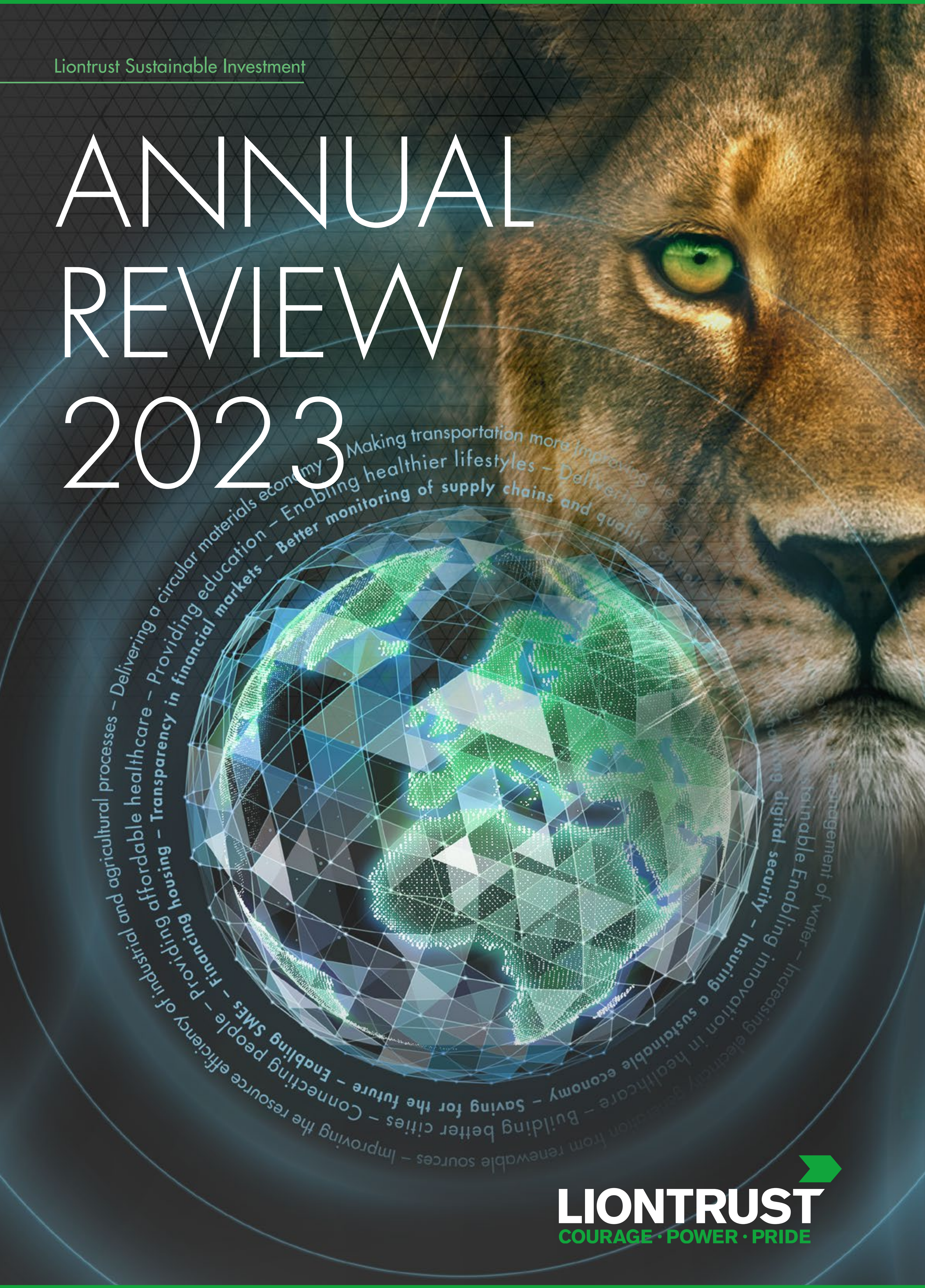
Liontrust Sustainable Investment

ANNUAL REVIEW 2023



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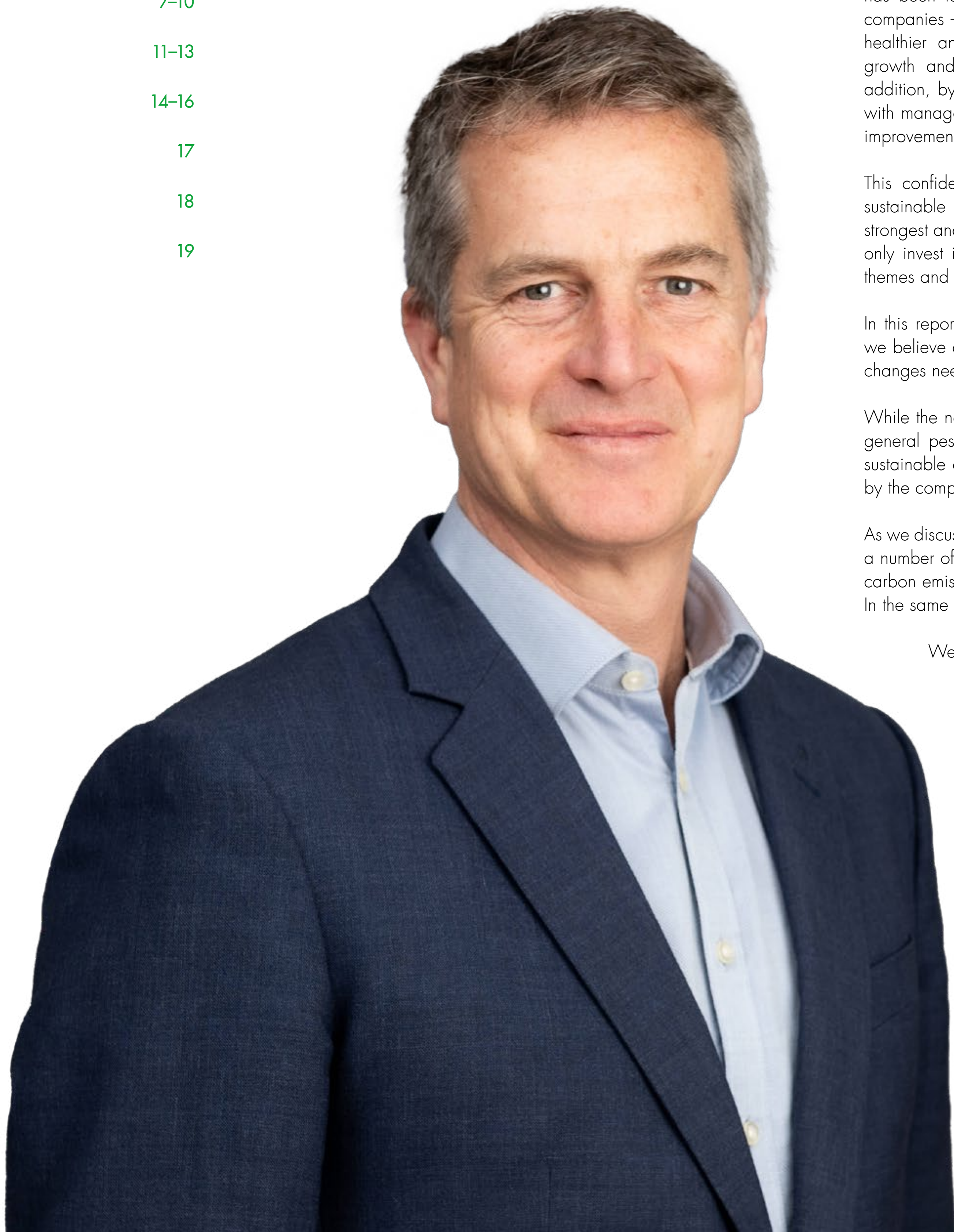
Introduction

After the turmoil of recent years, investors were hoping for a calmer 2023. Yet while less dramatic in many ways, it was still a volatile year, with sentiment swinging as the macroeconomic picture changed, in particular over whether interest rates would see sharp cuts in 2024 or stay 'higher for longer'.

