention and treatment.

Enabling healthier lifestyles: Companies that promote healthier lifestyles, principally through increasing activity, taking exercise and sport help meet the same KPI 3.4.

Providing affordable healthcare globally: Companies that help to deliver affordable, positive patient outcomes in managing disease also help achieve this goal.

Affordable and clean energy (SDG #7)

We have three main themes aligned with achieving this SDG to ensure access to affordable, reliable, sustainable and modern energy for all.

> Access to affordable, reliable, sustainable and modern energy for all

Increasing electricity generation from renewable sources: Substituting coal intensive fossil fuel electricity generation with renewable power sources reduces carbon emissions as well as providing a cost-effective means to connect people to cheaper, more reliable power sources.

Accelerating the transition to lower carbon fuels: Companies that provide services or equipment, particularly in upgrading the power grid network to deal with changing production and consumption patterns of electricity are an important requirement to achieve affordable clean energy.

Improving the efficiency of energy use: We see many ways of making energy cheaper by reducing waste while also reducing emissions through more efficient use of energy. This cuts across many areas of the economy and includes building insulation, efficient lighting, energy efficient climate control, travel and industrial processes.

Decent work and economic growth (SDG #8)

We have one theme aligned to the development goal to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Increasing financial resilience: We believe a resilient financial services sector is necessary for economic well-being through utility-like provision of banking, lending and effective ways of appropriately saving for the future as well as mitigating risks through insurance. This does not mean any company in the financial sector is automatically investable but we do see positive ways that these companies contribute to society when appropriately and proactively managed. This is aligned with KPI 8.3 to encourage growth of business through access to financial services.

> We believe a resilient financial services sector is necessary for economic well-being

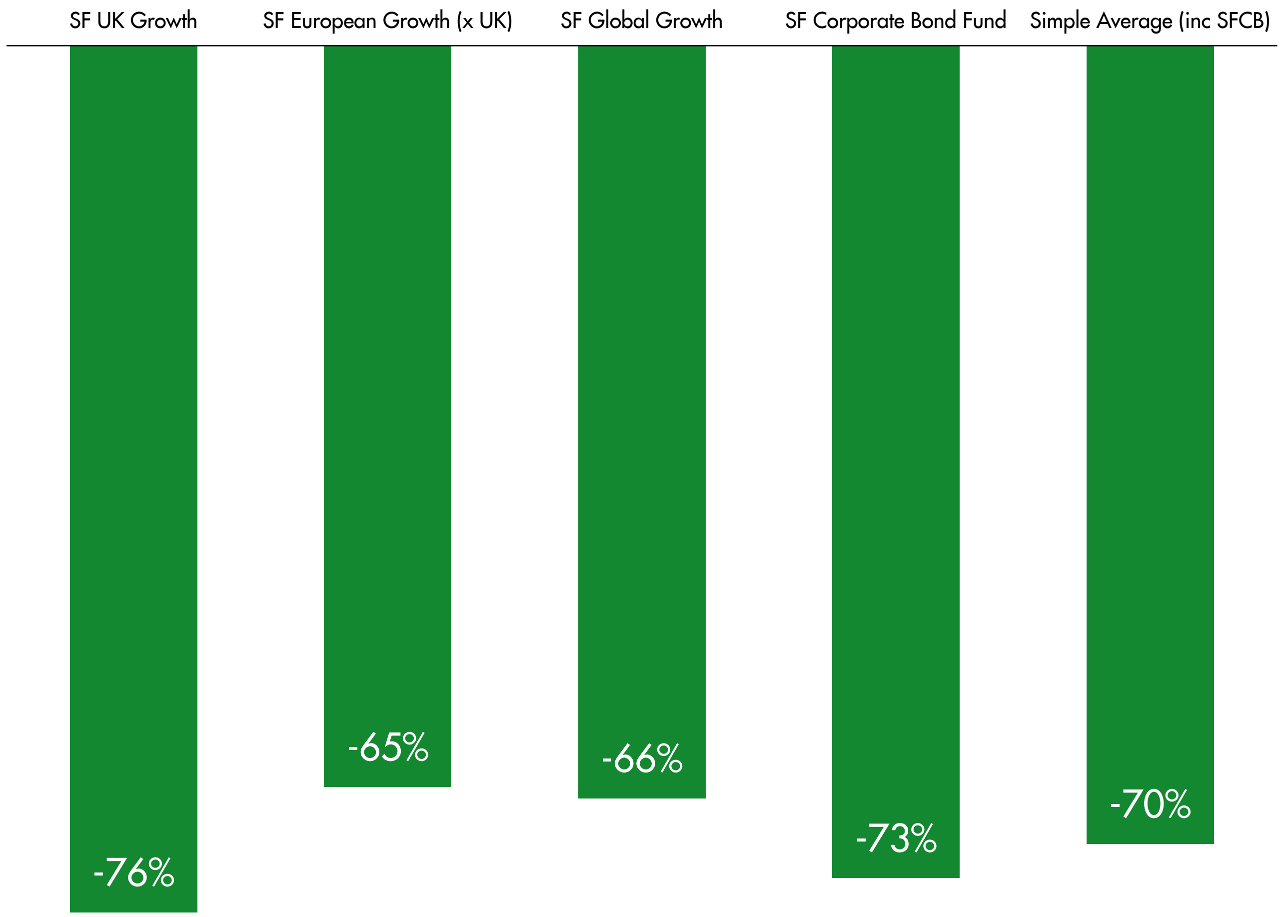
In addition to these, we also have exposure to:

- Zero hunger (SDG# 2)
- Quality education (SDG #4)
- Clean water and sanitation (SDG #6)
- Industry, innovation and infrastructure (SDG #9)
- Sustainable cities and communities (SDG #11) and
- Responsible consumption and production (SDG #12).

