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Liontrust GF SF Pan-European Growth Fund: Q4 2022

Fund managers: Martyn Jones and Peter Michaelis

The Fund delivered a return of 10.0% over the period in euro terms, outperforming the MSCI Europe Index's - 9.6% (which is the comparator benchmark)*.

2022 has been the most challenging year since the inception of the Sustainable Future range of funds in 2001. We are continually challenging our conviction in our companies, and we are pleased with how our portfolio companies are navigating an extremely difficult period where supply chains have been disrupted and customer demand has been extremely difficult to forecast. So, despite the sharp decline in valuation multiples, we remain confident in the Fund's prospect over the next five years with sustainable growth drivers, high quality companies and attractive valuations.

A legitimate challenge to our approach would be to ask whether our sustainable investment themes have run their course. This would only be the case if we had solved every problem and satisfied every need; we are a long way from that! There is still plenty of growing to do for sustainable companies.

We are now operating in a very different environment to the past decade, with higher interest rates in place to try and contain runaway inflation. This abrupt change in macroeconomic backdrop has sent markets into a tailspin, with all asset classes falling to a greater or lesser extent in response to a higher cost of capital. Our job in these turbulent times is to focus resolutely on the long term and on our investment process which has delivered strong performance until the past year.

We also want to take the opportunity in these periods of extreme market dislocation to add to our holdings with the most conviction and highest risk-adjusted upside, as well as take the opportunity to buy businesses we have long admired but were not previously attractively valued.

Looking at the top performers over Q4, IT services management company Nagarro led the way after revising up their revenue and profit guidance for a fourth time. The company expects to grow revenues around 40% organically and constant currency.

Held under our *Improving industrial processes* theme, Nagarro's programmers help companies in all sectors modernise and digitise their operations – improving efficiency, customer experience, resilience and digital security. This helps their client to sales and profit growth. Nagarro's specialist IT engineers can focus on complex software programming, allowing its customers to focus on their core competencies, reduce fixed costs and be more competitive

Announcing strong Q3 results was Swedish investment platform Avanza Bank, which is held under our *Saving for the future* theme. Avanza is an investment platform helping people save for their retirement in a cost-effective manner. The company is particularly proactive on sustainable investment, which it offers as default options that users can opt out of. Despite a fall in the value of assets on the platform, and thus a fall in its platform fees, the company is now benefitting from higher interest rates which it earns on uninvested cash.

German chipmaker Infineon Technologies was another riser, performing strongly after the announcement of its full-year earnings, most notably raising its expected average rate of revenue growth to above 10% from c.9%. It

stated that growth will in particular be driven by electromobility, autonomous driving, renewable energies, data centres and IoT, with growth also being accompanied by a significant improvement in profitability.

The company, which produces efficient power management chips and is exposed to our theme of *Improving the efficiency of energy use*, also provided a positive outlook, stating that decarbonisation and digitalisation are causing structurally increasing demand for semiconductors.

Private equity company 3i Group performed strongly after announcing a total return of £1.77bn in its first half earnings release, or 14% on opening shareholders' funds. The company noted that its position in discount retailer Action was a significant contributor to performance, with 3i also seeing strong earnings growth and momentum in a number of its portfolio companies in the consumer, healthcare, specialty industrial and business and technology service sectors.

Exposed to our *Increasing financial resilience* theme, 3i predominantly invests in retail, infrastructure, healthcare, technology and industrial and it has strong responsible investment policies and firm exclusions on no-go areas. The company has a model based on investing and supporting businesses for growth. This helps to develop the infrastructure and technologies we need in a sustainable transition.

Danish wind turbine manufacturer, Vestas Wind Systems, a recent addition to the portfolio, was also among the top performers despite cutting its 2022 forecast in Q3 results, as upbeat pricing comments overshadowed profit margin pressures. Exposed to our *Increasing electricity from renewable sources* theme, the Danish wind turbine manufacturer highlighted that while the energy crisis incentivises a faster transition to an energy system built on renewables, project development remains impeded by uncertainties in the energy market and red tape.

