

Sustainable Investment

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A sustainable and prosperous 2024?



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Reasons to be cheerful

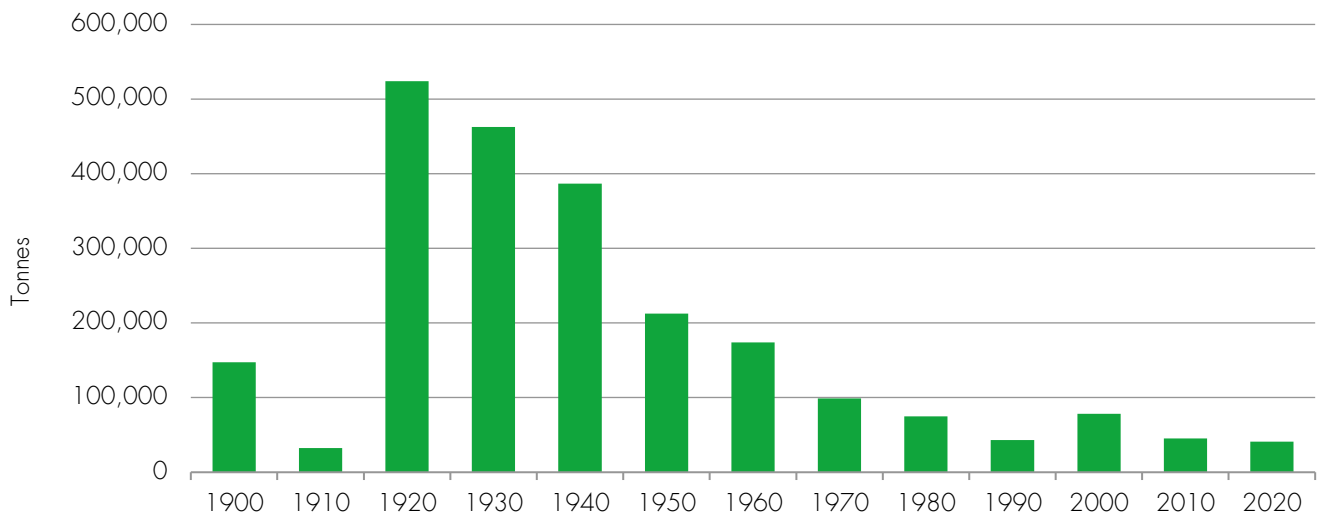
The news in 2023 was dominated by reports of wars, lack of progress at COP 28 climate talks, biodiversity loss, democracy under threat – all topics that could lead one to have a dismal view of future prospects. On the SF team though, we think it is important to look behind the headlines and counter this 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. 14 years later and there has been 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 years¹. 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 hundred years. This is in spite of the global population quadrupling in that time. We have become much more resilient to these natural events.

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,

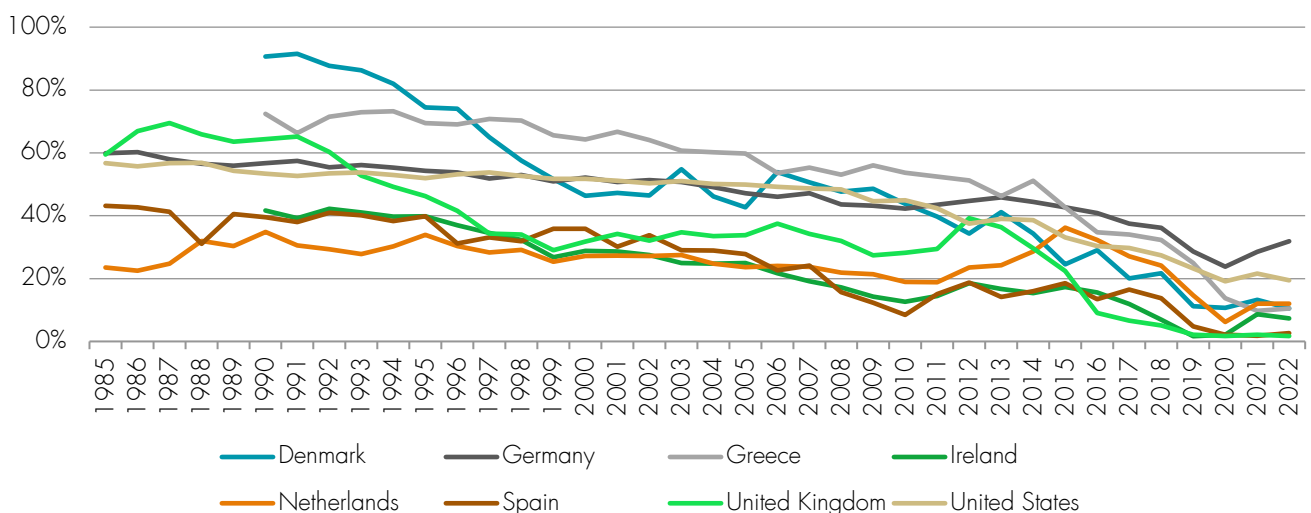
Decadal average: Annual number of deaths from disasters