Impacts: carbon intensity

Analysis shows our funds continue to emit significantly less CO_2 – 70% on average – from their operations than their benchmarks.

Sustainable Future Funds: Carbon emissions versus mainstream benchmarks



Source: MSCI ESG Carbon Analytics Report 01.03.18 using holdings data as at 31.12.17. The measure for this analysis is Total Carbon Emissions (tCO2e /$m invested) for the Sustainable Future funds relative to their conventional benchmarks

While this kind of analysis has some shortcomings – failing to capture the emissions from the use of products or services the companies provide, for example – it is a useful starting point to see how funds compare on CO_2 emissions.

Our investment approach to carbon risk uses a combination of:

- Actively avoiding carbon-intensive businesses (as we believe their future profitability to be overestimated by the market) – we do not invest in the primary extraction of fossil fuels such as coal, oil or natural gas, airlines or auto manufacturers.
- Seeking out the best operationally managed companies that are proactively running their business to mitigate expected increased regulation to make big emitters pay.
- Actively looking for exposure to profitable businesses that are providing solutions to help emit less pollution. The latter is not captured in the CO_2 emission analysis but we disclose exposure to over 20 different structural investment themes that are not just limited to carbon dioxide and climate change.

Investing in companies that emit less CO_2 than their benchmark means the Funds are better positioned to withstand any carbon cost inflation as they will have less additional costs to pass on to their customers. In short, the companies in the Funds have margins that are more resilient to emissions regulations, which we see becoming tighter over the medium term.

Case study:

FOSSIL FUEL

While no investor can completely avoid exposure to fossil fuels, as all companies use electricity, we invest in businesses that profit from positive changes underway in our energy system.

We look for companies reducing costs through energy efficiencies, selling products that drive efficiencies for others or generating and transmitting renewable energy. Naturally, we avoid companies that stand to lose from these positive trends – the fossil fuel sectors.

> We invest in businesses that profit from positive changes underway in our energy system

Burning fossil fuels currently provides the majority of energy used for generating electricity, transport and industrial processes. It is also the largest source of greenhouse gas emissions, which countries and companies are working hard to reduce against clear and challenging targets.

The 'Fossil Free' movement calls for asset owners to end support for the industry by freezing new investment in fossil fuels and selling positions in equities or corporate bonds within five years. Our Funds have long taken a more positive approach:

- Invest in companies profiting from accelerating the decarbonisation of our economies.
- Invest in companies with low exposure to carbon risk.
- Avoid investment in coal, oil, tar sands and natural gas.

Our thematic investment ideas continue to evolve rapidly but currently include insulation providers, vehicle battery components and power semiconductors.

In summary, there are global commitments to transition away from fossil fuels and meeting these commitments presents challenges. We believe there are profits to be made in meeting these challenges and risks for companies on the wrong side. By providing capital to companies that are leaders in these fields, we believe we can continue to profit from a credible pathway to a lower carbon economy.

Impacts: social indicators, diversity

In response to clients wanting to see more social key performance indicators, we have worked with our different ESG data providers to see how we could do this.

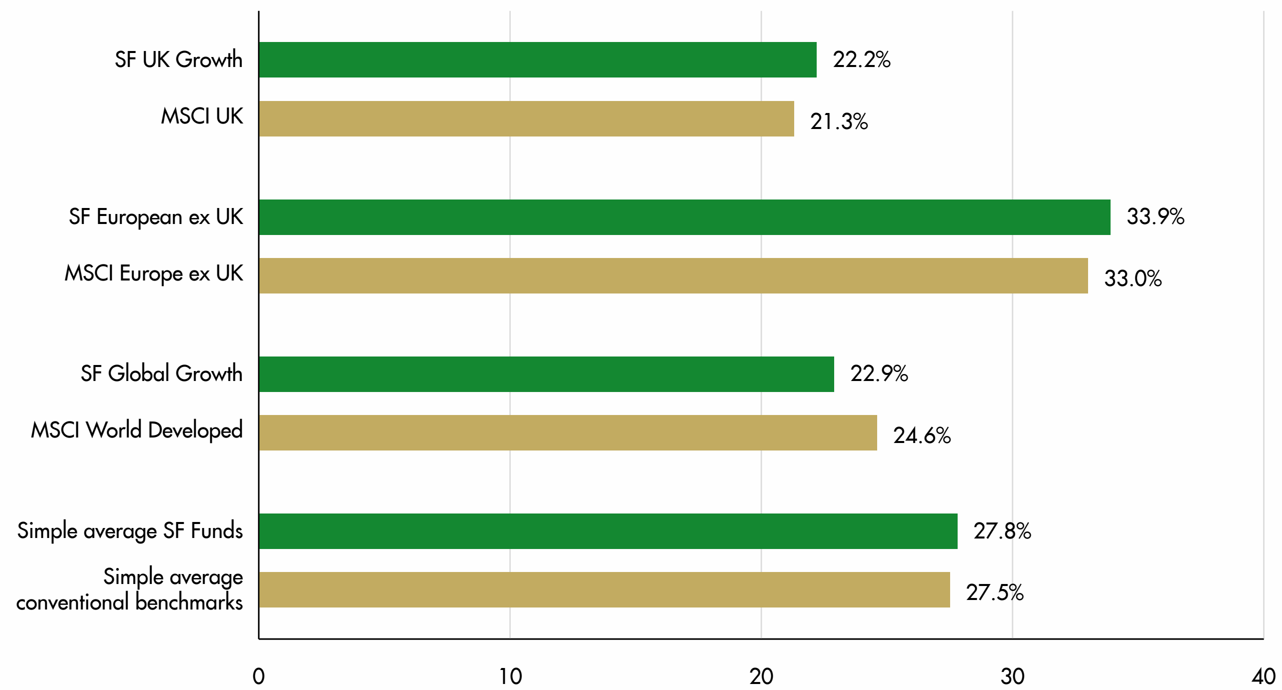
> We do engage actively with companies we own to urge them to improve diversity

