Liontrust Cashflow Solution

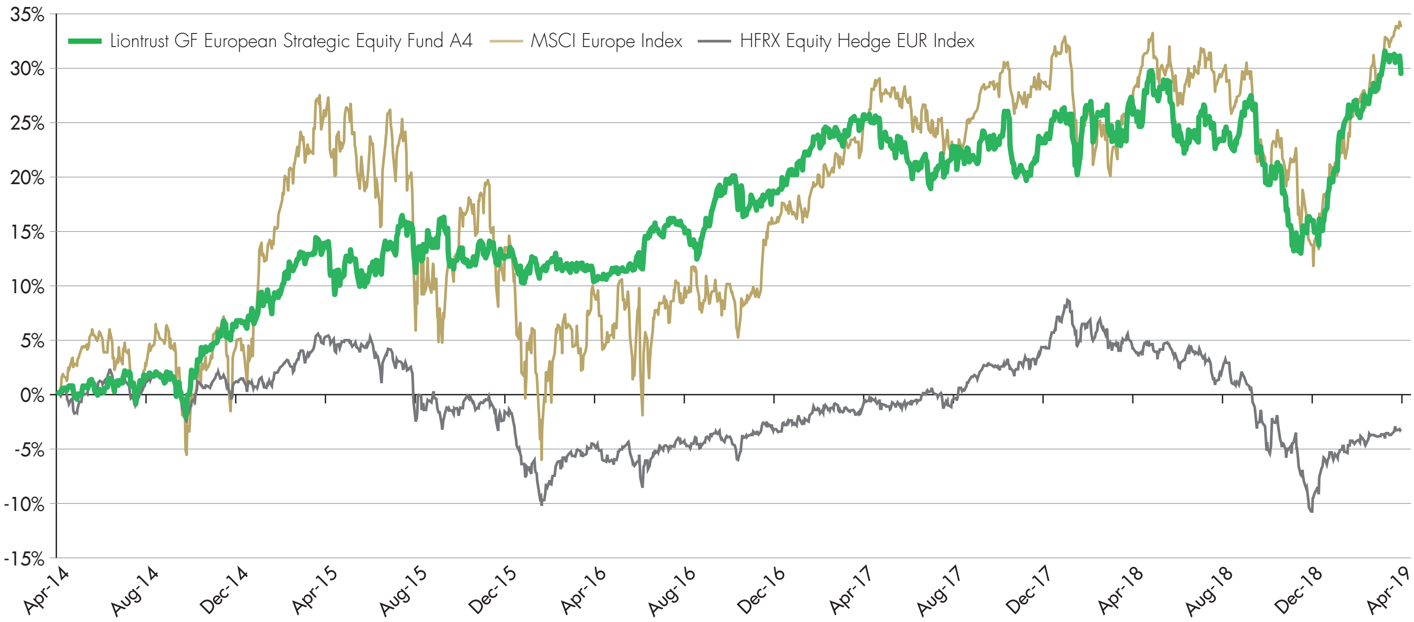
LIONTRUST GF EUROPEAN STRATEGIC EQUITY FUND

The Irish-domiciled Liontrust GF European Strategic Equity Fund, which is managed by James Inglis-Jones and Samantha Gleave, aims to achieve a positive absolute return over the long term through applying the Cashflow Solution investment process. Since 25 April 2014, the Fund has taken a variable long/short approach to allow the managers to alter the size of the portfolio's long and short exposures to reflect their assessment of investment conditions.

How the Fund is differentiated

- A proven track record of alpha generation through both stock selection and management of market exposure.
- The potential for attractive returns in all market environments driven by varying the net exposure of the Fund.
- Low correlation with other asset classes and competitor funds.
- The Fund has returned +28.7%* in the five year period, largely keeping pace with the +33.1% return of the MSCI Europe, and significantly outperformed the -3.3% return from the HFRX Equity Hedge Index of long/short strategies.
- During this period, the Fund had an average net market exposure of only c.44%.
- The Fund's realised volatility of 7.8% over this period compares very favourably with the MSCI Europe Index's 14.5% volatility.

Performance



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

	Mar-19	Mar-18	Mar-17	Mar-16
Liontrust GF European Strategic Equity A4 Acc EUR	4.2	0.3	10.7	-1.1

*Source: Financial Express, total return (income reinvested and net of fees, A4 share class, euro terms. Discrete data is not available for five full 12 month periods due to the launch date of the portfolio. Please remember that past performance is not a guide to future performance and the value of an investment and any income generated from them can fall as well as rise and is not guaranteed, therefore you may not get back the amount originally invested and potentially risk total loss of capital.

