

Sustainable Investment

September 2025



Why we can still deliver sustainability



Peter Michaelis

Head of Sustainable Investment

The world has had yet more stark reminders, as if we needed them, over the summer of the impact of climate change, notably through raging wildfires in Europe and North America and major floods in Asia. By mid-August, fires had burned 860,000 acres of land in Spain, surpassing 2022 as the worst year, while fire and rescue services in the UK had responded to 33% more wildfire incidents in the first seven months of the year compared to the previous high, also in 2022. And, most recently, this has been compounded by the rapid ice decline in Antarctica.

This suggests we are not delivering sustainability as defined by the Brundtland Commission 38 years ago: "meeting the needs of the present without compromising the ability of future generations to meet their own needs".

The Stockholm Resilience Centre assesses nine critical processes that maintain a stable and resilient Earth. In 2023, it concluded that six of them – including those relating to climate change, biosphere integrity, and nitrogen/phosphorus flows – have already been breached. This places us beyond the safe operating space that has historically enabled human civilisation to thrive, putting ongoing human welfare at risk. Clearly, something has to change.

It is tempting to respond by arguing that we should replace our competitive, profit-driven market economy with something entirely different – a low-growth, no-growth or even de-growth model. While this idea may sound appealing, it faces major challenges: who would decide which model to adopt, how long such a revolution would take and, most importantly, whether it would actually deliver better outcomes. I believe the biggest issue is that our current system, despite its flaws, is remarkably effective at producing solutions to the problems we face.

Historically, we have achieved great things when science, government and society, and business have worked together. The prime example of this is one of the critical processes that are in balance, namely ozone depletion. This was a global environmental problem that has been solved by businesses replacing CFC with HCFCs. We believe that our best chance of successfully dealing with these monumental challenges is to back companies that

can innovate and widely distribute new ways of doing things. Change can be dramatic. For instance, few people even 10 years ago would have predicted that UK electricity in 2024 would have been over 50% renewable. For this reason, we invest in companies that are enhancing building efficiency through smart heating, ventilation, and air conditioning systems, as well as improved insulation; transforming waste into durable, long-life materials; and developing technologies to detect and monitor pollutants such as PFAS (Perfluoroalkyl and Polyfluoroalkyl Substances, often called “forever chemicals”) and microplastics.

By investing in companies that lead on climate, circularity and clean water, we are not only supporting environmental restoration but backing those best placed for long-term success in a resource-constrained world.

We also need to invest to become more resilient to a warming world through companies that are:

- either investing in key infrastructure to make it more resilient to increased extreme weather events;
- making equipment used to better monitor or control the increasing extremes in our environment; or
- providing insurance solutions that helps mitigate these risks effectively.

Beyond themes that have the potential of mitigating the extreme events caused by climate change, we believe there will also be strong structural growth for companies linked to healthcare and life sciences. Many of these are trading on extremely depressed multiples. Indeed, our analysis suggests that many mid cap sustainable investment companies will deliver strong growth over the coming years and yet are trading at a significant valuation discount to the historic average.

There are three critical areas to the improving health and quality of life theme: early diagnosis and screening; medical innovation, especially the shift from small-molecule to biologics-based treatments that are more effective but require complex delivery systems; and promoting healthier lifestyles.

Sustainable investment can also be a force for transformation by driving environmental and social change in a world of shifting demographics, digital threats and global interconnectedness.

Globalised supply chains have delivered enormous economic benefits but they have also introduced serious risks. These range from poor labour practices and environmental degradation to supply disruptions caused by geopolitical shocks and natural disasters. Responsible oversight is essential, and sustainable investors are positioned to demand higher standards.

Good governance might not grab headlines, but when it fails, the consequences can be catastrophic; think of the collapses of Enron and Wirecard. Strong governance, on the other hand, fosters ethical behaviour, improves risk management and aligns management incentives with shareholder value.

Cyberattacks pose one of the greatest threats to businesses, governments and individuals. From ransomware to data theft, digital breaches are now routine and costly, with some incidents, like that at M&S, leading to estimated losses of £300 million. Sustainable investment in cybersecurity addresses two fronts: supporting companies offering advanced protection tools and engaging with businesses to ensure robust governance around cybersecurity.

Sustainable investment is about solving problems while generating long-term value. From rebuilding our planet’s ecological stability to transforming global health, fixing broken supply chains and securing the digital economy, these interconnected themes are a reminder of why a sustainability lens is vital for responsible capital allocation.

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.

A collective redress mechanism by consumers in respect of infringements of applicable Irish or EU laws is available under the Representative Actions for the Protection of the Collective Interests of Consumers Act 2023 which transposes Directive (EU) 2020/1828 into Irish law. Further information on this collective redress mechanism is available from Representative Actions Act - DETE (enterprise.gov.ie)

Disclaimer

Non-UK individuals: This document is issued by Liontrust Europe S.A., a Luxembourg public limited company (société anonyme) incorporated on 14 October 2019 and authorised by and regulated as an investment firm in Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF") having its registered office at 18, Val Sainte Croix, L-1370 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under number B.238295.

UK individuals: 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.co.uk 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.