We looked at the proportion of women on the boards for companies in the Sustainable Future Funds and compared this to the conventional benchmarks where they are invested.

We found, on average, the SF equity Funds had 27.8% of women board members compared to 27.5% in the conventional benchmarks. While our Funds have marginally more women represented on boards, the proportions are very small and so should be regarded as the same.

We do not screen out companies on the basis of board diversity but we do engage actively with companies we own to urge them to improve diversity. This is one of our key engagement priorities for 2018 as there is evidence to suggest more diverse boards function better and therefore deliver as good, if not better, returns.

Proportion of women on the board: SF Funds compared to the market



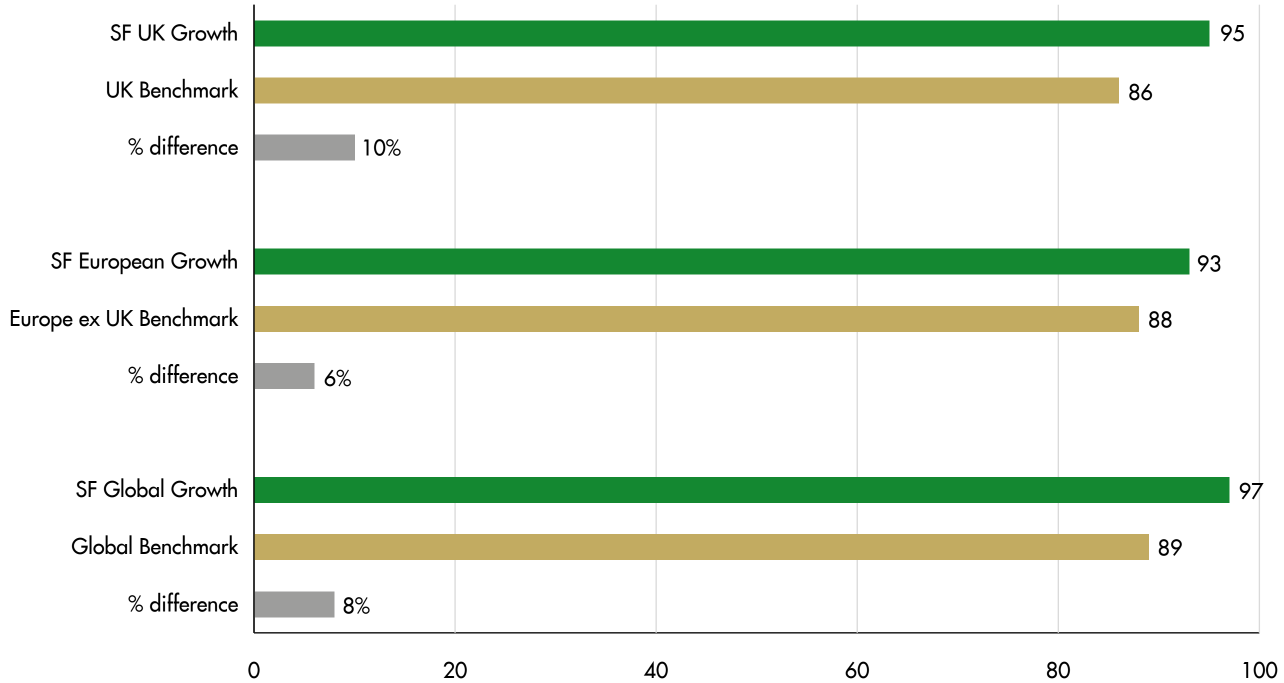
Source: Liontrust as at 31.12.17

Impacts: social indicators, controversies

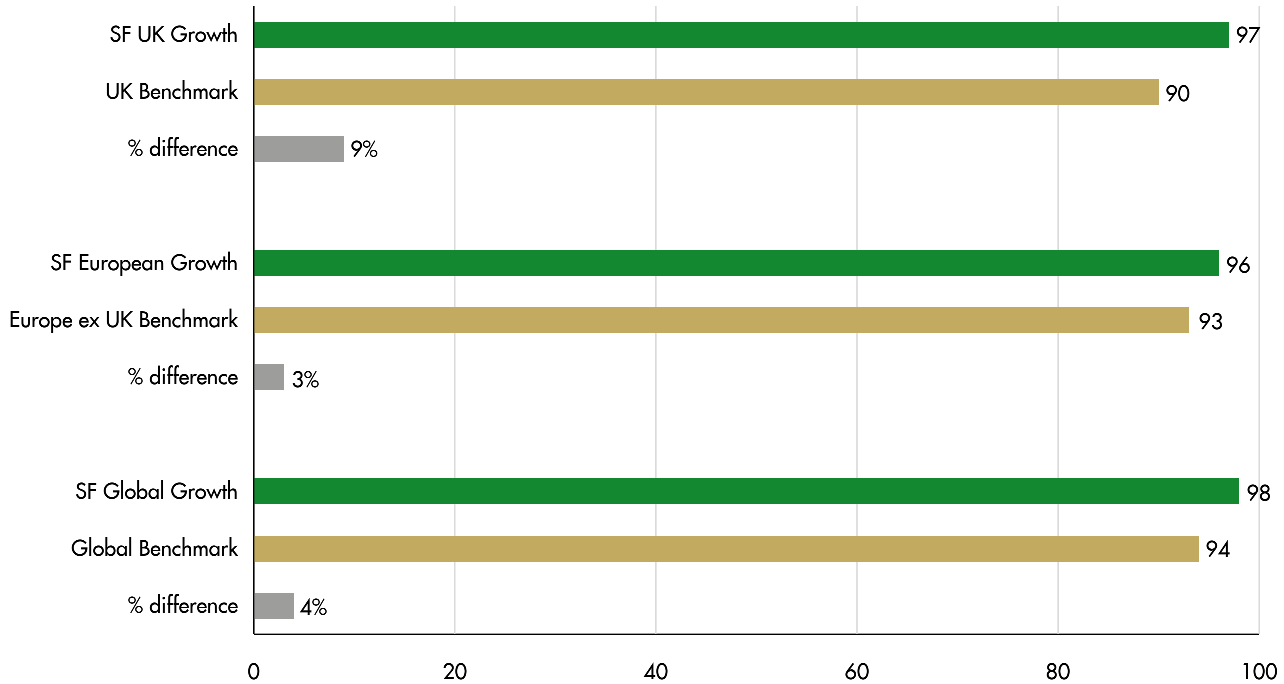
We analysed data from Sustainalytics, which scores companies on controversy incidents, such as employee-related, supply chain, customer and community incidents.

A higher score reflects better managed businesses with fewer controversies.

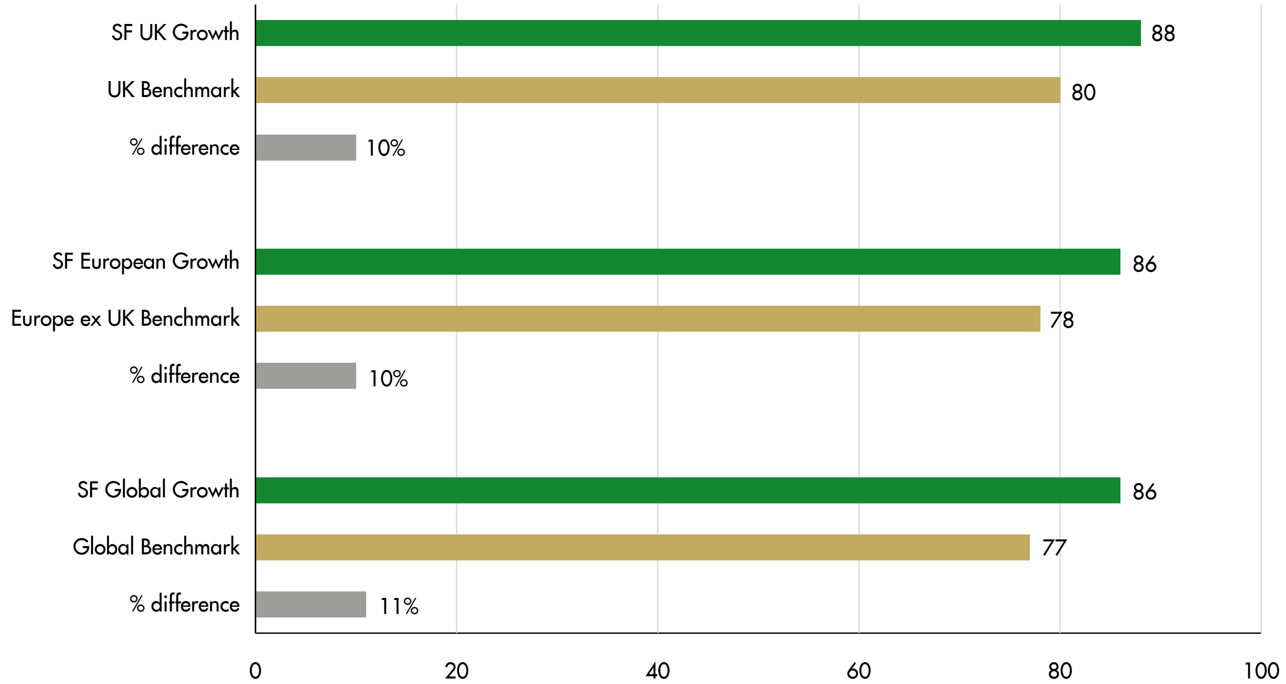
Social indicators: employee related incident scores (highest score is best)



