

Sustainable Investment

February 2025



Why we believe Liontrust SF Funds present an excellent investment opportunity in 2025

The Liontrust SF Funds aim to outperform markets over the medium term (5 years) by investing in sustainable companies and using their influence to encourage companies to proactively manage their businesses to minimise environmental and social impacts arising from their businesses. The investment process identifies companies which are exposed to positive sustainability trends (providing growth), that are well managed, make good investment returns and which are undervalued.

Since the funds started in 2001 they have delivered against this objective and over the longer term have significantly outperformed their mainstream peers.

There will always be periods when the SF funds underperform their sector averages, which have typically been for the relative short term. The underperformance for the SF Managed funds that began in 2022, however, lasted for longer than the historical norm but there are reasons for this, including the rising inflation and interest rates and the AI frenzy that has led to extreme market concentration. These tailwinds have been dissipating and we believe there are very compelling reasons why the Liontrust SF Funds present an excellent investment opportunity from here:

- The type of companies these funds invest in within equities – medium sized companies that are high quality and growing – are looking very compelling as an investment as they look undervalued versus the market. **This is an excellent investment opportunity for this style of equity investing which forms a big part of the Liontrust SF funds.**
- Growth is hard to find. Companies exposed to sustainability trends are an excellent place to find growth because these companies provide solutions to challenges for our economy and this generates demand for their products as a result. **Exposure to companies directly affected by Trump or the rise of populist politics is very small in these funds.** While the political backlash against ESG and the flood of negative news articles are negative for some areas that we invest in, our broad range of 22 sustainability themes enable us to build diversified portfolios of profitable, good quality companies we believe are undervalued and are not adversely affected by current politics.

Mid-sized, quality growth equities: a compelling investment opportunity

We have seen a big divergence in valuation between the largest and the mid-sized companies. This is true of most markets but has been particularly distorted in the US market by the Magnificent 7 big-tech companies. This presents us with an opportunity to invest in high-quality growth, mid-sized companies. These are exactly the companies that the SF Equity funds are invested in which form a big part of the SF Managed funds.

Changes in politics have been shrilly anti-ESG. We believe the structural sustainability trends remain very much intact for decades to come. This is why.

Trump

Trump's views are almost the opposite of the philosophy of sustainable investors. He is anti: mitigating climate change, wind turbines, electric vehicles (EVs), diversity initiatives, and sceptical of some key areas of medical science. This is obviously not good for sentiment and headlines but how much difference is this going to make to the companies in the Liontrust SF funds?

Trump's executive orders are trying to rollback climate initiatives particularly those included in the Inflation Reduction Act which will affect clean energy (wind turbines), EVs and green hydrogen, to which we currently have less than 1% exposure. We've been concerned about economic fundamentals in this area of the market for a while now so have little exposure.

Trump's strident rolling back from international climate commitments and overturning some of the pro-climate regulations of his predecessor is clearly not welcome from those of us who feel urgent action is needed on climate for the benefit of everyone. However, economics is now the main driving force, particularly in renewables. And if we cast our mind back to Trump 1.0, he oversaw the biggest installation of renewables for any president (to that date) while coal (which he wanted to make great again) declined in utilisation significantly as it could not compete economically with renewables and natural gas.

While it's very early days, the SF Global Growth Fund has performed well since Trump has been in power, as the rebuilding of the US Industrial heartland requires investment, this investment goes to the market leaders, and we hold a lot of these. They're the best businesses in their areas, and we've chosen the ones that also deliver solutions to important sustainability challenges, such as making the economy more circular and managing water better.

Trump's trade tariffs are likely to be a far bigger driving force of uncertainty in the market more broadly as it is not limited to the anti-climate related executive orders.

Labour government in UK

It has been suggested to us (occasionally) that labour being in power will be bad for sustainable funds. We don't see this as they look favourably on most of the key issues that sustainable investors are investing behind. Yes, there does appear to be a somewhat desperate search for growth and have muted a desire to rollback some areas of regulation to achieve that. Do we think potentially steam rolling through an extra runway at Heathrow is a positive thing given the emissions associated with it – no. Will it materially affect any companies owned in the SF Funds – highly unlikely.

Right of centre parties gaining ground in the EU

In continental Europe, we have seen a shift to more populist politicians gaining ground. This presents a very real risk of watering down existing policies that are pro-climate. However, we see renewables being supported by strong economics as well as reducing reliance on politically risky natural gas such as that from Russia. Our direct exposure in the SF Funds to these potential changes are small.

There has been a big backlash in the news against some sustainable trends (mostly climate and diversity and inclusion related) and we are in a phase where there is a lot of negative sentiment by some around it. However, we are confident that our funds are diversified across enough different sustainability themes – we have identified 22 – to be able to deliver profitable growth from the companies we are invested in to outperform. For example, we haven't cured cancer and the investment into finding better and more cost-effective treatments for disease will continue; the capital expenditure needed to manage and treat our water that has increasing amounts of human

made pollutants in it will continue; as will the need to protect our data and activity that we carry out online. We are invested in companies that are delivering these solutions which are unlikely to end up in the sights and slowed by more populist politics.

We will be publishing a series of articles in the coming weeks that highlight key big structural changes (sustainability trends) and why we are confident they will continue over the next decade and beyond, despite the political backdrop.

We believe the outlook remains positive for our SF funds over the medium term. While past performance is not an indicator of future performance, the long successful track record for these funds has shown that the best returns come after periods of underperformance. We remain convinced that patience will be rewarded for investors in the Liontrust SF Funds.

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

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Funds managed by the Sustainable Future Team:

Are expected to conform to our social and environmental criteria.

May hold overseas investments that may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of a Fund.

May hold Bonds. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result; The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

May encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

May invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

May invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

May, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.

The use of derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Outside of normal conditions, may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

Do not guarantee a level of income.

The risks detailed above are reflective of the full range of Funds managed by the Sustainable Future Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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.

Disclaimer

This document is issued by Liontrust Investment Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518552) to undertake regulated investment business.

It should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. The investment being promoted is for units in a fund, not directly in the underlying assets.

The document contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty is given, whether express or implied, by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified.

This is a marketing communication. Before making an investment, you should read the relevant Prospectus and the Key Investor Information Document (KIID) and/or PRIIP/KID, which provide full product details including investment charges and risks. These documents can be obtained, free of charge, from www.liontrust.com or direct from Liontrust. If you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. All use of company logos, images or trademarks in this document are for reference purposes only.