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Liontrust GF European Smaller Companies Fund

May 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund's A3 share class returned -0.9%* in euro terms in May. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned -1.7%.

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 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 11%. Finance (+2.5%) and communications services (+1.6%) were other risers within the MSCI Europe Index, while real estate (-4.6%) consumer staples (-4.1%), health care (-3.2%) and IT (-3.0%) were the weakest.

The Fund's holding in **BW Offshore** (+25%) was the strongest in May. The company issued Q1 results which commented that elevated oil and gas prices are leading the industry to become more active in progressing new field development projects. It also announced the limited notice to proceed (LNTP) award of a contract with Shell for the provision of a FPSO (Floating production storage and offloading) for the Gato do Mato field offshore Brazil. The LNTP contract is worth up to \$50m, with the full contract still subject to finalisation of commercial and pricing terms with Shell, given the current inflationary supply chain market.

Public sector contractor **Sercos Group** (+16%) raised 2022 financial guidance on the back of stronger-than-expected trading in the first four months of the year. Revenues had previously been expected to fall from £4.4bn in 2021 to a £4.1bn - \$4.2bn range in 2022. Sercos' work on the UK Test & Trace programme ending in April, meaning the loss of £220m in revenue in the first half of the year relative to the 2021 comparable. However, Sercos now expects to largely replace this revenue with other government work around the world. Its new 2022 revenue guidance is £4.3bn - \$4.4bn, while its underlying trading profit target has been raised from £195m to £225m.

Building materials manufacturer **Forterra** (+13%) also raised guidance. In the first four months of the year, revenues rose 25% - ahead of managements' expectations. Although capacity and inventory constraints are expected to cap the rate of growth in the remainder of the year, Forterra expects that 2022 results will be materially ahead of its previous targets. It commented that it has successfully passed on cost increases to its customers via prices, while it has already fixed costs on 85% of its 2022 energy requirements and a third of its 2023 gas requirement.

By contrast, **Belimo Holding** (-23%) is viewed as overly exposed to raw material price rises according to one sell-side broker that cut its rating on the stock at the start of May. Belimo designs and produces actuators and control valves for the operation of air conditioning and ventilation systems. The broker noted that key inputs such as steel, copper and aluminium could cause cost inflation for the company.

Although **Keller Group's** (-13%) AGM update maintained its full-year financial guidance, the share price reaction suggests that investors are concerned by some of the headwinds mentioned. Revenues have been in-line with Keller's expectations, with a significant portfolio of costs increases passed on in higher prices, but it has been affected by materials shortages.

Positive contributors to performance included:

BW Offshore (+25%), Serco Group (+16%) and Forterra (+13%).

Negative contributors to performance included:

Belimo Holding (-23%), Impax Asset Management (-22%) and Keller Group (-13%).

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 GF European Smaller Companies A5 Acc EUR	8.6%	69.9%	-21.8%	-2.6%	1.0%
MSCI Europe Small Cap	1.9%	61.2%	-18.1%	-1.3%	8.3%

*Source: Financial Express, as at 31.05.22, total return (net of fees and income reinvested).

**Source: Financial Express, as at 31.03.22, total return (net of fees and income reinvested). Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (01.02.17). Investment decisions should not be based on short-term performance.

A Performance Fee for each Performance Period shall be equal to 10% of the amount, if any, by which the Net Asset Value before Performance Fee accrual of the Fund exceeds the Indexed Net Asset Value of the Fund on the last Business Day of the Performance Period. The Performance Period of the Fund is every 12 months ending on the last business day of each calendar year. Details of the Fund's performance fee in the last financial year can be found in the Key Investor Information Document (KIID) which can be obtained free of charge from the Liontrust website.

Key Features of the Liontrust GF European Smaller Companies Fund

Investment objective & policy ¹	The investment objective of the Fund is to achieve long term capital growth by investing primarily in European smaller companies. The Fund may invest in all economic sectors in all parts of the world, although it is intended it will invest primarily in equities and equity related derivatives (i.e. total return swaps, futures and embedded derivatives) in European companies (including the UK and Switzerland). The majority of the assets of the Fund (more than 85%) are expected to be invested in smaller companies (with a market capitalisation of less than 5 billion euros at the time of the initial investment). In normal conditions, the Fund will aim to hold a diversified portfolio, although at times the Investment Adviser may decide to hold a more concentrated portfolio, and it is possible that a
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	substantial portion of the Fund could be invested in cash or cash equivalents. The Fund may use FX forwards to hedge the Fund's currency exposures. The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRRRI) ²	6
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to MSCI Europe Small -Cap Index net total return (the "Benchmark") by virtue of the fact that it seeks to outperform the Benchmark. However the Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.

Notes: 1. As specified in the KIID of the fund; 2. SRRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates.

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