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## Liontrust GF European Smaller Companies Fund

### September 2023 review

Fund managers: James Inglis-Jones and Samantha Gleave

**The Fund's A3 share class returned -1.9%\* in euro terms in September. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned -2.8%.**

The European Central Bank continued along its rate hiking path raising the deposit rate by 25 basis points to an all-time high of to 4%, marking 10 consecutive rate hikes. Both the Bank of England and US Federal Reserve chose to pause their rate-hike cycles during September, but forecasts from the Fed's rate-setting committee led investors to expect fewer rate cuts from current levels over the next two years.

In terms of sector returns, energy (+7.3%) was a significant riser over the month, benefitting from higher oil prices after production was cut in Saudi Arabia and Russia. Communication services (1.2%) and financials (+1.2%) also posted a gain in euro terms. The weakest sectors in European markets were information technology (-5.9%), consumer discretionary (-5.7%), utilities (-4.1%), and consumer staples (-3.6%).

Looking at the portfolio's largest stock-specific performance contributors and detractors over the month, few released significant updates to investors which would explain their share price moves. From a sector perspective, one notable trend was financial sector strength showing through in the portfolio in the form of gains for **Bankinter** (+4.4%), **BPER Banca** (+3.9%) and **Bank of Ireland** (+1.0%). Again, none of these stocks updated the market during September.

On the downside, tech sector weakness was also apparent in the share price falls of **ATOSS Software** (-12.7%), the workforce management software specialists, **Paradox Interactive** (-15%), a video game developer, and **Playtech** (-15%), the gambling software developer. Over the last couple of years the sector has proven very sensitive to changes to interest rate expectations as some of its high growth, high share price valuation constituents react to changing rates at which investors discount potential future growth. Rising medium-term rate expectations therefore presented a headwind to the sector in September.

Playtech slid despite releasing interim results which were in-line with expectations. The shares may have been held back by rumours that it was setting up a bid for the owner of PlanetWin365, an Italian company valued at around £500m. Later in the month Playtech confirmed its interest, as well as noting there were other potential suitors for the company, thought to include Flutter Entertainment.

We continue to be constructive on the outlook for European equity markets. The MSCI Europe remains in a clear uptrend and valuations are reasonable. Furthermore, our measure of corporate aggression has fallen significantly, which is usually a positive sign for markets.

From a style point of view we continue to expect that both value and momentum investment styles should perform well. Until its renaissance post Covid, value styles had endured a dreadful decade and currently the spread between the valuations of growth and value stocks – though less extreme than existed in mid 2020 – is still wide. Furthermore our measure of investor anxiety – a good barometer of the potential for value to perform – is not yet at the low levels that would cause us to be more cautious on value. High investor anxiety usually goes hand in hand with strong value performance. With regard to the momentum factor, our proprietary indicator of momentum efficacy is currently very constructive, suggesting a minimal likelihood of a momentum crash in Europe.

**Positive contributors to performance included:**

Fortnox (+6.0%), Bankinter (+4.4%) and BPER Banca (+3.9%).

**Negative contributors to performance included:**

Verallia (-16%), Paradox Interactive (-15%) and Playtech (-15%).

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

*Past performance does not predict future returns*

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust GF European Smaller Companies A3 Acc EUR	14.2%	-20.7%	59.1%	-1.9%	-6.7%
MSCI Europe Small Cap	14.0%	-26.9%	38.0%	0.2%	-1.8%

	Sep-18
Liontrust GF European Smaller Companies A3 Acc EUR	2.0%
MSCI Europe Small Cap	3.4%

\*Source: Financial Express, as at 30.09.23, total return (net of fees and income reinvested).

\*\*Source: Financial Express, as at 30.09.23, 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 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 (SRI) <sup>2</sup>	5
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 PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID 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>.

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### **Key Risks**

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments

- Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- The Fund may, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- The Fund uses derivative instruments that may result in higher cash levels. Outside of normal conditions, the Fund may choose to hold higher levels of cash. Cash may be deposited with several credit counterparties (e.g. international banks) or in short dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- There is no guarantee that a positive absolute return will be generated over any time period.

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.

### **Disclaimer**

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