Despite this, 2023 was broadly very positive for the Sustainable Future (SF) strategies.



Standout in this regard were our Fixed Income strategies, especially our Sustainable Future Corporate Bond Fund and the SF Monthly Income Bond Fund, while the Sustainable Future Managed range was also strong. All these funds were ahead of their peer groups, as was the SF Global Growth Fund. In the UK and Europe, returns were more muted over the year, but a standout final quarter substantially improved the picture.

Since we launched our SF funds in 2001, our proposition to clients has been to deliver superior returns by investing in sustainable companies – those companies that are making our world cleaner, healthier and safer. We believe these businesses have better growth and greater resilience than the market anticipates. In addition, by allocating capital to these businesses and engaging with management, we can accelerate environmental and societal improvements.

This confidence comes from the strong foundations of our 22 sustainable investment themes, which we believe identify the strongest and most dependable growth trends in the economy. We only invest in those companies that combine alignment with our themes and strong financial and share price prospects.

In this report, we highlight some of these themes including those we believe are and will continue to be key in driving forward the changes needed for the world to achieve net zero.

While the news is often dominated by wars, climate change and general pessimism, we believe the economy is becoming more sustainable and much of the inevitable progress will be delivered by the companies we invest in.

As we discuss on page 7 onwards, there are encouraging trends in a number of areas. For example, the UK leads the way on cutting carbon emissions, having achieved a 48% reduction since 1990. In the same period, the UK economy grew by 52%.

We look forward to a good year ahead and believe we are in a strong position to take advantage of the long-term trends that will drive growth for sustainable companies.

Peter Michaelis, Head of Sustainable Investment at Liontrust

For more information on Sustainable Investment plus our funds and team, go to **www.liontrust.co.uk/sustainable**

Sustainable Future funds performance – 2023

Despite ongoing geopolitical uncertainty and conflict, overall, 2023 was a calmer and more typical year for markets and investors, with signs of positive sentiment in a number of areas.

Our range of funds all saw positive returns over the year, with many outperforming the benchmark index against which they are measured.

Fund	Year end returns
Sustainable Future Managed Growth 2	15.4%
Sustainable Future Global Growth	15.2%
Sustainable Future Monthly Income Bond*	13.1%
Sustainable Future Corporate Bond*	13.0%
Sustainable Future Managed 2	11.8%
Sustainable Future Cautious Managed 2	8.9%
Sustainable Future Defensive Managed	8.2%
Sustainable Future European Growth 2	6.7%
Sustainable Future UK Growth 2	5.0%
UK Ethical 2 Acc	3.6%

Source: Liontrust, 31 December 2023.

Past performance does not predict future returns. You may get back less than you originally invested. Please refer to the Key Risks for more information.

There were headwinds in 2023 due to 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 interest rate expectations, and therefore discount rates, impacted all asset classes, but particularly the growth and quality companies that we believe are tackling the world's most challenging problems.

We believe interest rates are at peak levels and inflation should fall towards central banks' targets by mid to late 2024. The current higher interest rate environment will likely lead to lower economic growth, resulting in early cuts in interest rates.

Given this view and the fact that interest rate rises were the primary catalyst for the sell-off in the long duration growth equities in which we invest, we should expect that the valuation multiples applied to growth equities should stabilise in conjunction with the peak in interest rates. This would remove a significant structural headwind against returns.

One key theme last year negatively impacting some of our healthcare and consumer companies was 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 diminished and supply chains normalised, companies began running down these inventories back to normal levels, while also facing a lower demand ahead of what looked to be an impending recession.

This normalisation process was painful but it's not going to last forever and, in the meantime, it provided the chance to add to some fantastic companies at very attractive valuations.

Longer term, we believe the small-mid cap underperformance and historically low valuations will mean revert and destocking by 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.

Overall, we are confident about the outlook for our sustainable investment strategies and believe they will build on their long-term positive track record as we back those businesses which are growing profitability while delivering solutions to critical environmental and social problems.

Businesses which are providing these solutions will potentially access vast growth opportunities. In many cases, the speed and scale of this growth is likely to be underestimated in the valuation of their shares.

This is where the opportunity lies – finding great companies that are helping to solve challenges we face as a society and world, whose prospects are undervalued.

While the future of sustainable investment has been questioned by a number of different parties recently, we are more excited about the prospects for the sustainable themes and stocks we invest in than we have been for many years.

Fixed Income performance 2023

2023 was supposed to be 'The Year of Fixed Income', as the level of yields on offer looked incredibly attractive, both outright on a long-term basis and relative to history, following a period of heightened volatility in bonds.

This was a view that we largely agreed with, and while this opinion certainly didn't go unchallenged by developments over the course of 2023, we maintained our conviction. It did indeed prove to be a successful year for our sustainable fixed income strategies, with very strong absolute and relative performance.

The Sustainable Future Monthly Income Bond Fund[1] and Sustainable Future Corporate Bond Fund[2] were particularly strong, delivering net returns of 13% and finishing the year as the second and third best performing funds in the IA Sterling Corporate Bond sector peer group (a comparator benchmark).*

However, stepping back in time shows some of the obstacles that needed to be surmounted during the year.

While January 2023 got off to a good start and supported our belief that the impact of the fastest rate hiking cycle in decades would result in a tightening of financial conditions, the relatively uneventful start to the year was followed in March by the US banking crisis, which led to the collapse of Silicon Valley Bank, Signature Bank, and First Republic. This was swiftly followed by the failure of Credit Suisse. This saw our overweight position to financials, and particularly higher beta subordinated financials, detract from performance.

Despite this, after reviewing our credit portfolio, we remained confident in the high quality, sustainable issuers held, with European and UK banks in a far greater position of strength than their US counterparts. Likewise, we viewed the issue with Credit Suisse AT1s as contained to the Swiss market, with wider European and UK banking regulators subsequently announcing their support for the asset class. This ultimately proved to be the correct decision as sterling financial bonds' spreads tightened over the remainder of the year.

Government bond yields rose for much of the year through to October as economic data and inflation continued to surprise to the upside. Looking at the underlying picture, however, especially in the UK, we continued to believe that the domestic economy would struggle with these higher rates. As a result, we incrementally added back interest rate risk to the portfolios as yields rose between March and October, firmly believing that the economy would start to eventually show signs of strain over the second half of the year.

While there had been ongoing strength, particularly in US data, going into the fourth quarter cracks were beginning to appear. The eurozone in particular looked to be slowing rapidly, with Purchasing Managers' Index (PMI) readings declining, inflation coming off sharply, and growth faltering.

Economic data also started to consistently surprise to the downside in the UK and to a lesser extent, the US – albeit not as starkly as Europe. This coincided with large inflation misses across each of the US, UK and Europe, leading markets to reprice interest rate expectations sharply lower.

Having attempted to push back somewhat on the market moves the week before its meeting, the Federal Reserve surprised the market by changing tack with more interest rate cuts included in its dot-plot of Federal Open Market Committee members' interest rate projections. Somewhat surprisingly, it was the Bank of England and the European Central Bank (ECB) which maintained the consistent message that rates would have to stay higher for longer to tame inflation and stamp out the threat of persistence.