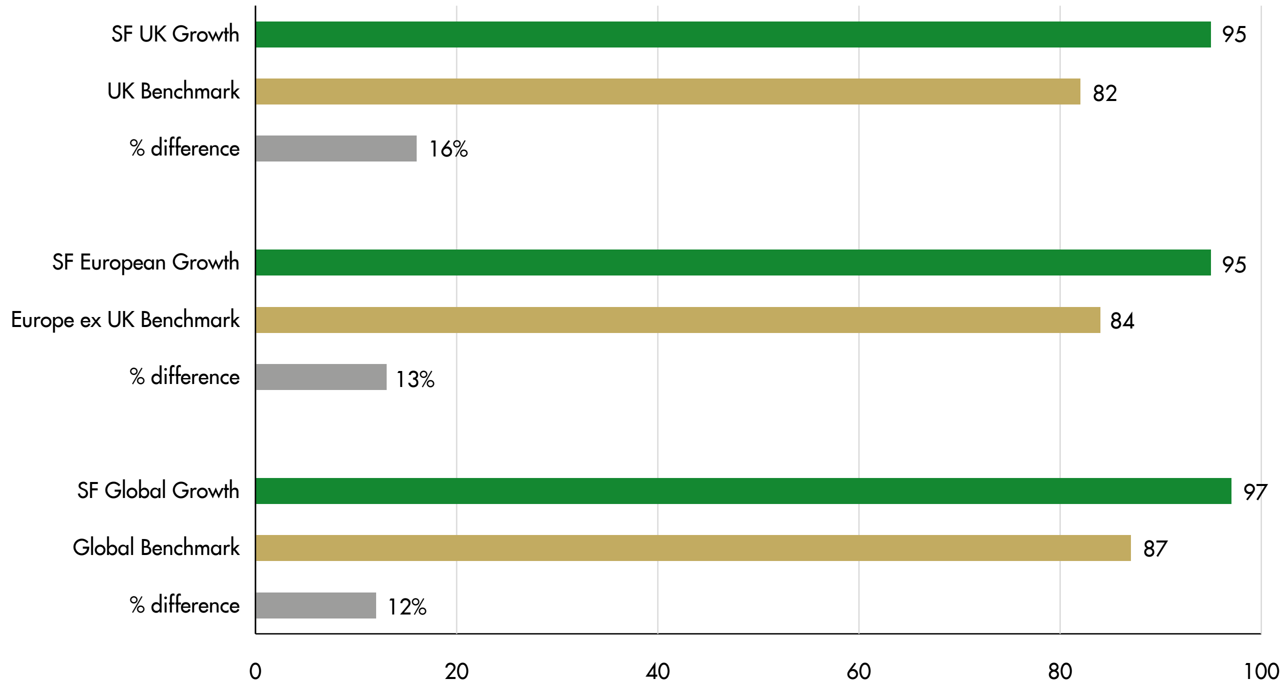
Social indicators: supply chain related incident scores (highest score is best)



Social indicators: Customer related incident scores (highest score is best)



Social indicators: society and community related incident scores (highest score is best)



Source: Sustainalytics Social Score metrics; weighted averages, normalised by proportion of data, only companies with data included.

As can be seen from the charts, the aggregated, weighted portfolio scores for the Sustainable Future Funds are better than the conventional benchmark weighted averages on all these measures – which means companies in the Funds rate better on these metrics than the market average. On average, these scores were 9% better in the Funds compared to conventional benchmarks.

Engagement is integral to how we ensure our focus on high-quality companies: engaging with companies on key ESG issues gives us greater insight and helps us to identify leading businesses.

We have been engaging in this way for more than 17 years and have found this approach challenges and encourages companies to manage the wider aspects of their business proactively, which, in turn, protects their longer-term prospects.

We meet companies face to face and correspond through emails, telephone calls and letters. We interact with a range of representatives, which might include the Chairman or senior management and often also extends to experts heading up sustainability strategy or other core roles within an organisation. Ultimately, who we engage with depends on the specific issue.

