



Liontrust European Dynamic Fund

June 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

The Fund returned -11.2%* in sterling terms in June. The MSCI Europe ex-UK index comparator benchmark returned -7.0% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was -8.5%.

The World Bank's June edition of its Global Economic Prospects warned of several years of above-average inflation and below-average growth as it cut its 2022 growth forecast from 4.1% (at the time of the January report) to 2.9%.

One of the factors in the downgrade is the impact of interest rate normalisation, and this continued apace in June. A Wall Street Journal article leaked the US Federal Reserve's intention to raise rates by 0.75%, rather than the 0.5% previously expected, and a couple of days later the central bank duly delivered its largest hike since 1994. Fed Chair Jay Powell later commented in Senate testimony that a US recession is "certainly a possibility" and was largely out of its control. Following news that the UK economy had shrunk 0.3% in April, the Bank of England continued its tightening with a fifth consecutive hike, but opted for another 25 basis point increase rather than a larger move.

The rapid rise in interest rate expectations this year had contributed to the MSCI Europe ex-UK Value Index outperforming its Growth counterpart by more than 20 percentage points year-to-date heading into June. Despite the monetary tightening seen in June, investors are now increasingly focused on the potential recessionary impact of high rates, with the likelihood that this may necessitate future cuts. The market expectation for US peak rates in this cycle shifted up from under 3.0% to nearly 3.5%, but it is also now expected to peak earlier – the first half of 2023 – with cuts taking it back under 3.0% by the end of 2023.

Against this backdrop, the MSCI Value Index fell more heavily during June's market drop, underperforming by 1.6 percentage points. This was a headwind to the Fund's current positioning, as was the underperformance of small and mid-caps given the Fund's equally weighted portfolio construction.

All sectors of the MSCI Europe ex-UK Index registered negative returns during June, although those viewed as typically defensive held up best: consumer staples (-0.9%), health care (-2.0%) and communication services (-3.3%). The more cyclical areas of real estate (-19%), materials (-13%), industrials (-11%) and IT (-10%) were hardest hit.

Amid resurgent recessionary fears, Fund holdings exposed to cyclical weakness included steel manufacturer **ArcelorMittal** (-27%), shipping giant **AP Moller-Maersk** (-17%), jewellery retailer **Pandora** (-19%).

Electrical supplies distributor **Rexel** (-22%) suffered a heavy fall despite issuing a strategic update which included raised 2022 financial guidance. The company said that a better-than-expected start to the year in all geographies means that it expects 7% to 9% like-for-like sales growth in 2022, up from 4% to 6% previously. Operating profit margins are also expected to be higher at 6.7% rather than 6.0% previously expected. Its new four-year targets through to 2025 are for sales growth of 4% to 7% per annum and a margin of 6.5% to 7.0%.

Orron Energy (-37%) – formerly named Lundin Energy – also shows up as a large Fund detractor, but this fails to tell the full story of the investment; during June, Lundin's merger of its oil exploration and production business with Aker completed. The terms of the deal saw Lundin Energy shareholders receive a cash amount and shares in the new combined business – **AkerBP** – while the remaining, renewables-focused business was rebranded as

Orron Energy. On the day that the deal became effective, shares in Lundin/Orron dropped in value by an amount equivalent to the proceeds of the oil division spin-off (cash plus shares in AkerBP).

Given the very broad-based nature of the market's weakness, only a handful of holdings ended June in positive territory. Defensive characteristics helped pharmaceuticals **Novo Nordisk** (+3.9%) and **Roche** (+1.4%), smokeless tobacco retailer **Swedish Match** (+2.3%), drinks group **Royal Unibrew** (+4.6%) and food retailer **Jeronimo Martins** (+10%) move higher.

Positive contributors to performance included:

Jeronimo Martins (+10%), Royal Unibrew (+4.6%) and Novo Nordisk (+3.9%).

Negative contributors to performance included:

Orron Energy (-37%), ArcelorMittal (-27%) and Rexel (-22%).

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

Past performance does not predict future returns

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust European Dynamic I Inc	-5.9%	43.8%	2.2%	-1.7%	5.0%
MSCI Europe ex UK	-10.6%	21.8%	0.0%	7.3%	1.8%
IA Europe Excluding UK	-12.6%	23.7%	0.9%	3.3%	3.11%
Quartile	1	1	2	4	2

*Source: Financial Express, as at 30.06.22, 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 30.06.22, 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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