Expectations for sooner than anticipated easing in monetary policy and broader financial conditions also buoyed credit markets, with sterling credit spreads tightening markedly into the year end. This drove strong credit performance across the funds, with our overweight to financials outperforming, coupled with strong bond selection across our core sectors, including banks, insurance and telecommunications. The combination of all these factors, alongside the courage of our convictions behind our views and positioning, ultimately resulted in one of the strongest ever years for total returns for the Sustainable Future fixed income strategies.

[1] https://www.liontrust.co.uk/funds/sustainable-future-monthly-income-bond-fund

[2] https://www.liontrust.co.uk/funds/sustainablefuture-corporate-bond-fund

Investing in the team

We believe investing in the team is vital if we are to achieve the best results for investors.

We have a 17-strong team that has been managing the Sustainable Future funds for 23 years, with a mixture of experience and youth. In 2021, we took on four graduates and we are pleased to have seen them develop and grow into new roles within the team.

Last year, we also welcomed two new people on to the team. Connor Godsell joined from abrdn and is an investment manager, while Linnea Bengtsson is an investment analyst and joined from the Sustainable Equity team at Ninety One.

A key differentiator from many other firms is the fact all the sustainable elements are fully integrated within a single team. We do not have separate fund management and ESG divisions, for example. Instead, every member is responsible for all aspects of financial and ESG analysis relating to an investment decision. Because of this approach, our team engages with companies across a broad range of issues relating to different stages in our investment process, including screening criteria, sustainable themes and company-specific ESG issues.

The team, headed by Peter Michaelis, has over 200 years of industry experience. We also have a four-strong external Advisory Committee to provide another layer of expertise in key areas of social and environmental impact: Ivana Gazibara, Tim Jackson, Tony Greenham and Mark Stevenson.

Liontrust Advisory Committee

Ivana Gazibara is a futures and systems change expert, currently working with the TransCap Initiative to build the field of systemic impact investing.

Tim Jackson is Professor of Sustainable Development at the University of Surrey and Director of the Centre for the Understanding of Sustainable Prosperity (CUSP).

Tony Greenham is the ESG Director at the British Business Bank, the UK's economic development bank providing finance for start-ups, scale-ups and small and medium sized businesses to transition to a net zero economy. He was previously Director of Economy, Enterprise and Manufacturing at the RSA (Royal Society of Arts, Manufactures and Commerce).

Mark Stevenson is a strategic advisor to governments, investors, NGOs and corporates and co-founder of Carbon Removals company CUR8. He is Global Ambassador for environmental law firm Client Earth and former strategic advisor to the UK Ministry of Defence.

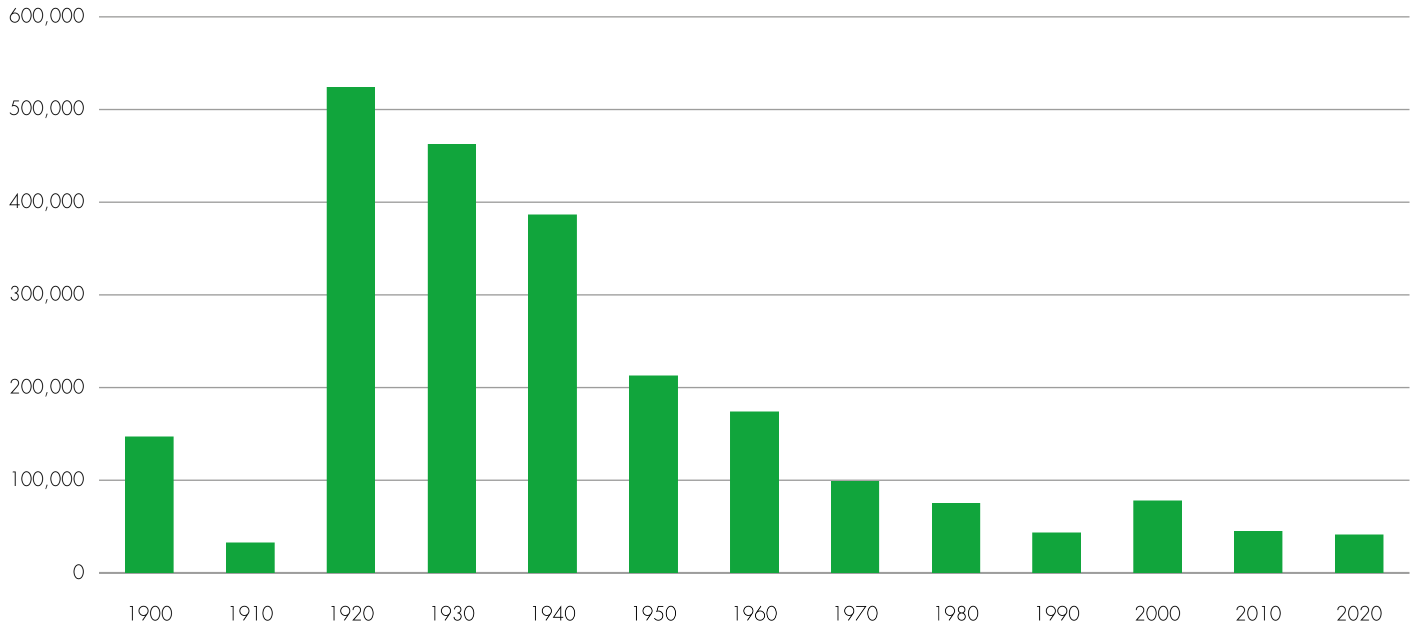
Reasons to be cheerful in 2024

The news in 2023 was dominated by reports of wars, lack of progress at COP 28 climate talks, biodiversity loss and democracy under threat – all topics that could lead one to have a dismal view of future prospects. On the Sustainable Investment team, however, we think it is important to look behind the headlines and counter this bleak view of the future. While it is not all rosy, we highlight some areas where, perhaps surprisingly, things have been getting significantly better.

Air pollution – Remember the 2008 Olympics in Beijing? Athletes complained of choking air pollution. We wrote about it under the headline 'Airpocalypse Now'. Sulphur dioxide and particulate pollution reached multiples of the safe limits set by the World Health Organisation. Yet there was a 55% reduction in air pollution between 2013, when it was at its worst, and 2020. This has improved life expectancy in the city by an estimated 4.6 years[1]. This progress has also been seen globally, with death rates from air pollution estimated to have halved since 1990.

Natural disasters – Earthquakes, tsunamis, storms and floods make for dramatic news. But again perhaps surprisingly, the number of global deaths from natural disasters has halved in absolute terms over the last 100 years. This is in spite of the global population quadrupling over that time. We have become much more resilient to these natural events.