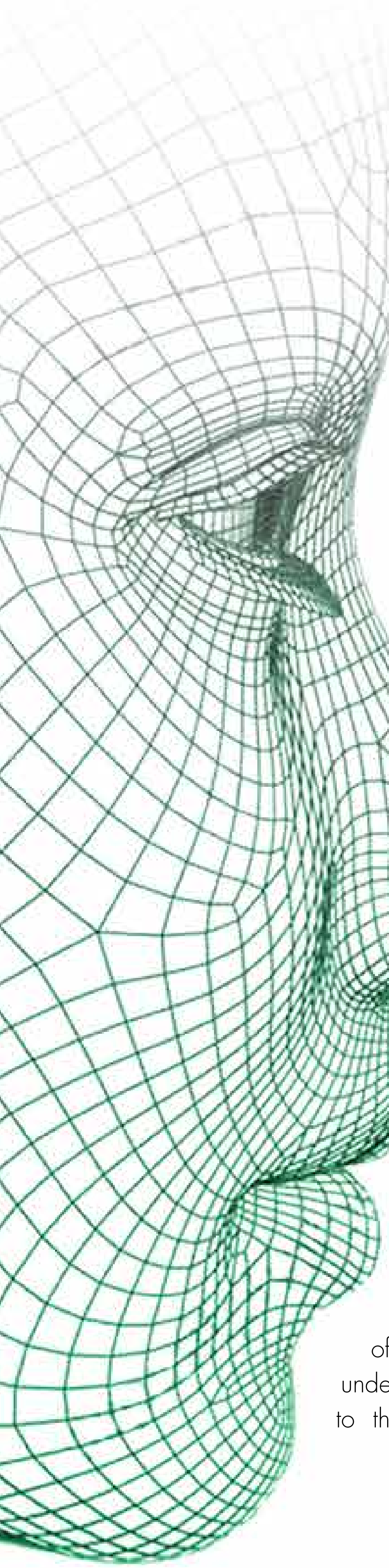
Engagement highlights in 2017

- In March, we wrote letters to 58 companies held across our equity funds where we had withheld support for proposals at the company's AGM in 2016. Aside from company-specific issues, there were three broad areas where we withheld support: where there was a lack of gender diversity, where we disapproved of a company's remuneration report or policy, or where we felt there was an issue relating to the auditor. We wrote to both the Chairman and investor relations for each company, providing our voting rationale along with a copy of our voting policy.
- Following the Grenfell Tower fire in June, we conducted research and engaged with companies in the portfolios that were potentially directly and indirectly affected to ensure that they were taking action to prevent future fire risks.
- We engaged with healthcare companies held in our equity funds, looking specifically at how they attract and retain talent, how they manage drug trials and the need to balance patient safety and timeliness of results. We also enquired about issues such as the EU adverse events regulation, animal welfare standards and sales practices.
- We met with WWF's Global Forest & Trade Network to improve both the sustainability of timber sourcing by a company held within our funds and also to improve its public disclosure of policies and performance on timber sourcing.
- Another key area of discussion with companies was energy efficiency: we engaged with several companies across the portfolios on this and in most cases wanted more detail about their plans and performance in this area.
- For our financial holdings, we asked questions relating to customer satisfaction and how companies mitigate the risks of mis-selling.
- We also began to discuss preparedness ahead of the EU's General Data Protection Regulation (GDPR) regulations that come into force in May 2018.
- We collaborated with other investors on cyber-security through our participation in the Principles for Responsible Investment (PRI) engagement group as well as directly engaging with companies on this issue.
- We continued to engage with investee companies on corporate tax responsibility and collaborated with other investors through the PRI group on corporate tax disclosure.

		2016	2017
Number of holdings	Equity holdings	181	154
	Fixed income issuers	101	88
	Total	282	242
Number of meetings	Total	243	226
	% of investee companies	-	69%
Engagement	ESG issues raised (meetings & direct correspondence)	131	210

Engagement case studies

Re-appraising our view of the big social networks



Early in 2017, we assessed Facebook for our Funds and rated the company eligible for investment. Following further analysis, we concluded this was a well-managed, profitable company that looked undervalued and bought the stock for our Global Funds in the first quarter of 2017.

This stock was flagged as controversial by our Advisory Committee, however, which recommended that we thought more carefully about how to assess large social network companies and their sustainability in light of a number of shortcomings in their business models.

We met with Facebook and received a fairly underwhelming response about our concerns. At the Annual General Meeting in June 2017, we supported a number of resolutions proposed by shareholders on the voting rights of shares, lobbying, fake news, gender pay and the need for an independent Chair.

We then embarked on a number of meetings with experts to help us understand the issues that are particular to these large social networks, how to manage them and how we can judge whether the companies are dealing with these potentially material issues adequately.

Over the course of 2017, we met with individuals who are experts in the following fields:

- Data privacy and how tightening regulation could impact the large social network businesses.
- Content moderation and fake news and how easy it is to effectively manage this.
- A media academic exploring how these relatively new social networks fit in with existing media regulation.

These were interesting meetings and helped us to come up with a framework to identify the main issues and how to judge whether the company response was suitably robust. In the meantime, several of the main issues we had identified became very prominent in the news:

Content: Whether it can be moderated effectively in a timely manner (this includes illegal and fake content).

Data privacy: Whether tightening regulation materially undermines these businesses' profit margins.

Access to these networks: Whether it is too easy for vulnerable individuals to gain access and whether they can do more to control addiction to social media.

In the second half of the year, we had another meeting with Facebook and concluded that while the company (and all of the main listed social networks) was taking steps to address most of the issues we had identified, the response was inadequate in light of the risk to its profitability from tightening regulation. We updated how we rated large social networks to be more stringent and have subsequently downgraded and divested from Facebook as a result.

Gender diversity

Gender equality contributes to economic growth, environmental stewardship and social inclusion and is fundamental to ensuring equitable outcomes from the UN's Sustainable Development Goal (SDG) targets.

Reports from international organisations such as the World Bank and the OECD, and other research institutions, recognise the enormous potential to increase global GDP growth by increasing female participation in the workforce.

