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Cashflow Solution

March 2024 review

Liontrust European Dynamic Fund

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The Fund returned 3.5% in sterling terms in March. The MSCI Europe ex-UK Index comparator benchmark returned 3.7% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was 3.4%.

European markets participated in the global equity rally in March, as investors became more confident that the central banks' policy tightening efforts have successfully walked the fine line between bringing down inflation and allowing the economy to maintain some momentum.

As widely expected, the US Federal Reserve held interest rates steady for the fifth consecutive meeting, but investor sentiment was boosted by forecasts for cuts later in the year despite mounting evidence of economic resilience. The central bank upgraded its forecast for 2024 US GDP growth from 1.4% to 2.1%. In Europe, we saw the first rate cut in this monetary cycle from a developed world central bank as the Swiss National Bank reduced its benchmark rate from 1.75% to 1.5%.

The overall trend in Q1 was, however, towards an expectation of fewer rate cuts in the remainder of 2024. Looking at the eurozone for example, markets started 2024 expecting between six and seven quarter-point cuts this year but by the end of March priced in only three to four cuts. This modest revival of the "higher-for-longer" theme that dominated for periods of 2023 provided a tailwind to the banking sector, which typically earns larger net interest margins when benchmark rates are higher. In March the European market rise was led by real estate (+9.4%) and finance (+7.9%), while consumer staples (+1.1%) and IT (+1.1%) were laggards.

Of the portfolio's holdings, **Deutsche Bank** (+18%) saw significant share price strength as it released 2023 results which included upgrades to its 2025 targets. It now expects to achieve revenues of around €32 billion, representing a 5.5% - 6.5% average annual growth rate from 2021, up from prior guidance of 3.5% - 4.5%. Combined with a forecast of lower non-operating costs, Deutsche Bank plans to increase dividend distributions to €1.0 per share by 2025.

Banco Santander (+18%) issued an AGM statement that confirmed it is on track for its 2024 financial targets, describing "excellent business and commercial dynamics". Its Q1 income is set to grow 9% year-on-year following the addition of 2 million customers, while costs have been kept flat for the third consecutive quarter.

Among the detractors, **Jeronimo Martins** (-17%) was the heaviest faller. The Portuguese food distribution and grocery retailer had already notified the market of a deceleration in sales to 5.1% like-for-like in Q4, down from 12.8% for 2023 as a whole. Some of this resulted from food price deflation through the year, but there is also evidence that profit margins are coming under pressure. Full-year results released in March included forecasts of further food price deflation in 2024 combined with higher operating costs from salaries and rents. In Jeronimo's main market of Poland, consumer price sensitivity is particularly high, which is likely to lead to a competitive environment this year.

Q4 results from logistics group **DHL Group** (-7.0%) disappointed slightly against expectations. Group revenues fell 10% year-on-year to €21.3 billion and operating profit dropped by 14% to €1.6 billion. As expected, its global forwarding and freight division had a revenue drop (-33%) as air and ocean freight rates normalise following the post-Covid spike. But its express division saw a worse-than-expected sales decline of 6.7% as economic and consumer uncertainty fed through to lower business-to-business volumes. DHL's cash generation remains strong; it recorded €3.3 billion of free cash flow during 2023.

Positive contributors to performance included:

Renault (+21%), Deutsche Bank (+18%) and Banco Santander (+18%).

Negative contributors to performance included:

Jeronimo Martins (-17%), DHL Group (-7.0%) and TeamViewer (-5.4%).

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust European Dynamic I Inc	18.7%	8.2%	15.9%	54.9%	-8.3%
MSCI Europe ex UK	12.7%	8.6%	5.5%	33.5%	-8.3%
IA Europe Excluding UK	12.3%	6.5%	4.2%	39.6%	-9.4%
Quartile	1	2	1	1	2

*Source: Financial Express, as at 31.03.24, 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 31.03.24, 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/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

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.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

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