Liontrust SF European Growth Fund: Q2 2023 review

Fund managers: Martyn Jones and Peter Michaelis

The Fund returned -1.2% over the quarter, versus the 0.1% return from the MSCI Europe ex-UK Index and the -0.2% IA Europe ex-UK sector average (both of which are comparator benchmarks)*.

Across the portfolio, we continue to see strong progress in the underlying fundamentals of our companies. Businesses rarely improve in a linear fashion, and it requires a long-term perspective to separate short-term noise from fundamental changes. Despite the ongoing disruption caused by Covid-19 on demand and supply chains and interest rate shocks, we continue to focus resolutely on long-term progress and the companies that will help deliver positive change. Currently, market prices are not reflecting the growth and strong competitive positioning of our business, but we are excited about the long-term prospects of the Fund given this misappreciation.

We continue to manage our portfolios in alignment with these themes, which themselves sit within three broader categories of *Better resource efficiency, Improved health and Greater safety and resilience*.

Within *Better resource efficiency*, the growth of renewables is accelerating for a market that's estimated to be worth half a trillion dollars, while the advent of the war in Ukraine has shown how security of supply is another essential attribute of renewable energy.

Under *Improved health*, there has been dramatic innovation in the development of diagnostic tools to aid early diagnosis, cancer and other diseases through the advances that we've seen in gene sequencing. Finally, within *Greater safety and resilience*, with water quality making the headlines, our theme around better monitoring of supply chains and quality control is focused on companies which provide equipment and services that undertake the essential analysis of our water, air and food.

All these areas are important to solving key sustainability challenges and should also deliver growth that is relatively independent of overall economic growth. While 2022 was a tumultuous year for almost every asset class, we believe that the foundations for our key themes – *Better resource efficiency*; *Improved health*; and *Greater safety and resilience* – are stronger than ever.

In terms of performance drivers, our top contributor over the quarter was American-Swiss medical device company **Alcon** which is held under our *Enabling healthier lifestyles* theme. Alcon announced a 7% increase in sales to $2.3 billion for the first quarter of 2023and also slightly raised its full-year outlook for net sales. It now expects year-on-year growth of between 7% - 9%, compared to its previous forecast of between 6% - 8%.

Having struggled in 2022, we have been pleased with **Spotify's** performance year-to-date, with the company continuing to strengthen in the second quarter. We have felt the market has somewhat misunderstood the company, namely around the key metrics that we believe are important for Spotify – specifically, user and subscriber growth. Spotify has been growing these metrics strongly, reporting monthly active user net additions of 26 million in Q1, which was 15 million ahead of guidance. In addition, the company reported that premium subscribers grew 15% year-on-year to 210 million, again above previous guidance. Looking forward, Spotify reported that it sees premium subscribers increasing to 217 million in the second quarter of this year, with monthly active users expected to grow by 15 million to 530 million.

Spotify fits perfectly into our *Encouraging sustainable leisure* theme as we believe music has been an important component of leisure time and culture for millennia. Listening to music is a fundamentally positive pastime and is key to the human experience; it brings people together and can also be enjoyed alone.

Blood plasma manufacturer **Grifols** performed strongly following the release of robust Q1 financial results. In its update, the company announced a 23% growth in total revenue to €1.6 billion, driven by strong biopharma performance, while also reporting an adjusted EBITDA margin that was ahead of guidance.

Held under our *Providing affordable healthcare theme,* Grifols' large infrastructure allows it to secure a steady supply of the raw plasma required to derive end products for patients. The company establishes long-term relationships with healthcare providers by becoming trusted to ensure a high quality, safe and regular supply of these lifesaving, and often chronically required medicines.

IT consultant **Nagarro**, which is held under our *Improving the resource efficiency of industrial and agricultural processes* theme, fell sharply after cutting its estimate for 2023 revenue, not including acquisitions made in 2023, from €1,020 million to around €940 million. Nagarro has seen a sharp slowdown in demand particularly among its clients in the financial sector following the fallout from the collapse of SVB and Credit Suisse earlier in the year.

Shares in bioprocessing equipment and consumables manufacturer **Sartorius Stedim** fell after lowering its full-year sales guidance, citing longer-than-expected inventory reduction among biopharma customers following the Covid-19 pandemic. Held under our *Enabling innovation in healthcare* theme, Sartorius Stedim provides all the equipment and consumables used in biologic drug development and manufacturing. Currently around one third of drugs are considered "biologic" including gene and cell therapies, but these therapies are set to dominate the market over the next decade with more effective and targeted treatments. Whilst we are disappointed in the short-term performance, we remain confident in the long-term prospects.

Swedish investment platform **Avanza** slid on the announcement of Q1 2023 results, with profits missing expectations. The bank, which is exposed to our *Saving for the future* theme and particularly proactive on sustainable investment and promoting the inclusion of women on its platform, reported that operating income increased by 13% to SEK 868 million. However, net brokerage income decreased over the first quarter due to lower trading activity. We don't feel these factors show a deterioration of their competitive positioning or the long-term tailwinds to the business.

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Sustainable Future European Growth 2 Acc	4.0%	-24.5%	23.3%	14.0%	2.6%
MSCI Europe ex UK	19.0%	-10.6%	21.8%	0.0%	7.3%
IA Europe Excluding UK	18.4%	-12.6%	23.7%	0.9%	3.3%
Quartile	4	4	2	1	3

***** Source: FE Analytics, as at 30.06.23, total return, net of fees and income reinvested
****** Source: FE Analytics, as at 30.06.23, primary share class, total return, net of fees and income reinvested

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

liontrust.co.uk/benefits-of-investing/guide-financial-words-terms