Decadal average: Annual number of deaths from disasters

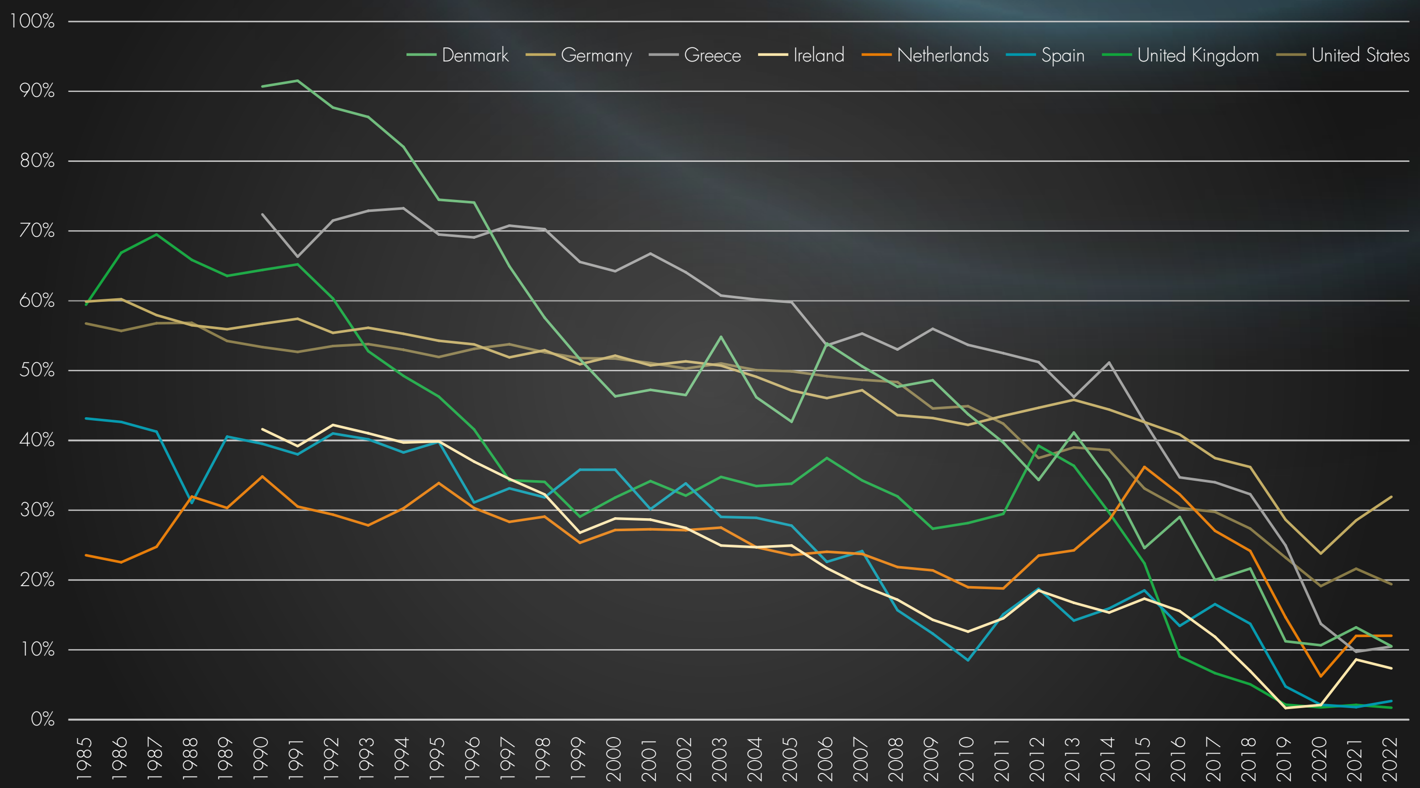


Source: EM-DAT, CRED, 2023. Decadal figures are measured as the annual average over the subsequent ten-year period. This means figures for '1900' represent the average from 1900 to 1909; '1910' is the average from 1910 to 1919 etc. Data includes disasters recorded up to September 2023.

[1]Much of this data comes from the excellent 'Not the End of the World' by Hannah Ritchie, lead researcher of Our World in Data.

Coal is a dying fuel – Coal is plentiful, but also dirty, dangerous[1] and becoming expensive relative to alternatives. In the UK, it has fallen from 66% of the electricity generating mix to just 2% over the last 30 years. In the US, usage has dropped from 55% to 20%. It is being replaced by cheaper, easier to deploy, clean wind and solar. To quote the President of the International Energy Agency, 'humanity has never had a cheaper energy source than solar PV'. Solar is consistently cheaper than new coal- or gas-fired plants in most countries, and solar projects now offer some of the lowest cost electricity ever seen. The era of burning things for energy is coming to an end.

Share of electricity production from coal (measured as a percentage of total electricity)



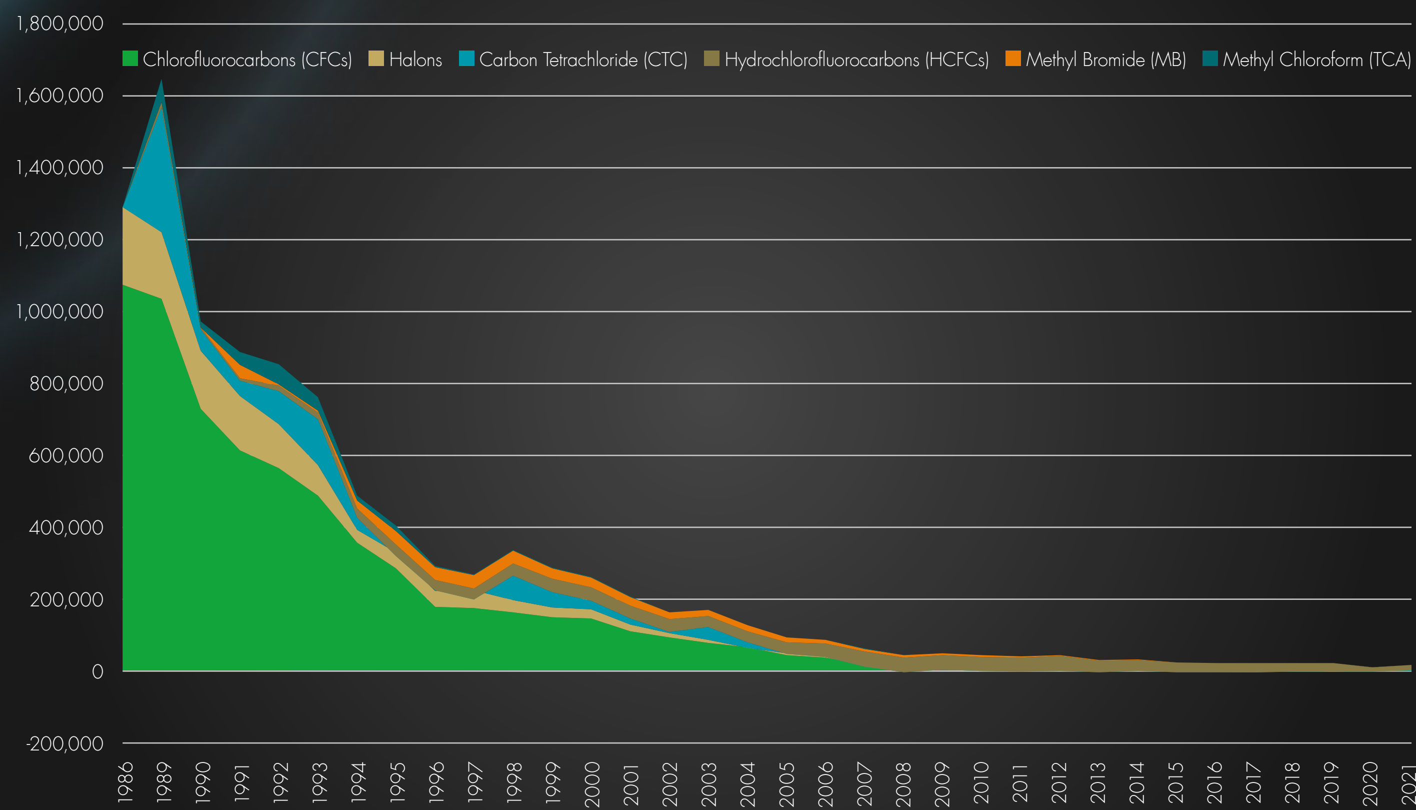
Source: Ember Climate Yearly Electricity Data (2023); Ember – European Electricity Review (2022); Energy Institute – Statistical Review of World Energy (2023).

[1]Coal is estimated to kill 24.6 people per TWh of electricity, wind, solar and nuclear less than 0.04 people a 50x difference.

Malaria vaccine – Malaria finally gets its vaccine – in fact two. GSK and the Jenner Institute have launched vaccines that will help to control a disease that in 2020 infected 249 million people and killed 608,000 (80% of these deaths were in children under the age of five). Boosting immunity in children will dramatically reduce the impact of this dreadful disease.

