LIONTRUST

THE SUSTAINABLE FUTURE PROCESS

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Liontrust GF SF US Growth Fund: Q3 2023 review

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Since launch to 30.09.23, the Liontrust GF Sustainable Future US Growth Fund has returned -3.3% in US dollar terms compared to the MSCI US Index which has returned -2.1% and IA North America (both comparator benchmarks) which has returned -2.7% over the same period.*

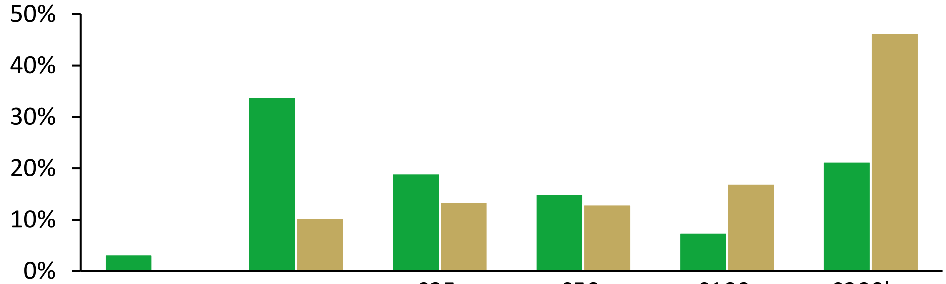
As a reminder, the Fund aims to grow capital over the long term (five years or more) with the MSCI USA Index as its benchmark. This goal in essence requires us to invest differently to the index. So we expect the Fund to behave differently to the index in both volatility and return profile. The Fund is concentrated, with 43 positions and the top ten representing over 36% of NAV. As such, the Fund may be volatile, so understanding our process will hopefully make this volatility easier to stomach.

As expected, the Liontrust GF Sustainable Future US Growth Fund has some holdings overlap with the Liontrust GF Sustainable Future Global Growth Fund. Of the 43 companies held in the US Growth Fund, 12 are not held in the Global Growth Fund. Our goal is to be as transparent as possible with our clients as to where their capital is invested, as well as the investment thesis behind such investments. The market capitalisation of these companies ranges dramatically, from $1bn to $2trn and the range of idea generation stemming from different themes is broad. We thought it would be useful to provide a list of these companies:

Company	Market cap	Sector	Theme	Matrix rating
Edwards Lifesciences	$46bn	Healthcare	Enabling innovation in healthcare	A2
Globant	$8bn	Information Technology	Improving the resource efficiency of industrial and agricultural processes	B1
Trupanion	$1bn	Financials	Insuring a sustainable economy	B1
Markel	$20bn	Financials	Insuring a sustainable economy	B3
Mastercard	$370bn	Financials	Enhancing digital security	B1
Microsoft	$2.4trn	Information Technology	Improving the resource efficiency of industrial and agricultural processes	B1
Otis	$34bn	Industrials	Building better cities	B3
Topbuild	$9bn	Industrials	Building better cities	B2
Trane	$45bn	Industrials	Increasing the efficiency of energy use	B1
Transmedics	$2bn	Healthcare	Enabling innovation in healthcare	A3
Waters	$16bn	Healthcare	Enabling innovation in healthcare	A2
Winmark	$1bn	Consumer Discretionary	Delivering a circular materials economy	A4

As you can see in the chart below, the Fund (in green) has just shy of 40% invested in companies with a market capitalisation below £25bn, compared to 10% for the benchmark (in gold). These businesses are often under-researched and, in our view, less well understood. We are particularly excited about the potential returns of these smaller and medium-sized businesses, which appear to be so out-of-favour at present.