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Meet our experienced fund managers

The Liontrust GF European Strategic Equity Fund is managed by James Inglis-Jones and Samantha Gleave by applying the Cashflow Solution Process.

James and Samantha have over 40 years of combined experience and first worked together in 1998. James has previously managed money at Fleming Investment Management, JP Morgan Fleming and Polar Capital while Samantha formerly worked at Sutherlands Limited, Fleming Investment Management, Credit Suisse First Boston and Bank of America Merrill Lynch. Samantha was in a No 1 ranked equity research sector team (Extel & Institutional Investor Surveys) at Credit Suisse and won awards for Top Stock Pick and Earnings Estimates at Bank of America Merrill Lynch.

Applying the Cashflow Solution process to a long/short strategy

We focus on the historic cash flows generated and invested by companies to support their forecast profits growth. As forecasts are often unreliable, the scale of cash invested to support forecasts is key.

In our experience, companies that generate significant free cash flow after investments prove to be rewarding stock-market purchases. Companies that invest significantly more cash than they can produce to back bold forecasts of future growth often disappoint.

Therefore, we pay particular attention to both the quality and sustainability of company cash flow and the valuation investors attach to it. For this long/short strategy, the aim of the investment process is to complement our long investments with short sales of expensive companies run by company managers who combine over-confidence in their forecasting ability with a willingness to back their forecasts with substantial growth in operating assets such as property, equipment and stock.

Size

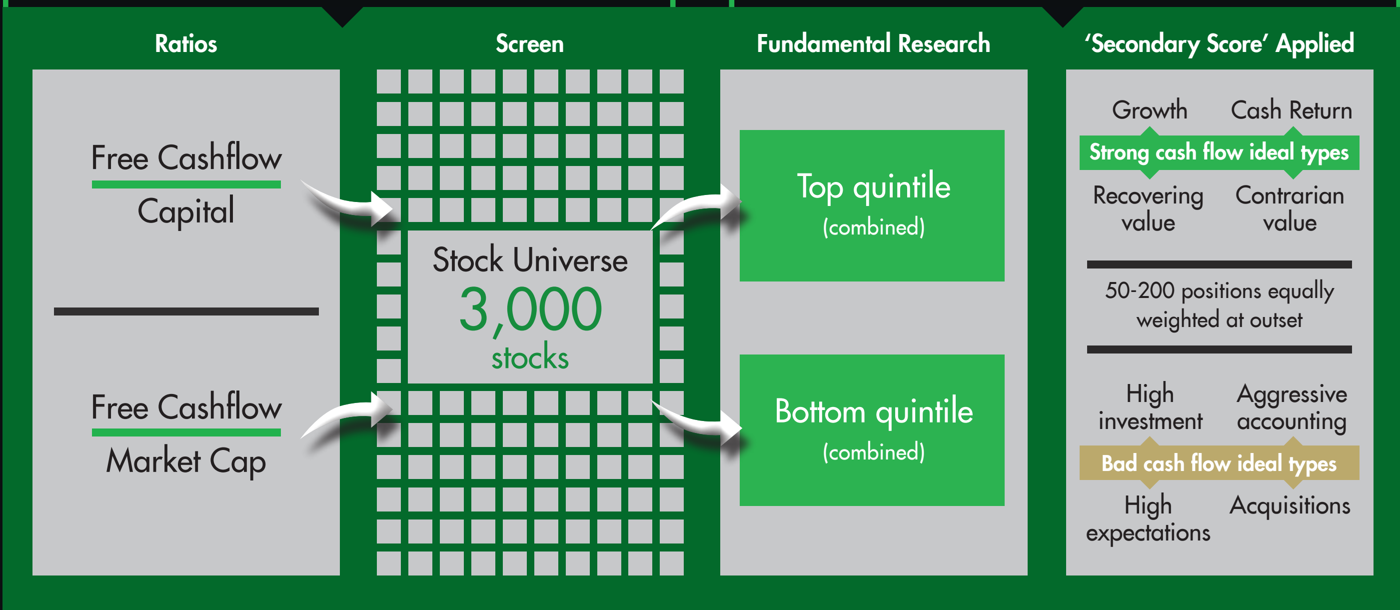
Long book

The size of the long book is determined by **investor behaviour** – we want to know whether markets are in an **uptrend or a downtrend** and how anxious investors are about the **economic outlook**.

Short book

The size of the short book is determined by the proportion of companies with **undesirable cash flow characteristics**. When company managers have a rosy view of the future the short book will be close to 100% of Fund net asset value; when they are pessimistic the short book will be close to 30% NAV.