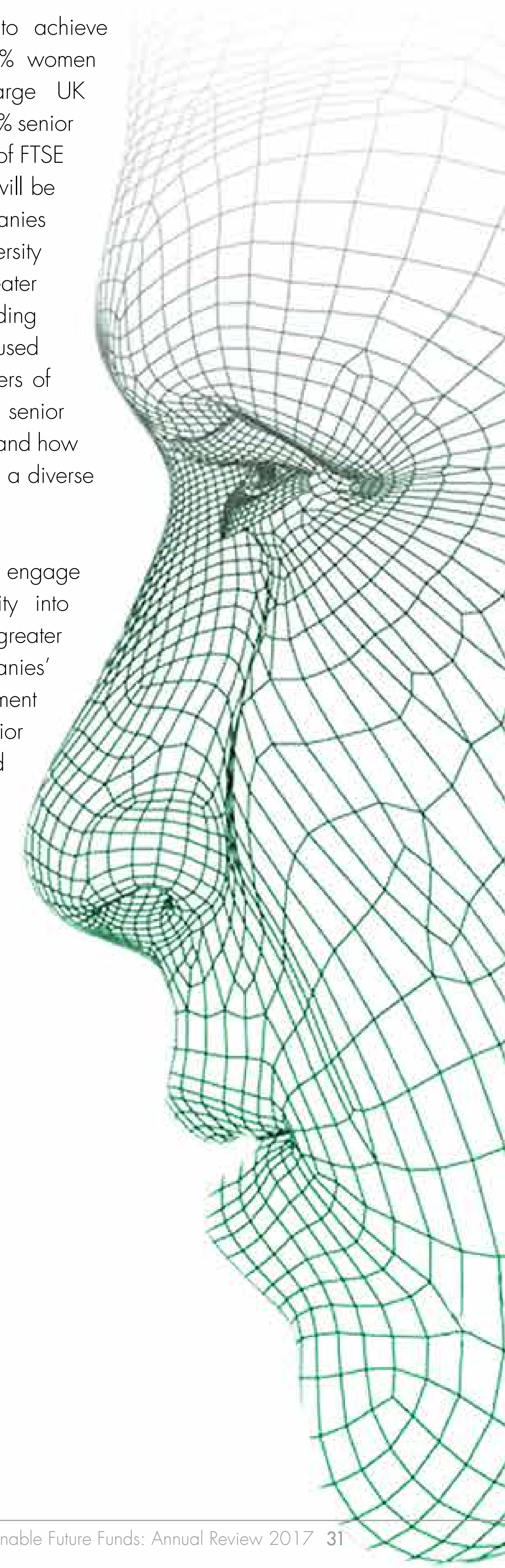
As such, this is an area of focus for a number of intergovernmental organisations and countries are being asked to present data and analysis to demonstrate what is being done to address gender equality issues, in addition to the more recent country level SDG commitments.

Over the last several years, we have taken a closer look at companies' diversity programmes and discrimination policies and also analysed board-level gender imbalances. Where there is a lack of female representation on boards, we have engaged with companies and used our voting policy to encourage greater diversity.

We firmly believe companies that welcome cognitive diversity through proper gender representation and a wide range of experience and skills are better able to prosper over the long term. In April 2017, we signed up to the 30% Club Investor Group's Statement of Intent. By signing the statement, we have committed to assessing the boards and senior management teams of investee companies and we will use our ownership rights and stewardship role to encourage companies to make progress on gender diversity.

We are looking to achieve a minimum of 30% women on boards of large UK companies and 30% senior management level of FTSE 100 boards. We will be encouraging companies to disclose diversity policies and greater transparency regarding the procedures used to find new members of the board and at senior management level and how the process ensures a diverse pipeline for each.

We will continue to engage on gender diversity into 2018 with a greater focus on companies' policies and recruitment programmes for senior management and assessing investee companies gender pay gaps.



2018 engagement priorities

We prioritise a number of proactive engagement initiatives in collaboration with our Advisory Committee at the beginning of each year. We assess how our holdings are positioned on these specific issues and, where appropriate, define target lists of companies for engagement.

For 2018, as well as continuing our efforts to increase corporate disclosure on ESG impacts, mitigation efforts and performance, we have the following priority initiatives:

- Impact and Sustainable Development Goals:
  We continue to prioritise our efforts to quantify the main impacts (good and bad) from the companies in which we invest. We will engage with companies to disclose their main impacts so we can report on these. This is an evolving field and we are keen to build on the work we have already done in this area.

- Encouraging sustainable use of plastics:
  We are looking for companies providing solutions to plastic pollution as potential investments as well as encouraging companies to reduce the amount of single use plastics they introduce to the environment.

- Anti-Bribery & Corruption:
  Corruption is bad for people and ultimately bad for business. We want to better understand how companies can reduce the chances of being complicit in corruption and encourage them to manage potential conflicts to the best of their ability as ideas for how best to do this continue to evolve.

- Responsibility in apparel supply chains:
  Low cost apparel often comes at a high price to workers in global supply chains.

- Promoting gender diversity:
  We believe companies that are more gender diverse are better able to prosper over the long term so we are engaging to encourage greater gender diversity, looking at gender balance at a board level and senior positions, and looking at efforts to reduce any gender pay gaps.

- Encouraging corporate tax responsibility:
  Tax is not just a cost to be minimised and aggressive tax minimisation is a concern for investors as it can be a risk to earnings and can damage reputation. We are engaging with companies to better understand tax risks and to encourage better disclosure of tax policies and strategies.

- Ensuring privacy and data security:
  Companies' data security and management have come under intense scrutiny following cyber security breaches in recent years. We are engaging with companies to better understand how they manage and mitigate these risks and to ensure they are prepared for upcoming European General Data Protection Regulation (GDPR).

- Value creation in the healthcare system:
  We are engaging with companies to request more information that can help us determine whether their products truly deliver value to patients and to wider healthcare systems.