Market cap split by weight in Fund

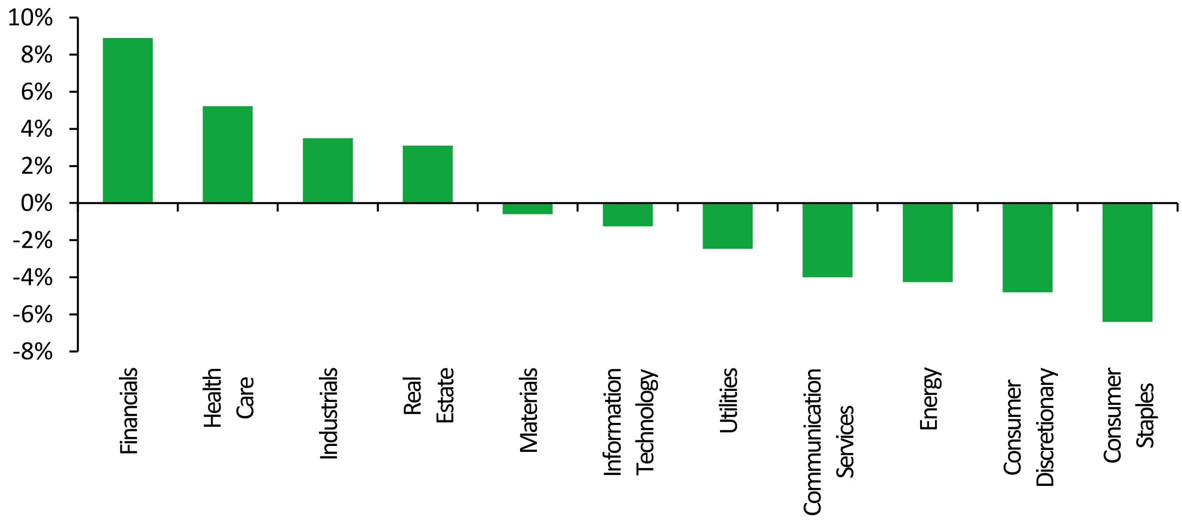


	<£5bn	£5-25bn	£25-50bn	£50-100bn	£100-200bn	£200bn +
GF SF US Growth Fund	3%	34%	19%	15%	7%	21%
MSCI US Index	0%	10%	13%	13%	17%	46%

Source: Liontrust, Factset, Bloomberg, as at 31.07.23.

With regards to sector exposure, we believe sector definitions are becoming increasingly unhelpful, but we understand that it is still required information for many investors. As an example, how should we think about a company like Visa? Is it a technology company or is it a financial? In terms of portfolio construction, we treat it more like a consumer staples business, which, as you can see from the below, in theory we have none of. However, when you think of the classic attributes of a consumer staple company, we think it fits rather well. Firstly, it has a recognisable brand that consumers know and trust. Secondly, the product is ‘bought’ on a very regular basis. Interestingly, we are not alone in struggling to define which company sits in which sector. MSCI has just updated its Global Industry Classifications Standards (GICS) specifications of which stocks sit in which sectors, and in the recent reshuffle Visa was indeed moved from information technology into financials. The same is true for PayPal and Mastercard, hence our apparent overweight to the sector below. It is worth noting that we currently have no banks in the portfolio.

Relative weightings by sector



Source: Liontrust, Factset, Bloomberg, as at 31.07.23.

Since the Fund was launched, the top three positive contributors were Morningstar, Alphabet and Intuit and the largest detractors were Masimo, American Tower and Illumina.

Alphabet reported second quarter revenue that exceeded analysts' expectations, boosted by the company's leadership position in AI, the continued performance of its Search division, which was aided by an increase in advertising, as well as strength in its Cloud division and strong revenue growth in its YouTube segment.

Exposed to our *Providing education* theme, Alphabet's largest business is the core Google search business. By indexing the world's information and providing it online for free to the majority of users, we believe Google provides clear benefits to society.

Morningstar performed strongly following the release of Q2 results. The investment research company reported year-over-year revenue growth of over 7%, commenting that there was solid growth in its license-based product areas during what is clearly a difficult time for the sector.

Held under our *Saving for the future* theme, Morningstar provides both quantitative and qualitative research to the investment industry, with databases and analytical tools covering private markets, ESG, credit ratings, equity valuation, and more. On the client side, it provides software and investment management services to financial advisors and institutions.