Screening Process



Composition

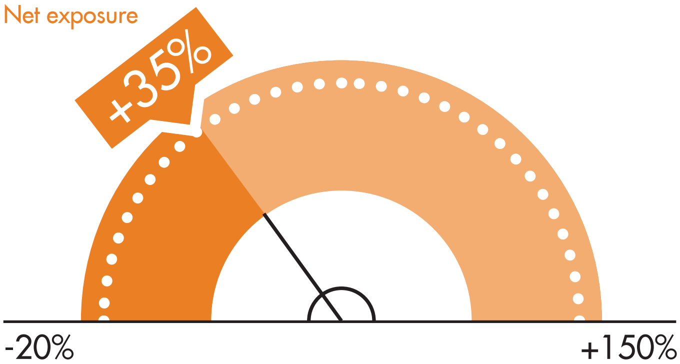
We make investments in companies that are able to generate **strong cash returns from their capital** and **appear cheap** on those cash flows, and which are run by corporate managers committed to an intelligent use of capital. Our cash flow-based process tends to mean the portfolio has a **bias to 'quality' growth** companies, but we can accentuate or dilute this tilt depending on our view of market conditions.

We sell short companies that are both **expensive and struggling to generate cash**, and are run by management teams **investing heavily for future growth**. We adopt a diversified approach to short book construction, taking **small positions in a group of approximately 100 stocks** that have the bad cash flow characteristics we seek.

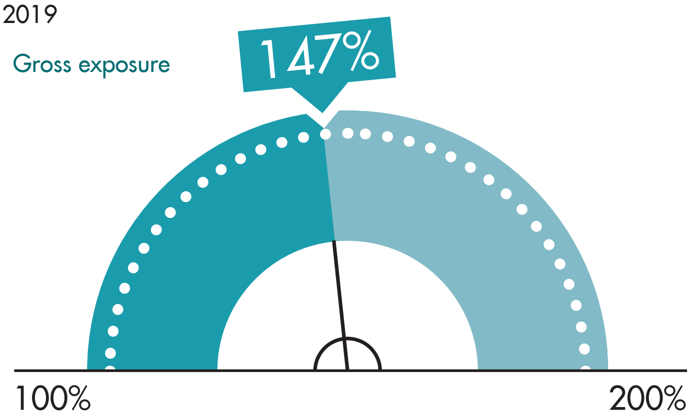
Navigating difficult markets

Average portfolio positioning between September 2018 and February 2019

Net exposure



Gross exposure



Positioning: Cautious. Trend indicators identified a downtrend, valuations looked full and low signs of investor anxiety = Long book +91%. Corporate aggression rising but not to worrying levels = Short book -56%

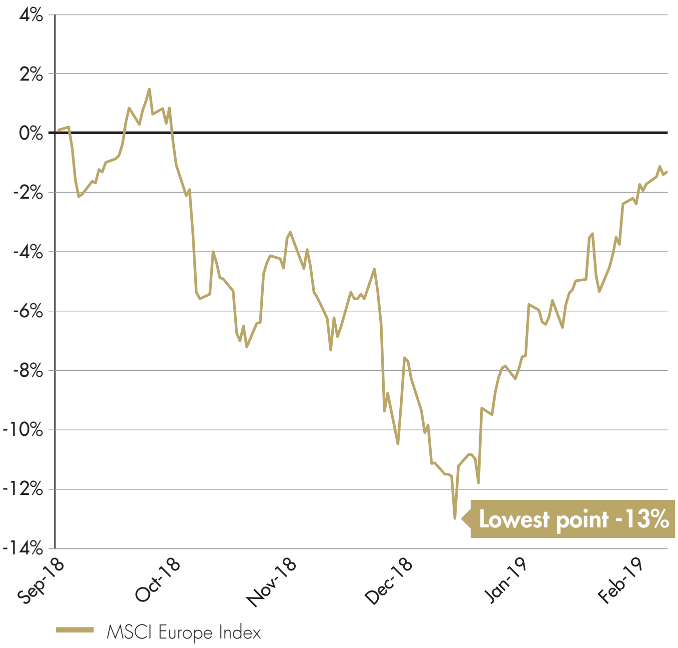
In October 2018, our trend indicators deteriorated to the point that a downtrend signal emerged from the data. Our valuation measure suggested a cautious outlook was warranted given valuations were still full.

In the absence of cheap valuations, downtrends on average represent a poor equity market outlook with falling prices and high volatility. This led us to scale back our net exposure and in particular expand our short book. Had there been greater evidence of overaggressive corporate investment, we would have been prepared to move short exposure even higher.

