

# LIONTRUST EUROPEAN DYNAMIC FUND

The Liontrust European Dynamic Fund, which is managed by James Inglis-Jones and Samantha Gleave of the Liontrust Cashflow Solution team, aims to deliver capital growth over the long term (5 years or more) by using the Cashflow Solution process. The Fund is in the 1st quartile of performance in the IA Europe ex UK sector since launch – ranked 6th out of 63 funds – and over multiple time periods.\* **On 11 July 2022, the name of the Fund changed from European Growth to European Dynamic to better reflect the fact that the investment process allows it to invest in both growth and value stocks.**

Won Best  
Europe Fund at the  
2022 FMYA Awards

## How the European Dynamic Fund is differentiated

- Since launch in 2006, the Fund has returned 271% against 120% by the MSCI Europe ex UK index and 132% by the average performance of funds in the IA Europe excluding UK sector, putting it in the 1st quartile of the IA sector over this period.\*
- The Fund is also in the 1st quartile of the IA sector over one, three, five and 10 years.\*
- Won the Award for Best Europe Fund at Inclusive Media's Fund Manager of the Year Awards 2022.
- James Inglis-Jones launched the Fund in November 2006 and was joined by Samantha Gleave in 2012. James and Samantha first worked together in 1998 and have an average industry experience of over 25 years.
- The Cashflow Solution investment process applied to the management of the European Dynamic Fund is differentiated from, and therefore complementary to, the other funds in the IA Europe excluding UK sector.
- The fund managers seek to own companies that generate significantly more cash than they need to sustain their planned growth yet are lowly valued by investors and are run by managers committed to an intelligent use of capital.
- The managers apply two equally weighted cash flow ratios to the European (ex-UK) investment universe, creating a composite ranking that narrows the universe to the stocks with the best free cash flow generation and the most attractive valuations.
- The top 20% of the ranked stocks – the Cashflow Champions Watchlist – are subject to qualitative analysis.
- The Fund's investment process allows it to dynamically switch between growth and value stocks depending on the prevailing market environment.
- The Fund is an equally weighted portfolio of 30 to 50 stocks.

\*Source: Financial Express, as at 30.06.22, Institutional Inc Class (I), total return, bid-to-bid, net of fees, income reinvested.

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.



## Meet James and Samantha

James Inglis-Jones formed the Cashflow Solution team on joining Liontrust in March 2006 and was joined by Samantha Gleave in 2012. James and Samantha jointly manage the Cashflow

Solution range of funds. They have an average industry experience of over 25 years, and first worked together in 1998.

James began his career at Fleming Investment Management in 1997, assuming responsibility for the management of UK equity portfolios in 1999. Between 1999 and 2002, he worked on JP Morgan Fleming's institutional investment process and managed a wide range of retail and institutional funds as a senior portfolio manager within their European equity group. In 2003, he joined

Polar Capital to manage a European market-neutral fund. James graduated in 1990 with a First Class Honours Degree in Modern History from York University. He went on to gain a D.Phil in Modern History from Christ Church, Oxford.

Samantha began her career at Sutherlands Ltd as a Consumer Analyst before moving on to Fleming Investment Management as Senior Investment Analyst covering Europe where she worked with James Inglis-Jones. Samantha moved to Credit Suisse First Boston (Europe) Ltd in 2000 and was in a No 1 ranked equity research sector team (Extel & Institutional Investor Surveys). In 2005, she moved to Bank of America Merrill Lynch and became a Senior Equity Analyst and Director and won awards for Top Stock Pick and Earnings Estimates. Samantha graduated from Aberdeen University in 1995 with an MA Honours degree in Economics & Management.

## Cashflow Solution investment process

The process focuses 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.

The fund managers seek to own companies that generate significantly more cash than they need to sustain their planned growth yet are lowly valued by investors and are run by managers committed to an intelligent use of capital.