Among the detractors over the quarter was Basic-Fit, Europe's largest gym group which targets the low-cost end of the market at around €20 per month fee, and is exposed to our theme of *Enabling healthier lifestyles*. Despite a good recovery in their gym membership, the company is grappling with increased costs and concerns regarding the number of gyms they can open next year with a weak consumer environment. On a longer term basis, we believe the company is well placed to grow the market with a low cost and high return business model.

Bus operator National Express also softened on the potential for bus and rail strikes to disrupt services and raise costs. The company is already grappling with rising costs in its US operations due to a driver shortages. Exposed to our theme of *Making transport more efficient or safer*, National Express operates 27,000 buses and coaches in UK, Spain and Morocco; school buses in North America; and rail services in Germany. These mass transport solutions are far more efficient than individual cars, leading to lower emissions, less congestion and improved safety. However, given the weakening fundamentals our position is under review.

Shares in Swiss healthcare giant Roche fell mid-quarter as the company's much awaited drug for Alzheimer's disease failed in a pair of large studies, with the experimental drug, *gantenerumab*, not slowing the clinical decline in people with Alzheimer's. Despite this disappointing news, Roche continues to create truly innovative therapies that help change the course of disease. In the short to medium term, this benefits western economies who pay for it while on patent, then in the medium to long term, it benefits more developing economies as patents roll off or are not enforced.

In terms of portfolio activity, long-term holding Kone was sold for portfolio construction reasons. We still admire Kone, its business model and its long-term prospects – despite the nearer term slowdown in their China business. However, our view is that the risk-reward is more attractive in business services company Intertek Plc. So we sold our position in Kone in order to build a larger position in Intertek.

Key Features of the Liontrust GF SF Pan-European Growth Fund

INVESTMENT OBJECTIVE & POLICY¹:	<p>The Fund aims to achieve capital growth over the long term (five years or more) through investment in sustainable securities, mainly consisting of European equities.</p> <p>The Fund is biased towards companies that provide or produce more sustainable products and services as well as having a more progressive approach to the management of environmental, social and governance issues.</p> <p>The Fund will seek to achieve its objective through exposure mainly to equities of companies incorporated in any European Economic Area Member State, the UK and Switzerland, although it can invest globally. In normal conditions the Fund invests at least 75% of its Net Asset Value in European equities.</p> <p>In addition, the Fund may invest in debt securities for liquidity and cash management purposes. Any investment in bonds will be in corporate and government fixed or floating rate instruments which may be rated or unrated up to 25% of the net assets of the Fund. The Fund may also invest in exchange traded funds and other open-ended collective investment schemes.</p> <p>The Fund is not expected to have any exposure to derivatives (contracts whose value is linked to the expected future price movements of an underlying asset) in normal circumstances but may on occasion use them for investment, efficient portfolio management and for hedging purposes. The use of derivatives should not lead to a significant change in the risk profile of the Fund.</p>
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRRI²:	6
ACTIVE / PASSIVE INVESTMENT STYLE:	Active
BENCHMARK:	The Fund is considered to be actively managed in reference to the MSCI Europe Index (the "Benchmark") by virtue of the fact that it uses the benchmark(s) for performance comparison purposes. The benchmark(s) are 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.
SUSTAINABILITY PROFILE	The Fund is a financial product subject to Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

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

**Discrete years' performance*, to previous quarter-end:
Past performance does not predict future returns**

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust GF SF Pan-European Growth Fund A1 Acc	-29.0%	20.4%	13.5%	32.4%	-17.0%
MSCI Europe	-9.5%	25.1%	-3.3%	26.0%	-10.6%

	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Liontrust GF SF Pan-European Growth Fund A1 Acc	13.6%	-4.5%	17.0%	4.9%	25.8%
MSCI Europe	10.2%	2.6%	8.2%	6.8%	19.8%

*Source: FE Analytics, as at 31.12.22, primary share class, in euro terms, total return, net of fees and income reinvested.

Key Risks and disclaimer

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