



Peter Michaelis: reasons to be excited about 2023

Peter Michaelis, Head of the Liontrust Sustainable Investment team

It has been a challenging year for investors with volatility across almost every asset class and major macro-economic and political uncertainties that are ongoing. This has been especially the case for those investing sustainably. And yet, looking to 2023, we are more excited about the prospects than we have been in years.

This confidence comes from the strength of our 20 sustainable investment themes and the quality of the businesses aligned with solving critical sustainability challenges. We believe that sustainable companies have stronger growth prospects and better management than the market appreciates.

Our societies and economies evolve to deliver not only growth in GDP but also a better outcome for people in a progression to a cleaner, healthier and safer world. We have seen a 1 million-fold improvement in computing power, dramatic increases in life expectancy (up five years in the last 20 years) and activities like driving becoming 50 times less fatal per km driven.

Over decades and centuries of a market-based economy, these are powerful, persistent trends.

A simple way to think of the mechanism behind this improvement is that society desires these better outcomes: governments, through regulation, incentives or taxation, encourage businesses to deliver solutions; and businesses innovate, scale and distribute the solutions, experiencing strong growth and, crucially, usually less competition as they bring these novel ideas to market.

Think of gene-sequencing. This is now a \$5 billion market that delivers a step change in our ability to diagnose and treat diseases (such as the Greek alphabet of coronaviruses). But initially it required the US government to launch the human genome project at the cost of billions of dollars for the first genome. Now after many iterations, business has driven down the cost to hundreds of dollars. Renewable energy has followed a similar pattern.

While we are now operating in a very different environment to the past decade, with inflation and therefore interest rates no longer at zero, it is important to use such times of market stress to upgrade the quality of our portfolios. We have taken advantage of the broad-based sell-off to add to certain companies that we have long admired in every aspect except valuation. This was achieved both during the Covid sell-off in 2020 and in 2022.

One example is Agilent Technologies, which we have bought for our Liontrust SF Global Growth Fund. The company is a global leader in quality control and testing, ensuring the food we eat, the air we breathe and the water we drink does not contain harmful chemicals and contaminants. Held within our Better monitoring of supply chains and quality control theme, it is also a leader in the supply of

research and development tools in the area of increasingly cutting-edge technology related to gene-editing.

We have also added Ashtead to the Liontrust SF UK Growth Fund, which is the embodiment of the sharing economy. Held within our Delivering a circular materials economy theme, the company rents out industrial, commercial and general equipment across the US, UK and Canada, thus maximising the utilisation of equipment that would otherwise sit idle for long periods, and offers assurance that equipment is serviced and maintained properly and is reliable. In doing so, it allows its customers to concentrate on their core business competencies and to reduce their inventories of capital equipment.

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 continually reviewing and refreshing our ideas to ensure we are invested in those areas where companies are delivering the best improvements in terms of a cleaner, healthier and safer world and offering strong growth. It has been a challenging year in terms of performance but we have strong conviction in the longer term prospects of the sustainable businesses we are invested in.

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