Outlook for 2018

In the coming year and beyond, we are anticipating a positive economic backdrop. Unemployment across the globe is low and, for the most part, there is steady expansion of overall economic activity.

We will begin to see increases in inflation and gradual hikes in interest rates, which we welcome as a return to more normal conditions after a decade of recovery from the financial crisis. In this environment, we are much more interested in the dynamics within the economy than the aggregate increase in GDP number.

We believe there are areas of strong structural growth linked to sustainable development with exciting prospects. These are in the categories of resource efficiency, improving health and increasing safety and resilience. To paraphrase, we focus on the quality of economic development not just the quantity.

The linkage between being a good company (a good corporate citizen) and financial success is strong, supported by more and more examples of the opposite (from VW and Diesel-gate, PPI mis-selling in the banking sector and BP's Gulf of Mexico disaster to name the most prominent).

We anticipate this linkage will continue to strengthen through 2018 and beyond as companies begin to see strong sustainability performance as the critical element in their growth strategy.

All 22 of our themes have strong prospects but we believe that Providing affordable healthcare globally and Enabling innovation within the healthcare system are at a very interesting juncture. The advent of sub $1000 genome sequencing and a new approach to efficiency in healthcare using data and networks will lead to clear differentiation between companies aligned and those not.

We also predict even more dramatic changes in transport technology as the intelligence integrated into cars makes them more efficient and safer, along with the parallel move to greater automation and increased electrification.

The deflation in the cost of renewables will continue, seeing wind and solar maintain their majority share in new capacity globally. The revolution in electricity generation is also definitely underway. Less advanced is the revolution in the way in which we use materials but we do see signs of progress in the management of materials in our economy and a beginning of the end for the linear (aka chuck away) model.

A decision by China to ban the import of plastics will force exporting countries to instead manage their own waste, improving resource efficiency and leading to less plastic waste in our oceans.

Within our equity Funds, we will maintain our exposure to the best companies aligned with our themes and the Sustainable Development Goals. We believe these companies can continue to deliver strong investment returns over the coming years across UK, European and Global strategies.

Within our bond Funds, we expect stock and sector selection to be the key driver of returns over the course of 2018. Specifically, we see value in insurance (sustainable investment policies, strong solvency and benefits from a rising yield environment), telecoms (regulated cashflow, reduced M&A and bonds with attractive covenants) and the housing association sector (stable credit metrics, attractive valuations and a positive impact to society through the provision of social housing).

Added to this, given we expect the Bank of England to continue to raise rates in 2018, we remain significantly underweight interest rate risk within our bond portfolios to protect investors against the headwind of rising yields.

Our managed Funds reflect the same views, currently overweight equities and credit while remaining underweight Gilts.

We remain confident that our strategy of investing in sustainable companies offers the potential to deliver strong investment returns over the coming years.

External Advisory Committee

Our Sustainable Investment team employs the services of an Advisory Committee that provides guidance and expertise in key areas of social and environmental impact.

Sophia Tickell is Non-executive Director of Liontrust and Co-founder and Director of Meteos, a non-profit company, which runs senior dialogues, focused on finance, health and the environment. She is the author of "Banking on Trust", "Vital Connections: Science, Society and Sustaining Health", the EnergyFutures report, and the PharmaFutures (www.pharmafutures.org) series. Sophia was previously Chair of the Board at SustainAbility Ltd and led Oxfam's policy work on the private sector.

Tony Greenham is Director of Economy, Enterprise and Manufacturing at the RSA (Royal Society of Arts, Manufactures and Commerce), where he leads a programme of policy research into the future of work, social impacts of technology, green industrial strategy and economic democracy. He is a former corporate stockbroker and has written extensively on financial sector reform including the undergraduate economics textbook 'Where Does Money Come From?

Jonathon Porritt is Founder Director of Forum for the Future, the UK's leading sustainable development charity. His book, "The World We Made", seeks to inspire people about the prospects of a sustainable world in 2050. He is also Chancellor of Keele University and President of The Conservation Volunteers and former Chair of the UK Sustainable Development Commission.

Tim Jackson is Professor of Sustainable Development at the University of Surrey and Director of the Centre for the Understanding of Sustainable Prosperity (CUSP). From 2004 to 2011, he was Economics Commissioner on the UK Sustainable Development Commission, where his work culminated in the publication of the controversial bestseller "Prosperity without Growth" – economics for a finite planet.

Signatory of:

PRI Principles for Responsible Investment

The United Nations Principles for Responsible Investment (UN PRI) is a global initiative for international investors to implement the six principles. The objectives are to understand the implications of sustainability for investors and support signatories to incorporatethese principles into their investment decision making and ownership practices. As a PRI Signatory, Liontrust Investment Partners LLP commits to completing the PRI Reporting Framework on an annual basis. For more information about UN PRI and the six principles, please visit unpri.org

Key risks

Past performance is not a guide to future performance. Do remember that the value of an investment and the income generated from them can fall as well as rise and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital. Some of the Funds managed by the Sustainable Future Equities team involve foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. Investment in Funds managed by the Sustainable Future Fixed Income team involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. The Monthly Income Bond Fund has a Distribution Yield which is higher than the Underlying Yield because the fund distributes coupon income and the fund's expenses are charged to capital. This has the effect of increasing dividends while constraining the fund's capital appreciation. The Distribution Yield and the Underlying Yield is the same for the SF Corporate Bond Fund.

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.

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