Ozone – The hole in the ozone layer is under repair. According to the UN environment programme, the ozone layer is now on track to fully recover within the next four decades – which means the hole will close and the layer will return to 1980 values, i.e. before the appearance of the ozone hole. While this is dependent on the world continuing to comply with the Montreal Protocol of 1989, which outlawed the use of ozone-depleting circumstances including chlorofluorocarbons (CFCs), it is still hugely positive.

World emissions of ozone-depleting substances



Source: UN Environment Programme (UNEP) 2023 and NASA Ozone Watch. Annual consumption of ozone-depleting substances. Emissions of each gas are given in ODP tonnes. In some years, gases can have negative consumption values. This occurs when countries destroy or export gases that were produced in previous years (i.e. stockpiles).

The underlying trends

There are numerous other positive stories we could highlight, but the point is that the underlying trends in many areas important to life are getting much better. Clearly, this is not happening everywhere, but by examining these trends we can isolate what they have in common and consider how to apply the same mechanisms to the many challenges that remain.

Typically, there are three elements at work: science and understanding; society and government; and investment and business. Science shows that air pollution is bad for health and determines where it is coming from; people demand change, and the government sets pollution rules and businesses invest and innovate to provide the solutions. The cycle then continues as this innovation in turn allows people and governments to increase their ambition, businesses provide the solutions to scale up and prices drop – this positive feedback mechanism leads to a wide distribution of solutions.

This is where sustainable investment comes in. For the Sustainable Future funds, we identify in our sustainability themes 22 areas of the economy where companies are growing while delivering solutions to these environmental and societal challenges. From an investment perspective, these companies tend to have good attributes: growth, innovation-led returns, and large addressable markets. And profit-making businesses have shown themselves to be a mechanism that distributes solutions rapidly. For this reason, we can demonstrate good alignment between sustainable businesses and strong investment returns.

For instance, £1,000 invested in SF Managed, our largest fund, grew to £2,220 over 10 years versus the peer group average of £1,650. This is a 35% difference.

We see no diminishing of these sustainable investment themes.

Here are just two of our themes for 2024:

Innovation in healthcare

Our team identified a major shift in the way that medical treatments are formulated: moving away from small simple molecules (used in a pill) towards larger more complex molecules, which are called biologics.

This shift is expected to deliver much more effective ways of treating disease (many of which can't be treated by using a simple pill).

We believe companies involved in selling life science equipment and consumables, as well as companies that have specialised in the manufacture of these more complicated biologics treatments, are set to benefit from the increased demand for their specialised services.

We are invested in companies expected to benefit from this broad trend through our Innovation in healthcare sustainable investment theme. These companies include:

Lonza, a company specialising in making biologics molecules – many pharmaceutical companies get Lonza to make these treatments for them.

Sartorius is a global company headquartered in Germany that specialises in making the containers used to create and transport these biologics.

Thermo Fischer is a US-based company that sells a broad range of specialist consumables and equipment used in life sciences. It has been one of our biggest holdings for many years.

Digital security

Digital security is a theme that keeps gathering momentum, as anyone wanting to access the British Library services will know. Unless you have secure systems, your organisation risks being shut down and having data and money stolen. Ransomware attacks are estimated to have risen 37% in frequency over the last year and 28% in cost per attack.

As more of our lives move online, it becomes ever more critical that information and networks are secure. Home working, cloud computing and AI (artifical intelligence) have only accelerated the pace of this race.

For this reason, we believe those companies helping to protect us in the digital world will see strong growth. Among these, we highlight **Palo Alto Networks**, which is the leading platform for firewalls and endpoint security; **Softcat**, which sells security to UK SMEs; and **Verisign**, which oversees the security of internet domain names.

Taking a thematic approach

Investing in positive sustainable themes: We have identified 22 positive sustainability trends which help make our economy cleaner, healthier and safer. This helps us understand the shifts happening and identify potential areas of structural (long-term) growth, as well as areas of secular decline to avoid.

Better resource efficiency

- Improving the efficiency of energy use
- Improving the management of water
- Increasing electricity generation from renewable sources
- Improving the resource efficiency of industrial and agricultural processes
- Delivering a circular materials economy
- Making transportation more efficient or safer

Improved health

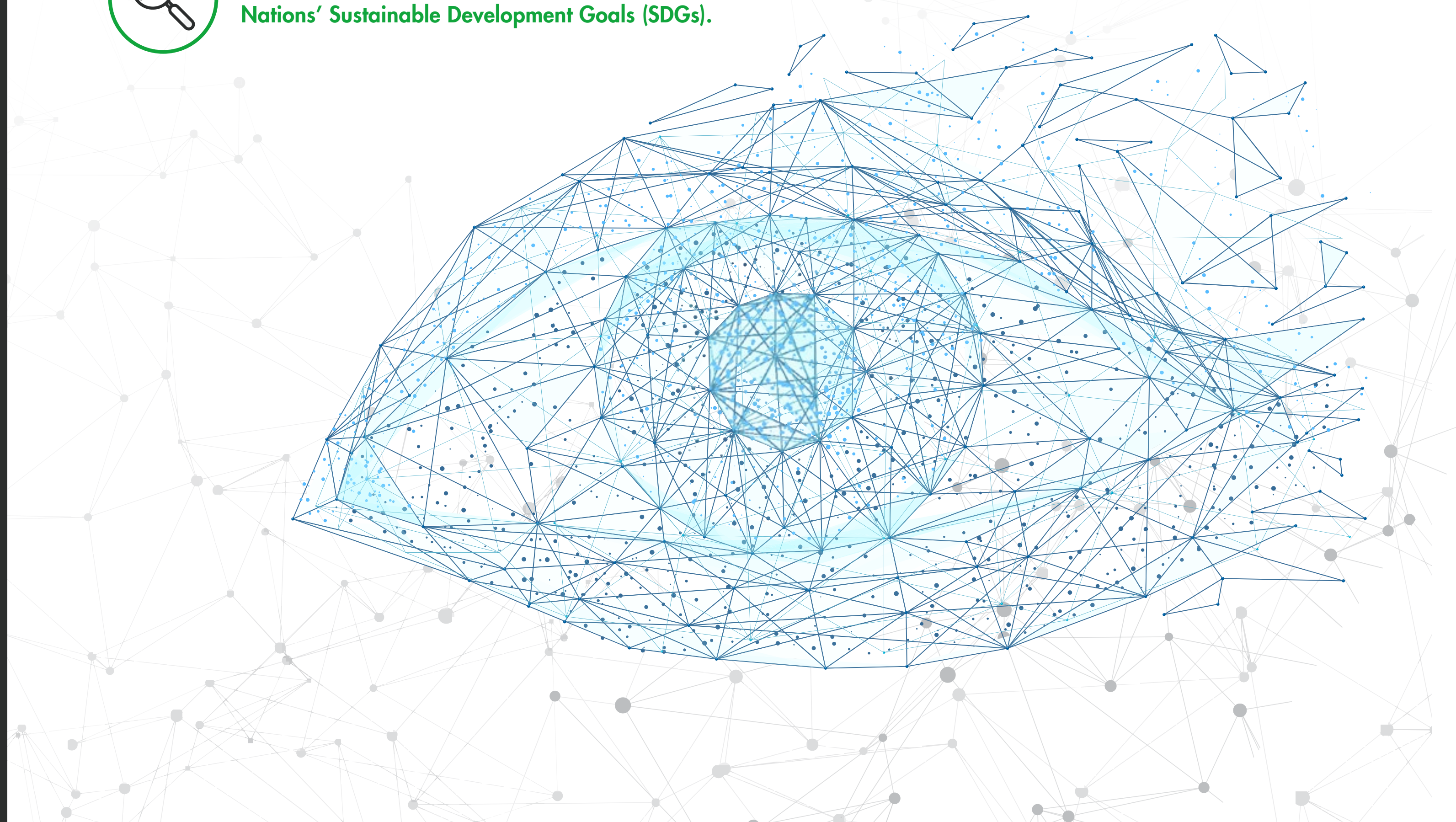
- Enabling innovation in healthcare
- Building better cities
- Connecting people
- Providing affordable healthcare
- Providing education
- Enabling healthier lifestyles
- Delivering healthier foods
- Encouraging sustainable leisure

Greater safety and resilience

- Enhancing digital security
- Insuring a sustainable economy
- Saving for the future
- Enabling SMEs*
- Financing housing
- Transparency in financial markets
- Better monitoring of supply chains and quality control
- Leading ESG management

*SME = Small and medium enterprises.

