



Liontrust European Dynamic Fund

August 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund returned -1.0%* in sterling terms in August. The MSCI Europe ex-UK index comparator benchmark returned -2.1% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was -2.3%.

July's market bounce proved short-lived as the very challenging economic backdrop showed signs of deteriorating further. With energy prices ramping up significantly during the month, inflation concerns made a swift and sharp return to the foreground for investors and prompted another bout of risk-off behaviour.

The eurozone estimate of August consumer price inflation rose to 9.1%, ahead of both last month's reading and expectations, with the lagged effect of energy price rises still to feed through. Governments across the continent have moved to provide varying degrees of support to households and businesses facing the unprecedented rise in energy bills.

Under the expectation of renewed hawkishness in the pace of monetary tightening, futures markets priced in an additional 100 basis points of ECB rate hikes, with a 2023 peak moving from around 1.1% to over 2.2% during the month. The German 10 year bond yield nearly doubled over the month to 1.54%.

Overall, the Fund's allocation to the energy sector – **Aker** (+7.8%), **Equinor** (+6.8%), **Tethys Oil** (-5.7%) and **Totalenergies** (+5.1%) – provided some measure of insulation from the negative impact of the supply side shock currently facing economies.

German fertiliser manufacturer **K+S** (+14%) is another in the minority of companies which have experienced heightened demand as a result of this year's geopolitical turbulence. Prices for its products have soared in the wake of Russia's invasion of Ukraine, which significantly disrupted the market in potash and agricultural commodities.

Its Q2 results showed that revenues doubled year-on-year to €1.5bn. The company has previously warned that its financial guidance for 2022 as a whole excluded the negative impact of any potential gas shortages. However, this quarter its outlook includes the assumption of 25% reduction in natural gas availability at its German sites, incurring extra costs in the "low triple-digit" millions. Despite this modelled cost increase, K+S thinks it can still hit its prior 2022 EBITDA target range of €2.3bn to €2.3bn.

European gas prices rose more than 20% in August, taking their year-to-date surge to around 250% as Russia restricts supplies. As a result, most companies in Europe are facing dual headwinds of rampant input cost inflation and softening consumer confidence. Amid this environment, consumer-facing stocks such as Danish jewellery retailer **Pandora** (-14%) have performed poorly. So far, however, its underlying trading has proven relatively resilient. Although organic revenue growth slowed to 3% year-on-year in Q2, it still amounted to 11% in the first half of 2022, and the company has maintained its full-year guidance of a 4% to 6% growth.

Bank of Ireland's (+14%) interim operating income was marginally lower than expected, dropping slightly from last year's level to €1.39bn in the first six months of 2022. However, the bank's outlook for net interest income was more upbeat than had been anticipated. It now expects "modestly higher net interest income" for 2022, as the income line's gearing to higher interest feeds through.

Positive contributors to performance included:

Bank of Ireland (+14%), K+S (+14%) and Aker (+7.8%).

Negative contributors to performance included:

Pandora (-14%), ASML (-9.8%) and Bekaert (-8.5%).

Discrete years' performance (%), to previous quarter-end:**

Past performance does not predict future returns

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust European Dynamic I Inc	-5.9%	43.8%	2.2%	-1.7%	5.0%
MSCI Europe ex UK	-10.6%	21.8%	0.0%	7.3%	1.8%
IA Europe Excluding UK	-12.6%	23.7%	0.9%	3.3%	3.11%
Quartile	1	1	2	4	2

*Source: Financial Express, as at 31.08.22, total return (net of fees and income reinvested), bid-to-bid, institutional class. Non fund-related return data sourced from Bloomberg.

**Source: Financial Express, as at 30.06.22, total return (net of fees and income reinvested), bid-to-bid, primary class.

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

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