LIONTRUST
COURAGE · POWER · PRIDE

Sustainable Investment

Q1 2024 Review

Liontrust UK Ethical Fund

Peter Michaelis
Head of Sustainable Investment

Martyn Jones
Investment Manager

The Fund returned 2.0% over the quarter, versus the IA UK All Companies sector average of 2.9% and the MSCI UK Index's 4.1% (both of which are comparator benchmarks)*.

Across our Funds, we have been pleased with the ability of the businesses we invest in to deliver growth and execute, in spite of the slowing global economy. This is testament to the structural nature of the themes we invest in, which we believe have strengthened – energy security, innovation in healthcare and environmental efficiency have all a much higher priority than they did even five years ago. We also have great confidence in the quality of the businesses and management teams of our selected companies.

The catalyst for the stronger performance across our asset classes was the market's realisation in October that inflation and interest rates had likely peaked. As inflationary data began to soften and normalise, central banks, led by the US Federal Reserve, started to suggest that the monetary tightening cycle of the past two years had been sufficient to control inflation. This and a slowing economy may lead to loosening of monetary policy at some point in the near future. This removed a significant headwind to structural returns.

The Fund's top performer in Q1 was lender **NatWest**. The company most notably reported strong operating performance for the full-year with a return on tangible equity (RoTE) of 17.8% – above its previously guided range. Held under our *Financing housing* theme, NatWest is a UK-focused bank that operates both retail and commercial operations. Its corporate lending is focused on the areas that we view as being most beneficial to sustained economic growth, namely SME lending, leasing and factoring and traditional retail banking. In terms of its sustainability credentials, NatWest aims to reduce carbon within its corporate loan book by at least 50% by 2030 and has potentially interesting initiatives around mortgages for energy efficiency improvements in housing.

Trustpilot also provided a positive update, commenting that adjusted EBITDA in 2023 was ahead of market expectations. Revenue for the year rose 17% and bookings were up 16%, while operating leverage boosted margins. The independent review platform is part of our *Connecting people* theme due to its role in connecting consumers and businesses and addressing the 'trust gap' on the internet.

Another notable performer was **Trainline**, a company exposed to our theme of *Making transportation more efficient or safer.* Trainline performed strongly in March after releasing a full-year trading update in which it announced net ticket sales had increased to £5.3 billion, 22% higher year-on-year (YoY), and at the top end of its already improved guidance range for growth of between 17% to 22%. Furthermore, the company announced revenue of £397 million, growing 21% YoY, above Trainline's guidance range of between 15% to 20%.

On the other side of the ledger, **Oxford Nanopore** shares sank at the start of the year after the DNA-sequencing company reported preliminary 2023 life science research tools revenue of c.£169 million, missing market expectations. Later in the quarter, the company, which is held in our *Enabling innovation in healthcare* theme provided underwhelming guidance for the year and revised its forecast for achieving adjusted EBITDA breakeven to the end of 2027 from the end of 2026.

Mobico Group (formerly National Express) was also a detractor in Q1. Held under our *Making transportation more efficient or safer* theme, Mobico cut its guidance for the year and expects to publish its delayed results in late April as the accounting of its German rail business needs to be reviewed.

Elsewhere among the detractors was **St James's Place** – a company we exited over the period. SJP was a very frustrating investment given it is a clear beneficiary of our *Saving for the Future* theme. However, in spite of the strong demand in the UK for financial and investment advice, the company has executed poorly. This culminated in it being slow to react to the changes in Consumer Duty, and latterly poor record keeping around charging for advice. This has left the business exposed to legal recourse from clients and damage limitation in terms of reputation. Therefore, while we can see attractive value in the shares in some scenarios, the unpredictability of the near term means we see better opportunities elsewhere.

With regards to other trade activity, we added communications specialist **Gamma Communications** under our *Connecting people* theme. Gamma's voice, data and mobile products and services technology enable businesses, mostly SMEs, to reduce their need for telephony hardware and also facilitate home and hybrid working which eliminates reliance on large call centres to handle customer communications.

We also added **Kainos Group** under our *Improving the resource efficiency of industrial and agricultural processes* theme. Kainos is a technology consulting and software development business focused on Workday (the on-demand financial management, human capital management, and student information system software vendor). The company helps organisations of all sectors modernise and digitise their operations – improving efficiency, customer experience, resilience, and digital security.

Last, we added **Judges Scientific**, a UK-based serial acquirer and developer of niche scientific instruments globally. Sitting in our *Better monitoring of supply chains and quality control* theme, it runs a 'buy-and-build' business model – buying small scientific instrument companies and supporting their growth for the long term. Its portfolio of 20 businesses sell into complex scientific end markets and the company look to acquire strong leaders in these specific niches selling to customers globally. Portfolio companies have market dominance in niches are served by metrology tools measuring applications like laser light quality in fibre optics, gas purity, material defects, and geological materials to name a few.

We sold Ceres Power, a company we had owned for several years and cut the position in 2021 when it was at a peak valuation. We maintained a small position on the basis that the company had attracted interest from Bosch and Weichai for its innovative fuel cell technology. However, it seems there have been substantial delays to commercialisation and we concluded we should sell the small remaining stake.

LIONTRUST
COURAGE · POWER · PRIDE

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust UK Ethical 2 Acc	5.9%	-14.5%	-7.7%	45.2%	-7.6%
MSCI UK Index	8.5%	5.6%	19.1%	20.0%	-19.1%
IA UK All Companies	7.6%	-1.9%	5.4%	38.0%	-19.2%
Quartile	3	4	4	1	1

*Source: FE Analytics, as at 31.03.24, total return, net of fees and income reinvested.

**Source: FE Analytics, as at 31.03.24, 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:
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.

All investments will be expected to conform to our social and environmental criteria.

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 may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

The Fund will invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

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