To identify companies' annual cash flow, balance sheet development and valuation efficiently across all equity markets, the fund managers have developed a simple screen as a starting point for further qualitative analysis. The investment screen consists of two cash flow ratios that are combined equally to highlight the process characteristics that they seek.

The two cash flow measures are:

- a quality measure (cash flow relative to operating assets)
- a value screen (cash flow relative to market value)

Only the top 20% of this ranked universe qualifies for further, qualitative, analysis. We call this list the Cashflow Champions Watchlist.

The managers carry out fundamental analysis on the Cashflow Champions Watchlist, rating each stock across four secondary scores based on detailed analysis of companies' report and accounts. These secondary scores capture different types of attributes and style factors:



### Momentum

Strong business momentum, high margin (indicative of economic moat), self-funded growth



### Cash Return

Stable business with a robust balance sheet returning cash to shareholders through share buyback, debt pay-down and dividend (shareholder yield)



### Recovering Value

Recovering business with management focused on reining in capital expenditure and imposing working capital control, eager to return cash to shareholders. Investors generally sceptical hence low conventional valuation



### Contrarian Value

Has experienced prolonged tough trading conditions, management responding by restructuring and selling off assets. Investors are very sceptical

The fund managers analyse the market through key Market Regime Indicators, which include Investor Anxiety, Valuations, Corporate Aggression and Market Momentum. These indicators allow the team to determine whether to tilt the portfolio towards growth or value and establish which secondary scores (and the stocks within

the Cashflow Champions Watchlist with the highest scores) offer the best upside potential.

The Fund's portfolio comprises 30 to 50 stocks with the highest scores and which match the manager's Market Regime Indicators.

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# 1st Quartile performance since launch



To previous 12 months ending	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust European Dynamic Fund I Inc	-5.9	43.8	2.2	-1.7	5.0
MSCI Europe ex UK	-10.6	21.8	0.0	7.3	1.8
IA Europe ex UK	-12.6	23.7	0.9	3.3	3.1
Quartile	1	1	2	4	2

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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. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

## Recent additions to the Fund

### \*\*\* Swedish Match.

**Swedish Match** is a tobacco company specialising in smoke-free products such as snus, nicotine pouches and chewing tobacco. It scored strongly on our cash flow screens this year. Secondary score analysis showed that its cash return characteristics were good while it also rated highly on momentum. Shortly after its addition to the Fund, the company accepted a takeover offer from US tobacco sector Philip Morris.

### Jerónimo Martins

**Jerónimo Martins** is a food distribution specialist operating in Portugal, Poland and Colombia. It has good momentum and recovering value cash flow characteristics. Operating cash flow has been growing strongly and the stock traded on a free cash flow yield of over 10% at the time of purchase. It also has good momentum and recovering value cash flow characteristics. This reflects stronger growth in its Eastern European businesses, including good like-for-like sales growth and operating margin improvements, and much stronger growth at Ara, the Columbian retailer. The group balance sheet is strong and this was reflected in the dividend payment to shareholders for 2021 – an exceptional 100% payout of net income.



**Roche** is a good example of an inexpensive and defensive quality stock. The Swiss pharma giant trades on a free cash flow yield of over 6%.



**Dassault Aviation** is a French manufacturer of military aircraft and business jets. The company has a very high free cash flow yield. It offers quality characteristics on an attractive valuation while also showing good business momentum including a large order backlog due to strong demand in the defence segment and a recovery in business jets.



**Arcelor Mittal** scored very well on our initial combined screen owing largely to its very attractive cash flow relative to market value. The Dutch-listed steel manufacturer has excellent cash return characteristics. Historically, this has included healthy growth in the annual dividend (27% in 2021) and share buyback programmes. The company expects continuing strong cash generation in 2022 and recently announced a new \$1.0 billion share buyback programme.

## Who to contact for more information

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For a comprehensive list of common financial words and terms, see our glossary:  
[www.liontrust.co.uk/glossary](http://www.liontrust.co.uk/glossary)

## Key risks

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