LIONTRUST

THE SUSTAINABLE FUTURE PROCESS

Liontrust SF European Growth Fund: Q3 2023 review

Fund managers: Martyn Jones and Peter Michaelis

The Fund returned -6.7% over the quarter, underperforming the -2.0% return from the MSCI Europe ex-UK Index and the -2.2% IA Europe ex-UK sector average (both of which are comparator benchmarks)*.

The Fund's performance versus the index and sector was negatively affected by the market reaction to the 'higher for longer' interest rates message from the US Federal Reserve which impacts the cost of capital across the world. The resulting rise in rate expectations, and therefore discount rates, has impacted all asset classes, but particularly the growth and quality companies that we believe are tackling the world's most challenging problems. The higher cost of capital also disproportionately impacted small and mid-caps – where the Fund is overweight – which are often viewed as higher risk compared to large-caps which have continued a historic run of outperformance

Over the quarter, the European Central Bank raised interest rates twice while the US Federal Reserve raised once before opting to hold rates steady at it second meeting, marking the second pause this year. However, the investors have concluded from the Fed's accompanying comments that we are going to be living with higher rates for longer. Despite the potential economic damage from maintaining rates at these levels, the Fed is signalling they feel tackling inflation is their main task.

Another key theme this year negatively impacting some of our healthcare and consumer companies is destocking. Covid-19 supply chain disruptions induced many companies to over order and build up very large inventories to ensure they wouldn't run out of inputs. As Covid has diminished and supply chains have normalised, companies are now running down these inventories back to normal levels, while also facing a lower demand from an impending recession.

This is painful normalisation process but it's not going to last forever and is providing the chance to add to some fantastic companies at very attractive valuations.

Longer term, we believe the small-mid cap underperformance will mean revert and destocking within healthcare and consumer companies will normalise. Our themes focusing on a cleaner, healthier and safer economy remain undiminished and our companies are trading historically cheaply for their growth and quality.

In terms of positive stock-specifics, independent digital review platform **Trustpilot** rose sharply after beating earnings expectations following a strong first half of the year. The company, which is exposed to our *Connecting people* theme, upgraded earnings guidance to beyond the top of the range of market expectations after a 16% rise in bookings to $99 million.

Trustpilot plays an important role in improving trust in e-commerce in the digital economy, helping to address the asymmetry of information between consumers and businesses. With bricks and mortar retailers you can go into a shop and leave feedback – this interaction is more difficult to have in a digital economy; a free, fair and independent reviewing system helps to improve trust in the digital economy.

Kingspan Group performed strongly over the quarter consolidating on a sharp rally in July with further gains in August. In its July trading update, the high performance insulation and building envelope specialist commented that trading profit in the first half of 2023 would be around €435 million, up from prior guidance of just over

€400 million. In August it issued a full set of half-year results, confirming the trading result and commenting on an improving order intake trend.

Held under our *Improving the efficiency of energy use* theme, Kingspan's products dramatically improve the energy efficiency of buildings. We believe Kingspan is well positioned to have a significant impact in reducing global energy use from buildings, which is essential if we are to prevent global warming exceeding the 1.5C threshold that the IPCC (Intergovernmental Panel on Climate Change) warns is critical.

Signs of slowing growth in **Adyen's** interim results led to a sharp de-rating of the shares. Net revenues of €739 million, while up 23% year-on-year, fell =short of consensus expectations of €777 million. Adyen's management commented that the moderation in growth had come about as a result of high inflation and interest rates and the knock-on impact this had on US digital clients Switching their payment volumes to lower cost, lower value-add providers.

The shares were trading on a premium valuation prior to the results, leaving them vulnerable to any setbacks in its growth trajectory – hence our below average position weight. However, we still think it will rapidly expand its market share within a structurally growing market, and we admire the constant innovation into useful, high value-add, adjacencies for customers such as omni-channel platform services, and financing for customers. Adyen operates a global payments platform which services businesses globally. It provides a very important service for a small fee, thereby playing an important role in making transacting online safer and easier. The company is a core part of our *Enhancing digital security* theme.

Sweden-based conglomerate **Lifco** was also among the detractors after reporting a 0.9% decline in organic sales in Q2 due to lower volumes in its demolition and tools division, though the company states that demand in the division remains at high level. Exposed to our *Enabling healthier lifestyles* theme, Lifco acquires small businesses in niche markets with strong competitive advantages and high barriers to entry. Lifco's competitive advantage is its reputation – it has decades of history in buying small businesses and treating employees with respect.

Danish manufacturer of hearing aids and headsets **GN Store Nord** fell sharply in August after cutting guidance for its Audio segment due to challenging markets conditions as well as buyer hesitancy. Held under our *Enabling healthier lifestyles* theme, around a third of GN Store Nord's business is focused on improving the lives of people with hearing difficulties and the remaining part of the business develops and manufactures headsets for the unified communication market and consumer audio.

In terms of portfolio activity, we added industrial manufacturing company **Siemens** under our *improving the resource efficiency of industrial and agricultural processes* theme. Siemens has restructured itself into just four main divisions: Digital Industries; Smart Infrastructure; Healthineers and Mobility. These help to drive improvements in resource efficiency; electricity use; diagnostics and health; and mass transport (trains). Each of these divisions will grow as our economies become more sustainable.

Swiss multinational specialty chemical company **Sika** was added under our *Building better cities* theme. Sika produces specialist chemicals for the building industry − these are adhesives, sealants, acoustic, protective and reinforcing systems and products. These range from admixtures to cement/concrete to improve its characteristics, for instance waterproofing or structural qualities. It helps to improve the performance of materials and so reducing the amount of material used, or prolongs its life. Sika also have innovative additives for cement to reduce CO2 emissions and for recycling of old concrete for re-use.

Private equity company **3i Group** was added under our *Increasing financial resilience* theme. 3i predominantly invests in retail, infrastructure, healthcare, technology and industrial sectors. It has strong responsible investment policies and firm exclusion on no-go areas.

We also added Swiss sports brand **On Holdings** under our *Enabling healthier lifestyles* theme. Founded in 2008, On focuses on performance training shoes for running and other sports. The company has developed its brand to focus on performance and sustainability and is constantly innovating to improve the quality and reduce the impact of its products. Some of its innovations include a resale platform for used goods called Onward, a subscription product service called Cyclon designed to close the loop in footwear and apparel, as well as aiming for 100% recycled or organic cotton and 100% recycled polyester and polyamide. We believe the company is well placed to benefit from our Enabling Healthier Lifestyles theme as people focus more sports and activity.

We exited our position in **CANCOM**, the German IT solutions company, due to a deterioration in our assessment of the management quality, specifically its asset allocation choices and ability to capitalise on the thematic growth towards a more digitised economy and increased spend on digital security.

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 Sustainable Future European Growth 2 Acc	6.3%	-34.4%	24.1%	16.9%	6.0%
MSCI Europe ex UK	19.0%	-12.8%	20.9%	-0.5%	5.8%
IA Europe Excluding UK	18.7%	-16.1%	22.4%	3.1%	2.2%
Quartile	4	4	2	1	2

***** Source: FE Analytics, as at 30.09.23, total return, net of fees and income reinvested
****** Source: FE Analytics, as at 30.09.23, 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

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