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.

Coal is a dying fuel – Coal is plentiful, but dirty, dangerous² 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 thirty 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 now 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)



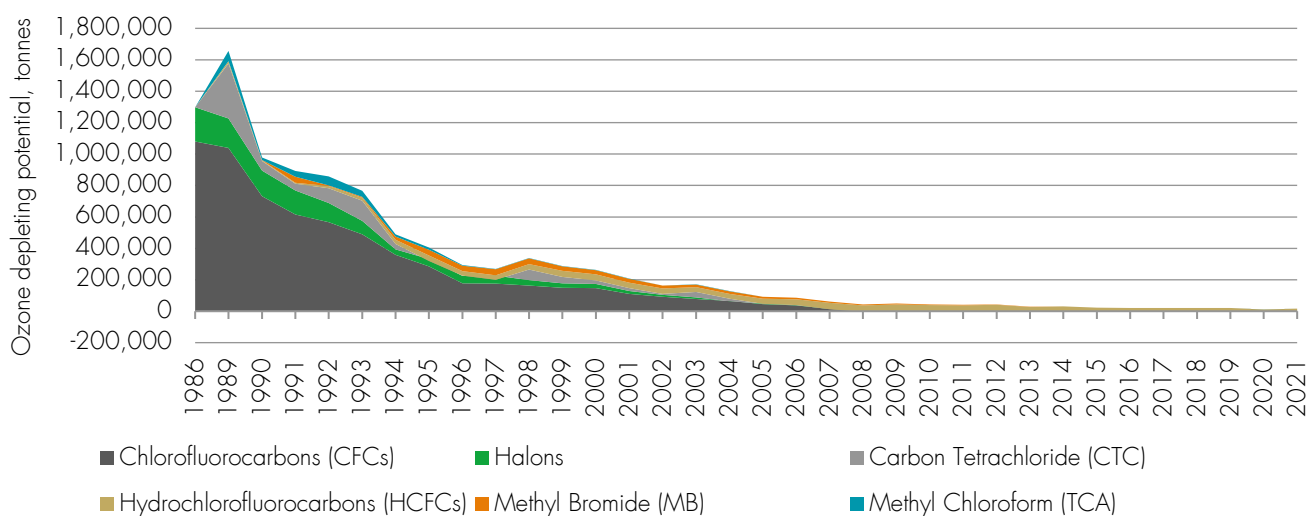
Source: Ember Climate Yearly Electricity Data (2023); Ember – European Electricity Review (2022); Energy Institute – Statistical Review of World Energy (2023)

² 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.

Emissions of ozone-depleting substances, World



Source: UN Environment Programme (UNEP) 203 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 many more positive stories I 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 how to apply the same mechanisms to the many challenges that still 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; 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 then is where sustainable investment comes in. For the Sustainable Future funds, we identify in our sustainability themes 20 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, £1000 invested in SF Managed, our largest fund, grew to £2,220 over ten years versus the peer group average of £1650. This is a 56% difference.

Past performance does not predict future returns

We see no diminishing of these sustainable investment themes. Here are just two of the themes we are investing behind in 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 specialised 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 is one of our biggest holdings and has been 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 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 would 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.

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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