Our sustainable themes are aligned with the United Nations' Sustainable Development Goals (SDGs).



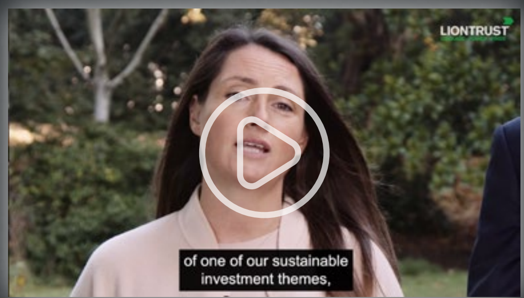
Why we are excited about our key themes

The future of sustainable investment

Tackling the climate challenge is not just the responsibility of governments around the world. Business has a significant role to play in innovating and refining solutions. Sustainable Investment head Peter Michaelis discusses what this means for the future and why there are reasons for optimism – including the recovery of the ozone layer, a significant decline in carbon emissions, and the acceleration in renewable energy.

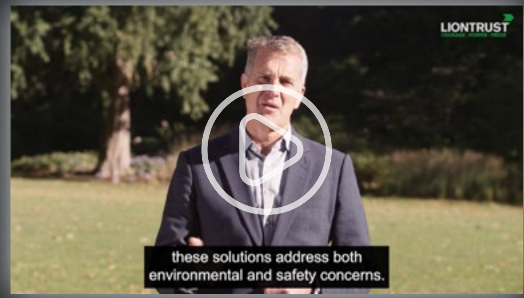
Cleaner electricity, a greener grid

If we are to fully decarbonise our economy, then there is an urgent need to replace fossil fuels with cleaner electricity. But this will have implications for the way we live. In this video, investment manager Mike Appleby considers the future of low carbon energy and looks at this can be achieved.



AI & digital security

Developments in digital technologies such as AI have enhanced the productivity of businesses, improved reliability and arguably enhanced our lives. With society living through a powerful technological revolution, investment manager Harriet Parker takes a closer look and examines the trends we will see over the next decade in this video.

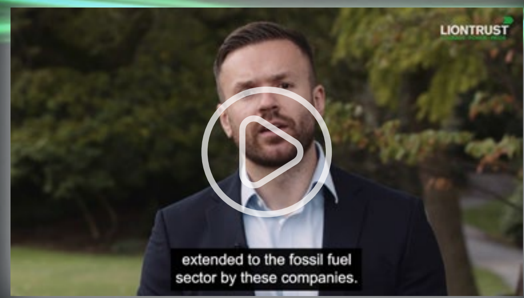


Safer, more efficient transport

Sustainable Investment head Peter Michaelis looks at the huge social and environmental costs linked to the way we travel around in our daily lives and the need to move to safer, more efficient transport. There are solutions, as he discusses in this video.

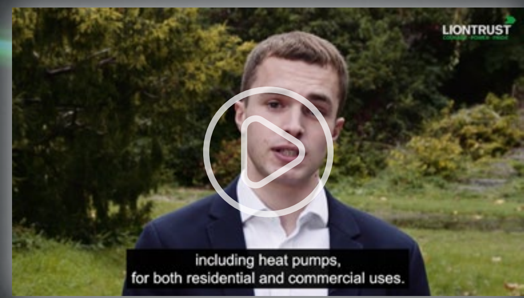
Healthcare innovation, vaccines

The most cost-effective steps for any healthcare system are those that stop people getting sick. Figures from the World Health Organization (WHO) estimate vaccines save between three to five million lives a year. These early-stage interventions also have a brilliant return for their money, with a 50 times return on each dollar or pound spent. Fund manager Laurie Don and analyst Sarah Nottle look at the team's Innovation in healthcare theme in more detail.



Financing the transition

Tackling the climate emergency is vital. However, the cost of developing new technologies and innovations to manage this are vast, with high upfront investment requirements. In this video, investment managers Jack Willis and Aitken Ross look at how to finance the climate transition to net zero, and the important role private investment has to play.

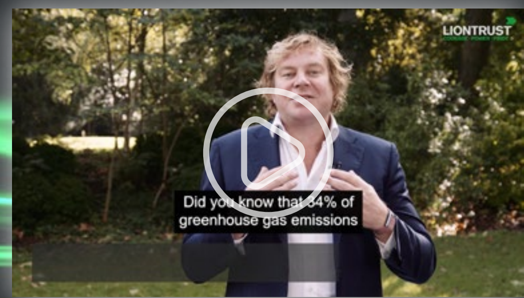


Building better cities

More than two-thirds of the world's population are likely to be living in cities by 2050 due to rapid urbanisation. This will increase demand for new infrastructure and, as a result, concrete to build with, as well as the need to maintain the structural integrity of buildings through repairs. In this video Sustainable Investment team analyst Ed Phelps examines how energy-efficient businesses held in the Sustainable Future range, such as Sika and Daikin, can help us to live better while reducing emissions.

Investing in the climate transition

The global average temperature is now 1.2 degrees centigrade warmer than it was before the industrial revolution and climate change is leading to more extreme weather events across the world. In this video, Sustainable Investment team fund manager Mike Appleby explains why carbon reduction must be the urgent focus to meet the target of limiting global warming to 1.5 degrees.



The factory of the future

A third of greenhouse gas emissions come from the industrial sector and waste is rife. The sector has also been slow to adopt new technologies such as data analytics which have transformed the efficiency of other areas of the economy. In this video, investment manager Simon Clements examines how the 'factory of the future' will use technologies to enhance efficiency in a sector where it is estimated that 20 cents out of every dollar spent is wasted.

Engagement highlights

Active ownership is integral to how our Sustainable Investment team ensures it invests in high-quality companies. Raising ESG issues with companies gives us greater insight and helps identify leading companies.

Making specific requests for change can help foster greater ambition within investee companies and promote best practices, while voting at company AGMs further encourages better business and governance practices. In our experience, active stewardship challenges and encourages companies to proactively manage their business for the benefit of long-term shareholder value.

In 2023, we raised 417 ESG issues with companies. Below, in this snapshot, we show how our engagement covered a broad range of topics, from company-specific issues to driving ongoing improvements in areas such as companies' responses to the ongoing climate crisis and increasing gender diversity on boards.

Engagement is a resource-intensive process, and our team conducts sustainability research alongside traditional financial and business fundamental analysis. This approach enables us to better target engagement on material issues and integrate it into our financial assessment of a company, maximising the information advantage that engagement can bring to analysis. The annual SF Engagement Report is available on the Liontrust website.

Preventing irreversible damage from the climate crisis

1.5 degree Transition Challenge

Our 1.5C Transition Challenge launched in 2020. We asked companies to develop plans for absolute emissions reduction and to develop strategies for full decarbonisation. We target the top 10 emitters for each SF strategy and have engaged with 86 companies as part of the 1.5C challenge.

