



Liontrust European Growth Fund

May 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund returned 1.4%* in sterling terms in May. The MSCI Europe ex-UK index comparator benchmark returned 0.1% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was 0.8%.

Both the US Federal Reserve and the Bank of England enacted further interest rate hikes in May as they sought to bring inflation under control, with consumer inflation for April hitting 8.3% and 9.0% in the US and UK respectively. The eurozone equivalent isn't far behind at 7.5% putting the pressure on the European Central Bank to consider its first rate increase in over a decade. Futures markets are currently pricing in a hike of 30 basis points at the ECB's July meeting.

The EU agreed a plan to block around 90% of Russian oil imports by the end of the year. The prospect of a further supply squeeze in energy markets pushed the Brent crude oil price up 12% to nearly \$123 a barrel. Within European equity markets, energy was by far the strongest sector, rising 13%. Finance (+2.6%) and communications services (+2.0%) were other risers within the MSCI Europe ex-UK Index, while consumer staples (-5.6%), health care (-3.1%), IT (-2.7%) and real estate (-2.3%) were the weakest.

The Fund's holdings in **Totalenergies** (+19%) and **Lundin Energy** (+15%) gave it good exposure to the sector strength. However, the top portfolio gainer was **Swedish Match** (+29%). Its shares jumped after it agreed to a SEK106 per share cash offer from Philip Morris. The period for shareholder acceptance of the offer is expected to run from 23rd June to 20th September. The offer was well-timed from the Fund's perspective, Swedish Match having only been added to the portfolio early in the month as we continued to seek out defensive exposure in response to high market valuations, a technical downtrend, low valuation dispersion, and very aggressive levels of corporate investment.

German fertiliser supplier **K+S** (-17%) has had an exceptionally strong run recently as prices of potash and other agricultural commodities jumped in the wake of Russia's invasion of Ukraine. These price increases contributed to K+S significantly upgrading its financial guidance in April: the 2022 EBITDA forecast was lifted from a €1.6bn - €1.9bn range to €2.3bn - €2.6bn, ahead of consensus analyst forecasts of €2.2bn. The shares have since rolled over as concerns have mounted over the potential for gas supply constraints if Russian supply to Europe is interrupted, and how this would affect production at K+S. A Q1 update reported a 65% year-on-year increase in revenues to €1.2bn and reiterated the recently issued full-year guidance. However, it noted that this outlook is contingent on unrestricted production through the year, with no allowances made for the production cuts that would result from energy or gas supply disruption.

Weakness in Danish jeweller **Pandora's** (-10%) shares looked to be at odds with the trends reported in a Q1 update. It recorded 21% organic year-on-year growth as it experienced broad-based growth in key markets aside from China, which was a headwind. Despite cost inflation and the potential for consumer demand to be negatively affected by the higher cost of living, Pandora slightly upgraded its full year operating profit growth guidance range from 3%-6% to 4%-6%. It did, however, flag that its financial guidance this year is subject to elevated uncertainty given the volatile market backdrop.

Publicis Group (-11%) fell as a broker cut its rating on European media agencies on the prospects that slowing economic growth might squeeze advertising budgets.

Positive contributors to performance included:

Swedish Match (+29%), Totalenergies (+19%) and Lundin Energy (+15%).

Negative contributors to performance included:

K+S (-17%), Publicis Group (-11%) and Pandora (-10%).

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

Past performance does not predict future returns

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust European Growth I Inc	15.9%	54.9%	-8.3%	-0.1%	0.6%
MSCI Europe ex UK	5.5%	33.5%	-8.3%	2.2%	3.0%
IA Europe Excluding UK	4.2%	39.6%	-9.4%	-1.2%	5.6%
Quartile	1	1	2	2	4

*Source: Financial Express, as at 31.05.22, total return (net of fees and income reinvested), bid-to-bid, institutional class. Non fund-related return data sourced from Bloomberg.

**Source: Financial Express, as at 31.03.22, total return (net of fees and income reinvested), bid-to-bid, primary class.

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>

Key Risks:

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.

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. 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.

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