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## Liontrust GF European Smaller Companies Fund

### November 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

**The Fund's A3 share class returned 6.6%\* in euro terms in November. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned 6.3%.**

Although Fed Chair Jay Powell warned that US rates could peak at a higher level than previously expected, markets staged a strong recovery which was partially fuelled by expectations of a slower pace of tightening. While the US Federal Reserve raised rates by 75 basis points in November, minutes showed that future hikes may come in smaller increments and with greater gaps as the central bank observes whether its approach is having the desired impact on inflation.

Hopes of less aggressive monetary policy were spurred on by the release of a lower-than-expected consumer price inflation data for October; the year-on-year rate of 7.7% was below the 7.9% expected.

The Bank of England also raised rates by 75 basis points in November, while the European Central Bank hiked by the same amount at the end of October.

As equity markets recovered strongly, there was a moderate cyclical tilt to sector returns in Europe. Consumer discretionary (+14%) led the market rally, followed by IT (+10%), materials (+9.6%) and finance (+8.7%). All sectors were in positive territory in euro terms, but health care (+3.0%), communications services (+1.9%) registered the smallest gains.

Within a buoyant consumer space, the portfolio's biggest gainer was **Pandora** (+33%). It announced organic growth of 3% in Q3 which was ahead of analyst expectations, while gross margin rose 1.2 percentage points compared with the same period a year earlier. The jeweller has maintained its 2022 guidance of 4% - 6% organic growth and an operating profit margin of 25.0% to 25.5%. It also commented that trading so far in Q4 has been in line with the upper end of the guidance range.

**Bekaert** (+20%) grew revenues by 22% to €4.3bn in the first nine months of 2022 and expects to hit €5.7bn by year-end. However, some of this is zero-margin pass through of the cost inflation it is experiencing at the moment, meaning that profit margins will be diluted by around 150 basis points. Nevertheless the steel wire transformation and coating specialist is forecasting operating profit of between €450m and €460m, prompting some upgrades to analyst forecasts.

**Tethys Oil** (-11%) also updated on Q3 trading, with its operating profit more than doubling year-on-year to \$16.9m after its achieved oil price rose to \$107 a barrel. But some of its production sites underperformed expectations, leading it to slightly downgrade its full-year production target from 10,200 to 10,000 barrels per day.

**WH Smith** (+19%) reported a return to profit in the year to 31 August 2022, after sales rebounded 58% to £1.4bn. With travel patterns improving globally, the transport hub retailer has a positive outlook and has chosen to reinstate its dividend.

**4imprint** (+21%) upgraded its 2022 revenue target from \$1.0bn to \$1.1bn due to the strength of trading since its last update on 10 August, and it now expects profit before tax to be at least \$90m, towards the top end of

the range of analysts' estimates. Year-to-date order counts are up 32% year-on-year in the primary North American business, while average order values are up 6%.

Masonry product manufacturer **Forterra** (-8.0%) slid despite confirming its full-year results are on track to meet market expectations. It was more circumspect regarding the outlook for 2023, noting the recent instability in the mortgage market and the impact this may have on the housing market.

**Forbo Holding** (-7.7%) announced that its CEO would be leaving the company immediately due to disagreements with the Board of Directors over strategy. The manufacturer of floor coverings and construction adhesives also warned that profits for 2022 are now expected to be around SFr100m, well below analysts' forecasts.

**Positive contributors to performance included:**

Pandora (+33%), 4imprint (+21%) and Bekaert (+20%).

**Negative contributors to performance included:**

Tethys Oil (-11%), Forterra (-8.0%) and Forbo Holding (-7.7%).

**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 GF European Smaller Companies A3 Acc EUR	-20.7%	59.1%	-1.9%	-6.7%	2.0%
MSCI Europe Small Cap	-26.9%	38.0%	0.2%	-1.8%	3.4%

\*Source: Financial Express, as at 30.11.22, total return (net of fees and income reinvested).

\*\*Source: Financial Express, as at 30.09.22, total return (net of fees and income reinvested). Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (01.02.17). Investment decisions should not be based on short-term performance.

A Performance Fee for each Performance Period shall be equal to 10% of the amount, if any, by which the Net Asset Value before Performance Fee accrual of the Fund exceeds the Indexed Net Asset Value of the Fund on the last Business Day of the Performance Period. The Performance Period of the Fund is every 12 months ending on the last business day of each calendar year. Details of the Fund's performance fee in the last financial year can be found in the Key Investor Information Document (KIID) which can be obtained free of charge from the Liontrust website.

**Key Features of the Liontrust GF European Smaller Companies Fund**

Investment objective & policy <sup>1</sup>	The investment objective of the Fund is to achieve long term capital growth by investing primarily in European smaller companies. The Fund may invest in all economic sectors in all parts of the world, although it is intended it will invest primarily in equities and equity related derivatives (i.e. total return swaps, futures and embedded derivatives) in European companies (including the UK and Switzerland). The majority of the assets of the Fund (more than 85%) are expected to be invested in smaller companies (with a market capitalisation of less than 5 billion euros at the time of the initial investment). In normal conditions, the Fund will aim to hold a
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	diversified portfolio, although at times the Investment Adviser may decide to hold a more concentrated portfolio, and it is possible that a substantial portion of the Fund could be invested in cash or cash equivalents. The Fund may use FX forwards to hedge the Fund's currency exposures. The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRRRI) <sup>2</sup>	6
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to MSCI Europe Small -Cap Index net total return (the "Benchmark") by virtue of the fact that it seeks to outperform the Benchmark. However the Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.

Notes: 1. As specified in the KIID of the fund; 2. SRRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates.

#### Disclaimer

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