



Liontrust European Dynamic Fund

October 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund returned 6.8%* in sterling terms in October. The MSCI Europe ex-UK index comparator benchmark returned 4.3% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was 4.8%.

The chance to focus on Q3 earnings season provided a welcome break from a fairly bleak geopolitical and macroeconomic backdrop. Although the UK political scene saw huge upheaval, European events were more muted by recent standards, with the European Central Bank's latest policy decision gaining most attention. However, the decision to enact a second consecutive hike of 75 basis points was as expected and priced in by markets.

With company newsflow to the fore, the MSCI Europe ex-UK index was able to register a solid bounce from this year's losses. From a sector perspective, the market rally showed a cyclical tilt, with only consumer staples (-2.0%) in negative territory in sterling terms. Energy (+11%) was the biggest riser. After four consecutive down months, the oil price began edging back up towards \$100 a barrel again as Opec reduced its production target by 2 million barrels a day. Industrials (+8.3%), finance (+7.0%) and materials (+5.5%) also recorded large gains.

The batch of quarterly earnings releases had a mixed impact on the portfolio. Among the gainers, **Rexel** (+14%) upgraded 2022 financial guidance for the second time this year after sales growth accelerated in Q3 to 16% year-on-year on a same-day basis. This increase reflects a pass-through of rising production costs as well as 750 basis points of positive volume effect. The French distributor of electrical equipment says it is experiencing higher demand for electrification as a result of high energy prices. It has raised its full-year same-day sales growth guidance from 7% - 9% to around 12%, while its operating profit margin is expected to be 7.2% (compared with 6.7% previously).

French media agency **Publicis Groupe** (+14%) also rose after reported Q3 growth of 24%, including 10 percentage points of organic expansion as it experienced good growth across all regions. The company upgraded 2022 guidance, with organic growth of 8.5% expected compared with 6% - 7% previously. Operating margin is now expected to be at the top of its prior 17.5% - 18.0% range, while free cash flow is expected to be close to €1.6bn rather than the €1.5bn previously targeted.

On the other hand, metals mining group **Boliden** (-9.6%) lost ground. It has been benefitting from high prices this year, and its latest quarterly revenues rose 28% to Skr21.8bn while adjusted operating profit jumped 80% to Skr4.5bn. However, the results were slightly short of analyst expectations and the shares slid as a result.

Heineken (-7.9%) also slid despite reporting robust quarterly growth. Organic net revenue growth of 20% took revenue to €7.8bn as beer volume rose 8.9%. All regions contributed to the growth, but Asia Pacific in particular had a strong post-Covid recovery. However, investors took note of a downbeat outlook comment; the company said it is increasingly cautious on the macroeconomic outlook, which includes signs of softness in consumer demand.

As expected, **Roche** (-2.0%) pharmaceuticals division struggled for impetus as Covid-19 sales dropped away, with sales flat at last year's level. Overall, including a good performance from its diagnostics unit, sales in the first nine months of 2022 rose 2% at constant exchange rates to SFr47.0bn, below analyst expectations. Roche confirmed its full-year target of flat sales or low single-digit growth.

Away from earnings releases, **Dassault Aviation** (+26%) rallied strongly on hopes of progress in negotiations between it and Airbus regarding the Future Combat Air System. The cooperative development between France, Germany and Spain had reportedly been held up by tensions between the two over the scope of their roles in the programme.

Positive contributors to performance included:

Dassault Aviation (+26%), Rexel (+14%) and Publicis Groupe (+14%).

Negative contributors to performance included:

Boliden (-9.6%), Heineken (-7.9%) and Roche (-2.0%).

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

Past performance does not predict future returns

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust European Dynamic I Inc	-8.7%	42.8%	3.5%	-3.0%	6.8%
MSCI Europe ex UK	-12.8%	20.9%	-0.5%	5.8%	1.3%
IA Europe Excluding UK	-16.1%	22.4%	3.1%	2.2%	1.9%
Quartile	1	1	2	4	1

*Source: Financial Express, as at 31.10.22, 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 30.09.22, 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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