The results have been revealing. Of the companies responsible for over 85% of the emissions in our portfolios, 60% have made meaningful, timely commitments to reduce emissions in line with the science, and, of these, 53% were already involved with the Science Based Targets Initiative (SBTi). 36% had a commitment to a 1.5C pathway by 2030.

In 2023, we raised this issue with 52 companies and made 12 specific requests for change. We are focused on keeping up the pressure and continuing to assess the plans and performance of investee companies, highlighting examples of leadership and also encouraging those that need to do more.

For example, the team met with **Ashtead**, an international equipment rental firm and **Trex**, which produces composite decking from recycled materials to push for absolute emissions reduction targets. But it is **not just high emitting companies** that the team engaged with to address their climate goals and targets – the team also engaged with digital platform **Trustpilot**.

THEME: CONNECTING PEOPLE

The team requested that Trustpilot reduce its absolute emissions in line with our 1.5-degree transition challenge and discussed the progression of targets. Emissions predominantly come from business travel and procurement, with nearly half of emissions generated from procurement where only 9% of Trustpilot's suppliers have science-based targets. Going forward, the group will aim to use suppliers that are signed up to the SBTi.

Corporate TCFD (Taskforce on Climate-Related Financial Disclosures) reporting and climate transition plans were also discussed in the team's engagement with Trustpilot. The company has made significant progress since the team first began to engage on this issue and Trustpilot's validation of SBTi is likely due in the first half of 2024 (with credible IFRS disclosures by March 2025).

Banking sector: financing oil and gas exploration

Over the year, the team conducted a sector-wide engagement initiative across its bank holdings, covering 13 companies. The focus of the initial round of discussions was on companies' existing policies and exposures around financing the oil and gas sector, and, specifically, new oil and gas exploration activities.

These discussions have enabled the team to better understand current company policies and to ascertain how well aligned these policies are with the team's objectives. The information received from this initiative is being used to refine investment eligibility criteria where necessary and to enable the team to make additional specific requests for change to further best practice.

Preserving and restoring nature

The team engaged with investee companies to encourage better information and reporting of natural capital impacts from their activities, products and services, and from policies and programmes that preserve and restore nature and promote biodiversity. The team made 11 requests for change, all of which are still ongoing.

The team became a signatory to the Nature Action 100 initiative, where it participates in engagement with other investors on several targeted companies, leading on groups for Roche, Unilever and Smurfit Kappa.

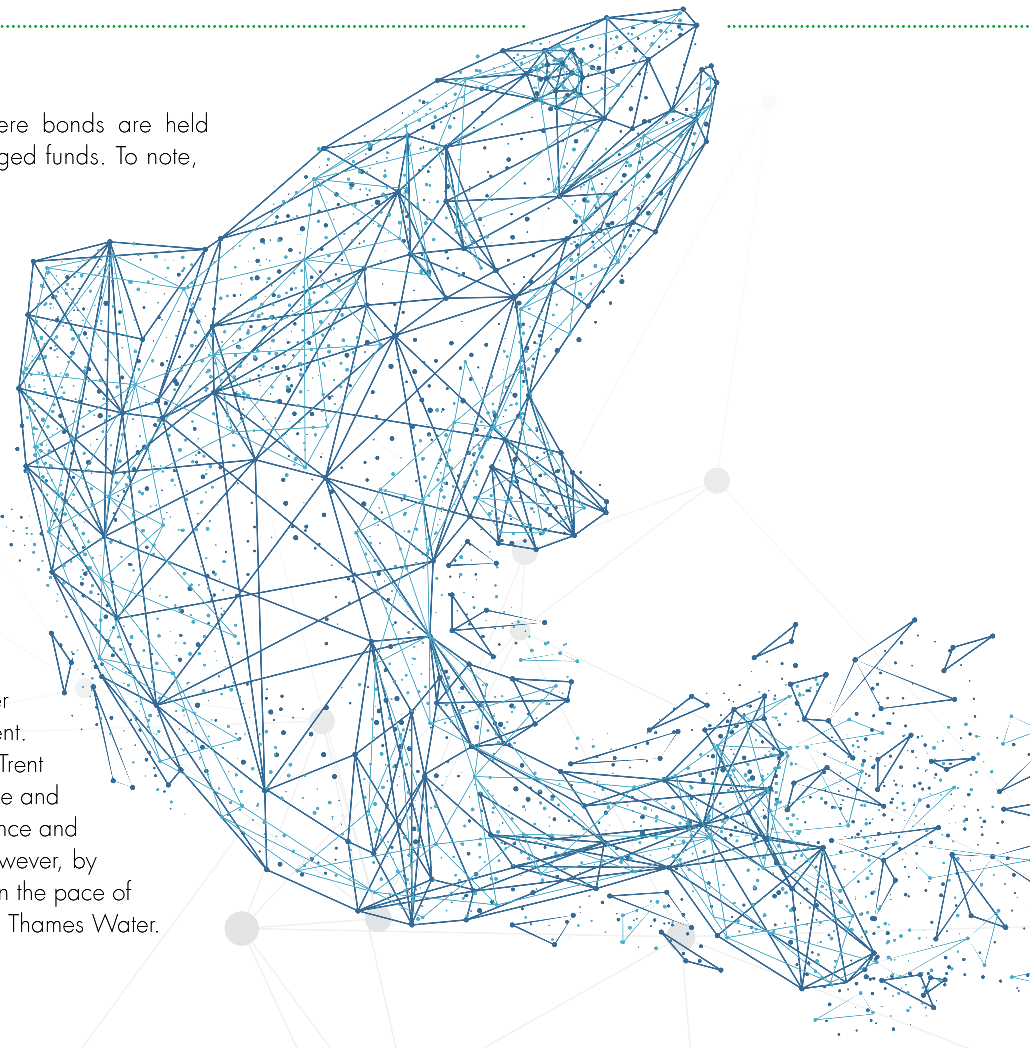
THEME: DELIVERING A CIRCULAR MATERIALS ECONOMY

The team met with Smurfit Kappa to explain its involvement and ascertain the extent to which the company believes it meets the NA100 investor expectations. The team also asked about some of the biodiversity frameworks that the company uses to report on how it manages nature risks. The company has a long-standing position of disclosing on key areas like biodiversity impacts as part of its materiality assessments. Smurfit's impacts have been reviewed and targets have been assigned so the company is likely to have already satisfied some of the NA100 investor expectations. The team expects that, in time, Smurfit will be a leader in terms of TCFD reporting.

The team also asked the group about its 'double materiality' framework conducted by a big accountancy firm and was given some examples, which reassured the team that Smurfit Kappa is truly analysing its dependencies on nature. The company has a number of targets already in place and many are tied to incentives; ESG objectives are incorporated into a revolving credit facility and five targets need to be met to get the best margin. Forest targets are also part of executive remuneration. Performance against KPIs is considered by the Board twice yearly. Board members include policy experts and ministers, academics and ambassadors, and ex-management of fast-moving consumer goods companies (FMCG).

UK water companies

We met with all six water companies where bonds are held across our range of fixed income and managed funds. To note, the team has owned bonds issued by water companies but not their shares. This is because we believe these bonds can better support the investment in water companies' infrastructure which is so vital for future performance and sustainability. The focus this year was on four key areas – companies' environmental performance; the strategy to markedly improve this; managing biodiversity; and strengthening the link between environmental performance and remuneration.



There is a long journey ahead and to achieve the improvement investors and broader society expect in UK water management will require substantial investment. Overall, of the UK water companies, Severn Trent stands out as a clear industry leader, with close and explicit links between environmental performance and remuneration throughout the organisation. However, by contrast, having failed to convince the team on the pace of its environmental improvements, we have sold Thames Water.