During this period, the Fund managed to stay in positive territory, returning 1.1% compared to the MSCI Europe's -1.4% and the HFRX Equity Hedge Index's -7.0%. This was mostly the result of the short book's contribution and a lower net market exposure when the market fell heavily during Q4 2018. Stocks held in the short book on average fell considerably more than the MSCI Europe, providing an uplift to Fund performance.

Please remember that past performance is not a guide to future performance and the value of an investment and any income generated from them can fall as well as rise and is not guaranteed, therefore you may not get back the amount originally invested and potentially risk total loss of capital.

Difficult market: MSCI Europe September 2018 - February 2019



Example of a short position: Greencore

greencore group

In November 2016, we opened a short position in UK convenience food maker Greencore. The company appeared in the bottom quintile of our cash flow screens after it announced a deal to acquire US-based Peacock Foods in November 2016. This deal flagged a number of bad cash flow types in our secondary scores:

Acquisition:
A price of
US$748m
which represented an enterprise value of
10.4x EBITDA
looked expensive.

High Investment:
The deal was funded by debt
(new facilities worth)
£200m
and equity
(rights issue raising)
£439m
which strained the company's balance sheet.

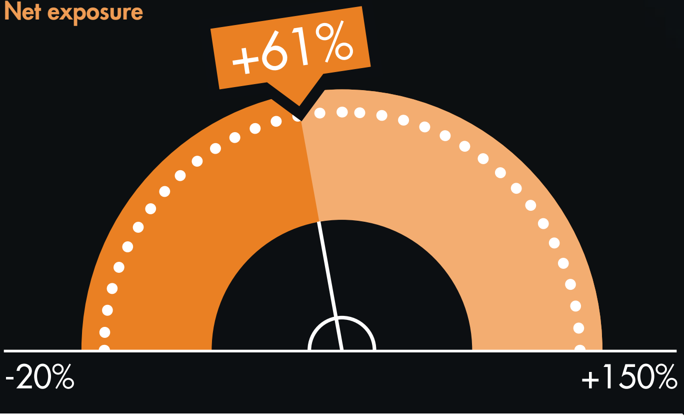
Aggressive Accounting:
The acquisition caused reorganisation for the business, resulting in high provisions and impairment costs.

Greencore went on to warn about profit growth in its US business and subsequently sold the division, most of which was made up of Peacock, in late 2018. This resulted in the Fund exiting the short position a few months later.

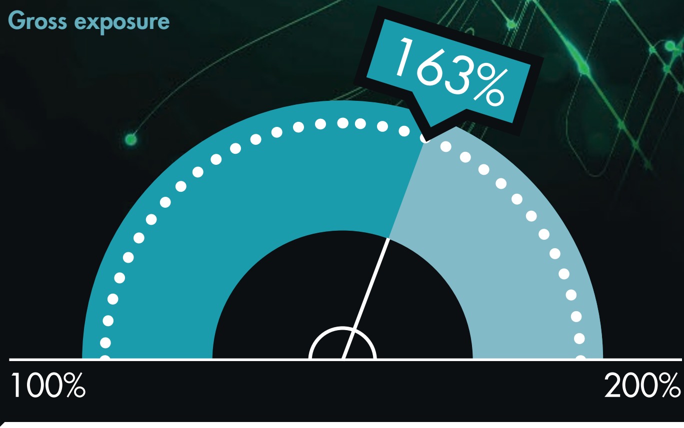
Current Positioning

Portfolio Positioning as at 25.04.19

Net exposure



Gross exposure



Positioning: Constructive. Trend indicators have identified an uptrend and valuations have pared back from their highs. Investors becoming more anxious = Long book +112%. Low signs of corporate aggression = Short book -51%

The emergence of a market uptrend, a rise in investor anxiety and a moderation in equity valuations are all constructive features which have prompted us to increase the Fund's long book and overall net exposure.

Following negative market returns in Q4 2018, our trend indicators recovered from a downtrend in October 2018 to a more uncertain picture in January and an uptrend by the end of Q1 2019. European valuations are now less troubling than they were last year – in the 4th quintile of the historic range, with the 5th quintile being the most expensive [US valuations remain at extreme levels however].

Investor anxiety has risen from 'very low' to 'normal'. Higher anxiety translates to lower complacency, which is also a constructive sign.

The corporate sector remains devoid of excessive animal spirits which – combined with a positive market outlook – leads us to limit the Fund's short exposure.

Who to contact for more information

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Key risks

Please remember that past performance is not a guide to future performance and the value of an investment and any income generated from them can fall as well as rise and is not guaranteed, therefore you may not get back the amount originally invested and potentially risk total loss of capital. 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. Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates.

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