The business is constantly trying to create new products or services that leverage existing expertise and thus create scale. For example, the investment management and model portfolio services it provides leverages the extensive equity, credit, ESG, and even private market research that it already has underneath its roof.

Accounting software provider **Intuit** was another notable performer after unveiling a solid set of Q4 results, showing 12% revenue growth to $2.7 billion, driven by a 21% expansion in its Small Business and Self-Employed division (to $2.1 billion). Its 2024 guidance forecasts a similar revenue growth rate of 11% to 12%, again fuelled by the Small Business and Self-Employed unit.

Held under our *Increasing financial resilience* theme, Intuit provides accounting software to individuals, small businesses and the self-employed, helping them manage their money, reduce their debt and file taxes. Financial resilience is crucial to a stable economy. You only have to go back to September 2008 to see the impact that weak financial institutions, inadequate regulation and supervision, and a lack of transparency had on the global economy. Small and medium sized enterprises (SMEs) drive sustainable economic growth through innovation and creating jobs. We believe companies like Intuit that empower SMEs and individuals to operate more effectively are contributing to a more resilient financial system.

Turning to the detractors, shares in **Masimo**, the maker of pulse oximeters and other patient monitoring equipment, fell sharply after announcing preliminary second quarter results that were below market expectations following weaker performance in its healthcare segment, driven by delays in large orders from hospitals.

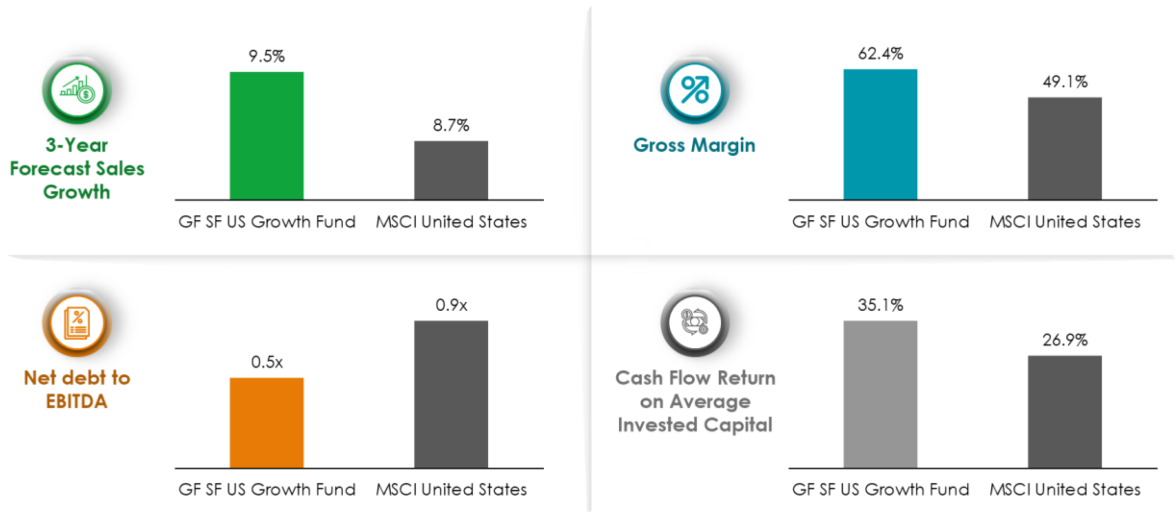
Exposed to our *Providing affordable healthcare* theme, Masimo core product is pulse oximetry sensors. These enable patient's vital signs to be monitored. These in turn are connected to either a fixed or remote monitoring machine or device to communicate and display those signs to medical professionals.

Illumina was also a detractor. The company continues its slide after a tough few months, following pressure from activist investor Carl Icahn the CEO Francis DeSouza stepped down. Held under our *Enabling innovation in* *healthcare* theme, Illumina provides technologies that enable our understanding of the genome. This has great implications for our understanding and treatment of disease, as well as much wider applications such as agriculture.