Ensuring worker wellbeing

While there has been recent progress made in workforce-related reporting, there remains a lack of meaningful data around corporate workforce and supply chain practices. As a signatory to the Workforce Disclosure Initiative (WDI), which currently has the support of 56 investor signatories managing over $9.5 trillion in assets, we are engaging with companies to improve corporate transparency and accountability on workforce-related issues.

Over 2023, the team requested 98 companies to participate in the WDI. Of these, 42 (43%) participated. The team has been cited as a leading contributor to the initiative, coming second out of the 20 active investors in terms of the number of companies it engaged with.

We also engaged with a number of companies on worker wellbeing and equality and diversity, including Markel, Nagarro and Trainline. We made 100 requests for change on worker wellbeing, of which 43% were either committed to or actioned.

We engaged with
98
companies

Our team made
100
specific requests for change

43%
participated in the WDI survey

Conclusions for the year ahead

Peter Michaelis

Early in 2024, the World Meteorological Organisation (WMO) confirmed that 2023 was the warmest year on record, with the surface temperature averaging 1.45C (+/-0.12C) above pre-industrial levels.

Meanwhile, new data shows that March 2024 was the hottest on record and the 10th month in a row of record high temperatures.

"The WMO community is sounding a red alert to the world", said the secretary general of the WMO, Celeste Saulo.[1] Among many unwelcome records, the warming of oceans stood out for shattering the previous record. The warming is the direct result of the increase in greenhouse gases, with CO2 concentrations 50% higher now than they were in the pre-industrial era.

There is no doubt we are changing the climate of our only planet. The consequences are predicted to be severely negative (with the added possibility of tipping points taking us into a completely new state of climate[2]).

It is hard to remain positive in the face of such a seemingly intractable problem. After all, our societies depend on affordable sources of energy, and currently 80% of this is derived from fossil fuels – the very thing that is driving climate change.

Yet while it is an enormous challenge, we do believe that it is surmountable. We have come a long way in terms of developing cheap renewables that now offer a realistic alternative source of energy. It is not delusional to imagine a world where energy is not generated by burning coal, oil or gas. History tells us that transitions can happen very rapidly once a cheaper and better solution is found.

Sustainable investment can play an important part in driving this rapid adoption which we need to see, by backing companies helping to accelerate the transition and by engaging with companies to speed their own decarbonisation.

Yet sustainability is not just about averting and adapting to climate change. It is also about ensuring health and resilience and efficient use of limited resources. All our themes back businesses helping to improve these areas too.

So while the precise outcome of 2024 is hard to predict, we do believe that the trends to a cleaner, healthier and safer world are still very much intact. These will underpin the longer-term progress of the companies we invest in and this gives us confidence that the strong performance achieved in 2023 can be continued in the years to come.

[1] Climate change indicators reached record levels in 2023: WMO; https://wmo.int/news/media-centre/climate-change-indicators-reached-record-levels-2023-wmo

[2] Explainer: Nine 'tipping points' that could be triggered by climate change - Carbon Brief; https://www.carbonbrief.org/explainer-nine-tipping-points-that-could-be-triggered-by-climate-change/

Discrete returns (%)

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Sustainable Future Managed 2 Inc	11.8	-20.5	13.5	21.3	24.7
IA Mixed Investment 40-85% Shares	8.1	-10.0	10.9	5.3	15.8
Liontrust Sustainable Future Global Growth 2 Acc	15.2	-21.3	17.4	32.3	29.4
MSCI World	16.8	-7.8	22.9	12.3	22.7
IA Global	12.7	-11.1	17.7	15.3	21.9
Liontrust Sustainable Future European Growth 2 Acc	6.7	-27.7	13.7	24.3	25.9
MSCI Europe ex UK	14.8	-7.6	16.7	7.5	20.0
IA Europe Excluding UK	14.0	-9.0	15.8	10.3	20.3
Liontrust Sustainable Future UK Growth 2 Acc	5.0	-25.8	12.5	5.3	30.2
MSCI UK	7.7	7.1	19.6	-13.2	16.4
IA UK All Companies	7.4	-9.1	17.2	-6.0	22.2
Liontrust UK Ethical 2 Acc	3.6	-25.3	10.4	2.8	37.8
MSCI UK	7.7	7.1	19.6	-13.2	16.4
IA UK All Companies	7.4	-9.1	17.2	-6.0	22.2
Liontrust Sustainable Future Managed Growth 2 Acc	15.4	-20.7	16.5	33.2	26.4
IA Flexible Investment	7.1	-9.0	11.3	6.7	15.7
Liontrust Sustainable Future Cautious Managed 2 Inc	8.9	-18.2	9.2	12.8	19.5
IA Mixed Investment 40-85% Shares	8.1	-10.0	10.9	5.3	15.8
Liontrust Sustainable Future Defensive Managed 2 Inc	8.2	-18.4	6.8	11.3	16.8
IA Mixed Investment 20-60% Shares	6.8	-9.5	7.2	3.5	11.8
Liontrust Sustainable Future Monthly Income Bond B Gr Inc	13.1	-15.4	-0.2	5.5	9.4
iBoxx Sterling Corporates 5-15 years	11.3	-19.2	-3.3	8.6	10.7
IA Sterling Corporate Bond	9.4	-16.1	-1.9	7.8	9.5
Liontrust Sustainable Future Corporate Bond 2 Inc	13.0	-19.1	-2.0	7.0	11.8
IBOXX GBP Corporate All Maturities	9.7	-18.4	-3.2	8.6	11.0
IA Sterling Corporate Bond	9.4	-16.1	-1.9	7.8	9.5
Liontrust GF Sustainable Future European Corporate Bond A5 Acc EUR*	10.4	-14.8	-0.3	1.0	7.3
Markit iBoxx Euro Corporates Index	8.2	-14.2	-1.1	2.7	6.3
Liontrust GF Sustainable Future Global Growth B5 Acc USD**	22.5	-30.3	15.4	38.0	–
MSCI World	23.8	-18.1	21.8	15.9	N/A
Liontrust GF Sustainable Future Multi Asset Global A1 EUR*	10.4	-20.2	–	–	–
50% MSCI World, 35% Markit iBoxx EUR Overall, 15% ESTER	12.7	-12.3	–	–	–
Liontrust GF Sustainable Future Pan European Growth A1 Acc EUR*	9.7	-29.0	20.4	13.5	32.4
MSCI Europe	15.8	-9.5	25.1	-3.3	26.0
Liontrust GF Sustainable Future US Growth B5 Acc USD**	–	–	–	–	–
MSCI USA	–	–	–	–	–
IA North America	–	–	–	–	–

Source: Data as at 31.12.23. FE Analytics. primary share class, total return (net of fees, interest/income reinvested). Funds versus comparator benchmarks. GF SF Global Growth Fund launched 12.11.19, GF SF Multi Asset Global Fund launched 13.10.21 and GF SF US Growth Fund launched 07.07.23, so discrete data is not available for five full 12-month periods. *In Euros. **In USD.

Past performance does not predict future returns. You may get back less than you originally invested. Please refer to the Key Risks for more information

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.

The funds managed by the Sustainable Future Team:

Are expected to conform to our social and environmental criteria.
May hold overseas investments that 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 a fund.

May hold bonds. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.
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.

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.

May 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.

May, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control fund volatility in both up and down markets by hedging against the general market.

The use of derivative instruments may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Outside of normal conditions, 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.

May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.
Do not guarantee a level of income.

The risks detailed above are reflective of the full range of funds managed by the Sustainable Future Team and not all of the risks listed are applicable to each individual fund. For the risks associated with an individual fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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.

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