LIONTRUST
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Sustainable Investment

January 2024

UK SDR and investment labels

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Liontrust SF funds and UK Ethical to be Sustainability focus

The FCA regulation on Sustainability Disclosure Requirements (SDR) and investment labels is designed to protect consumers and help them understand, if a fund has a stated sustainability objective, how it meets this objective with a new set of disclosure requirements. This was finalised in November 2023 and funds can adopt the appropriate label as early as 31 July 2024 from the following:

- **Sustainability focus:** objective to invest in companies aligned with sustainability themes / (or meet with robust, evidence-based standard)
- **Sustainability improvers:** improve sustainability of assets (measurable improvements through engagements)
- **Sustainability impact:** explicit objective to achieve positive (social or environmental) with specified measurable real world impact
- **Sustainability mixed:** for funds using a combination of the above

Only funds with a sustainability objective are permitted to use these labels.

We have been asked what Liontrust's stance will be with regard to this regulation. We intend to classify all the Liontrust Sustainable Future (SF) funds as **Sustainability focus** given the funds' objective to invest in sustainable businesses that are exposed to positive sustainability themes. This includes our equity, fixed income and multi-asset funds. We are aiming to apply this labelling in the third quarter of 2024. We do not anticipate making any changes to our investment process. We do anticipate however making some minor changes to wording in the fund documentation to more explicitly include some detail from our investment process relating to sustainability objectives. This will help to ensure full alignment with the regulatory requirements under SDR.

There has been some confusion about where this leaves some funds badged as "ethical", which might explicitly exclude certain areas of the market but not necessarily fit into the classifications above. The **Liontrust UK Ethical fund** will be classified as **Sustainability focus** (the same way as the other SF funds) as it uses the same investment process and sustainability objective – which is to invest in companies aligned with our sustainable investment themes. What makes the Liontrust UK Ethical fund different from the SF funds is that it has additional exclusion criteria, but this does not affect its investment label classification.

We welcome regulation that helps clarify to investors any sustainability claims made by investment funds. We are confident our SF funds, which have been following the same investment philosophy with the aim to outperform markets by investing in sustainable companies since their inception in 2001, will be in compliance with these disclosure requirements. We will continue to strive to be transparent in our communication, beyond what is required by this new regulation, to ensure investors can understand our themes; what we avoid; where we are engaging; as well as responding clearly to enquiries about the sustainability aspects of the SF Funds.

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.

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 that 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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