Significantly exposed to our *Connecting people* theme through its network infrastructure, **American Tower** (AMT) will benefit from continued growth in communications: 5G, small cells and IoT will increase demand for telecoms infrastructure, and network densification is key. AMT's infrastructure assets enable telecom operators to offer telecommunication services, connecting people and facilitating the digital economy. The company also enables telecom network operators to make their networks denser to offer greater capacity needed from increased demand for mobile data services. There was nothing stock-specific causing the weak performance in the shares, rather the company is often viewed as a 'bond-proxy' and tends to be sensitive to movements in interest rates.

Returning briefly to portfolio characteristics and investment outlook, we have used the weighted average of the companies in the Fund to highlight some key metrics as if it were a single company, and we have done the same for the MSCI USA Index for comparison.

As illustrated below, we believe the portfolio on average has higher growth, higher margins, strong balance sheets and strong returns on capital.



Source: Liontrust, Factset, 31.07.23, methodology: weighted average, exclusions: banks and real estate. Liontrust GF SF US Growth Fund versus comparator benchmark MSCI US. EPS – Earnings Per Share; EBITDA – Earnings Before Interest, Taxes, Depreciation, and Amortization

Let's take each of these in turn, starting with revenue growth. We look for businesses that are providing solutions to sustainability challenges. This tends to result in structural growth above that of the broader growth in the market. Our concentrated portfolio approach, combined with a time horizon of five years, means that we can be highly selective as to the quality of the businesses the Fund will own.

Moving on to gross margins, this is often a good proxy for pricing power. Particularly when inflation is proving to be stickier than was previously thought, businesses with higher gross margins should be better placed to weather this storm.

With interest rates being elevated, potentially for some time, we believe it is important to be invested in companies with strong balance sheets and low levels of net debt. Over time, debt must be refinanced at higher rates and this could constrain the cash flows of businesses, potentially holding them back from investing precisely at the point when they should be. We think the balance sheets of the businesses the Fund holds are in great shape. If there is a recession, we would expect the companies we invest in to utilise these strong balance sheets to emerge in a stronger competitive position.

Finally, and arguably most important, is the cash flow return on average invested capital. This is a backward-looking figure and, in truth, anyone can screen for companies with high historical returns. What really matters is the returns businesses achieve with capital that they reinvest now and in future years and this is where we as a team focus a lot of our research. We intend to have long holding periods, allowing the Fund to benefit from owning businesses which can compound their earnings.

Key Features of the Liontrust GF SF Global Growth Fund

INVESTMENT OBJECTIVE & POLICY[1]:	The Fund aims to achieve capital growth over the long term (five years or more) through investment in sustainable securities, predominantly consisting of global equities. Typically at least 90% of the Fund will be invested in the shares of global companies, with up to 10% in bonds and cash. The Fund will only invest in companies that meet defined ethical considerations and will benefit from improvements in environmental standards and a shift towards a more sustainable economic system. While the Fund will invest predominantly in companies from developed markets it may also invest up to 20% in emerging market securities. 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 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 including gaining exposure to financial indices.
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRI[2]:	6
ACTIVE / PASSIVE INVESTMENT STYLE:	Active
BENCHMARK:	The Fund is considered to be actively managed in reference to MSCI World (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. Some of the Fund's securities may be components of and may have similar weightings to the Benchmark. However the Benchmark is not used to define the portfolio composition of the Fund or as a performance target 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: [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.

***Source**: FE Analytics, as at 30.09.23, primary share class (B5) in dollars, total return, net of fees and income reinvested. 10 years of discrete data is not available due to the launch date of the fund.

For a comprehensive list of common financial words and terms, see our glossary at:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

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.

- All investments will be expected to conform to our social and environmental criteria.
- 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 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.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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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This is a marketing communication. Before making an investment, you should read the relevant Prospectus and the Key Investor Information Document (KIID) and/or PRIIP/KID, which provide full product details including investment charges and risks. These documents can be obtained, free of charge, from www.liontrust.co.uk or direct from Liontrust. If you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.