



Liontrust European Dynamic Fund

March 2023 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund returned -2.6%* in sterling terms in March. The MSCI Europe ex-UK index comparator benchmark returned 1.1% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was -0.1%.

Although European markets were able to post a positive return overall in sterling terms, there was a particularly large divergence in fortunes between sectors. While areas such as IT (+6.8%), consumer staples (+6.1%) and healthcare (+5.6%) fared well, there were large losses for real estate (-17%), finance (-8.2%) and energy (-5.5%).

The catalyst for financial sector losses was the collapse of Silicon Valley Bank in the US, an event which sparked some contagion as investors worried over the impact of deposit flight for banks sitting on unrealised bond portfolio losses following two years of rising yields. Credit Suisse was the highest profile casualty in Europe, forced to be subsumed by UBS as its value tumbled, but heavy losses were experienced across the sector.

The European Central Bank, Bank of England and US Federal Reserve all pushed ahead with expected interest rate hikes. After a 25 basis point increase, investors were betting the Fed's new range of 4.75% - 5.0% would mark the top of the current rate cycle – a significant reduction from the start of the month when strong economic data had helped push expectations of peak rates to above 5.5%.

Around half the Fund's underperformance stems from the financials sector, where its overweight exposure – particularly to banks – presented a large headwind. **Société Générale** (-24%), **BNP Paribas** (-16%), **Caixabank** (-11%) and **Bank of Ireland** (-10%) all suffered double-digit percentage falls.

These stocks are all held in the portfolio due their strong scoring against our Cashflow Solution investment process. At inclusion, they qualified for our Cashflow Champions watchlist of the top 20% of stocks rated by our core cashflow measures, and were then selected due to strong secondary scores – particularly Momentum (businesses with high margins indicative of economic moat and self-funded growth) and Cash Return (stable companies with robust balance sheets, returning cash to shareholders), but also Recovering Value (management focused on reining in capital expenditure and imposing working capital control, eager to return cash to shareholders).

Should any of these companies' cashflow characteristics deteriorate, we will reassess our investments. This may be as a result of our forensic review of their annual report and accounts or due to ad-hoc investor updates. Until then, we are comfortable holding these stocks as part of a balanced and diversified portfolio.

The Fund does not hold Credit Suisse, which scored poorly against our Cashflow Solution criteria.

Given the equal-weighted construction of the portfolio – which tends to result in an underweight to large-caps relative to the index – the market's size return profile was also a significant headwind to performance. The MSCI Europe ex-UK Large Cap index returned 1.8% compared with the MSCI Europe ex-UK Small Cap's -3.2%.

In terms of the Fund's positive contributors for the month, the largest was **Dassault Aviation's** (+13%). Its 2022 results beat consensus analyst expectations, driven by its Defense unit. The French company also operates a Falcon division specialising in business jets. Although adjusted net sales slid to €6.9bn from €7.2bn in 2021, order

intake was very high at €20.9bn and includes 92 Rafale fighter jets. The group's order backlog stands at an all-time high of €35bn.

As primarily a retailer of consumer staples, **Jeronimo Martins** (+12%) also benefitted from its defensive characteristics during a turbulent month. The Portuguese owner of supermarkets, cash-and-carry and beauty stores in Poland, Colombia and its domestic market released 2022 results showing 22% sales growth to €25bn. Cost inflation eroded its profit margins by 30 basis points, but it still recorded good EBITDA (earnings before interest, tax, depreciation and amortisation) growth of 17% to €1.9bn. The shares also benefited from a bullish sell-side broker upgrade to an outperform rating with price target upside of nearly 20%.

Novo Nordisk (+9.9%) was another relative safe haven for equity investors in March. Shares in the Danish pharmaceutical group have shown a lot of relative strength over the last year. Last month, the UK's National Institute for Health and Care Excellence recommended Novo Nordisk's *Wegovy* drug as a weight loss treatment.

Positive contributors to performance included:

Dassault Aviation (+13%), Jeronimo Martins (+12%) and Novo Nordisk (+9.9%).

Negative contributors to performance included:

Société Générale (-24%), BNP Paribas (-16%) and Caixabank (-11%).

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

Past performance does not predict future returns

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust European Dynamic I Inc	8.2%	15.9%	54.9%	-8.3%	-0.1%
MSCI Europe ex UK	8.6%	5.5%	33.5%	-8.3%	2.2%
IA Europe Excluding UK	6.5%	4.2%	39.6%	-9.4%	-1.2%
Quartile	2	1	1	2	3

*Source: Financial Express, as at 31.03.23, 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 31.03.23, 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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