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THE SUSTAINABLE FUTURE PROCESS

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Liontrust GF SF European Corporate Bond Fund: Q1 2023 review

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The Fund returned 1.4%*† in euro terms over the quarter, compared with the 1.7% return from the Markit iBoxx Euro Corporates Index comparator benchmark.

Market backdrop

Financial markets generally had a strong start to the year, as stronger than anticipated economic data and falling headline inflation heightened optimism of a soft landing and that central banks are approaching the end of the monetary policy tightening.

This optimism was further supported by the reopening of the Chinese economy, with the potential easing of supply chain pressures supporting lower inflation and stronger growth more broadly.

However, as we progressed through the period, core inflation continued to surprise to the upside, alongside more resilient economic data, raising the prospect of a prolonged period of higher interest rates.

In March, renewed inflation concerns were eclipsed by the significant volatility following the collapse of Silicon Valley Bank (SVB) in the US, which was swiftly followed by Credit Suisse's plight in Europe. SVB's demise marked the second largest bank failure in US history, after suffering large deposit outflows following a failed equity raise to bolster its capital position due to losses on its long-dated Treasuries investments.

This sparked fears about contagion risks for the broader banking sector resulting in large deposit outflows from US regional banks and the re-introduction of emergency funding programmes by the Federal Reserve.

These fears were further amplified by the downfall of Credit Suisse, which saw similarly large deposit outflows amidst waning confidence in the bank after it revealed regulator concerns regarding accounting irregularities after already being under heightened scrutiny. Ultimately, this led to government intervention in order to save the bank, with a last-ditch sale to UBS agreed which included significant guarantees and backing by the Swiss government.

Most notably for bond investors, the rescue deal resulted in the full write-down of the bank's AT1 securities, despite ranking senior to equity investors who received some compensation, undermining the conventional bank loss absorption capital structure.

This understandably undermined confidence in the AT1 asset class, and subordinated bank debt more broadly, with bond investors concerned that in the event of resolution they may actual rank junior to equity holders.

The concerns over the resilience of the global banking system saw a flight to safety, causing a significant rally in government bonds and resulting in strong returns from duration assets including corporate bonds and growth stocks.

Volatility and banking sentiment recovered towards the end of the quarter, as all major central banks came out to reiterate their confidence in the financial system with the risks largely seen as contained, which reassured investors.

Fund review

Fund activity was fairly muted over the quarter. In terms of disposals, we exited positions in Medical Properties and Aroundtown. We did not favour the management stance following some negative headlines and poor market sentiment for the sector, which, coupled with deterioration in their credit metrics, led us to dispose of our holdings in these two names.

In terms of new deals, we participated in a new issue from Prologis, a highly rated logistics company that offered an attractive new issue premium.

We also rotated out of existing bonds for attractive yield and spread pick-up. No active duration positioning was taken in the Fund over the quarter.

In terms of performance attribution, the Fund marginally outperformed its benchmark. Our duration and curve positioning added 22 basis points (bps) over the quarter, while credit selection detracted 31bps.

In terms of credit performance, telecoms were the biggest positive contributor. Their ability to pass on costs to consumers in a market with persistent inflation translated into strong operating performance. The bonds' long spread duration, coupled with good business performance, generated positive returns for the Fund. Stock selection was strong in names such as Cellnex and Inwit

The REITs sector on the other hand was a detractor from performance. Weakness and fear of additional property devaluations coupled with the banking crisis and its implication for bank financing led to sector concerns spiking again. As a result, the sector saw all of its year-to-date performance wiped out in just a few weeks, making it the worst performer in the quarter. The recent underperformance in our portfolio stems from the fact that we are overweight the sector relative to the benchmark and have higher duration, which means it will underperform when spreads move wider, as was the case this quarter.

Banks and insurance were broadly flat over the quarter. The rapid underperformance in late March was temporary and the sector managed to recover much of it by the end of the quarter. The sector rallied in January and February, but the outperformance was unwound amid a flight to safety following the collapse of SVB and Credit Suisse.

Investors in Europe became overly concerned after the write down of the AT1 securities in Credit Suisse which affected subordinated financials in Europe. Even though we had no exposure to Credit Suisse or US regional banks, our overweight positioning on subordinated financials had a negative impact on performance. It is important to note that UK and European banks are not exposed to SVB and Credit Suisse issues, due to several factors. These are better regulation, a more retail focused business model, stronger liquidity and capital ratios as well as BoE and ECB monitoring. The credit ratings continue to be stable/improving in our holdings.

Outlook

The challenge facing global central banks remains, to return inflation to target whilst limiting the impact on their respective economies. The full effect of the significant monetary policy tightening on the economy is still to be felt and a tightening in bank lending standards will surely follow from SVBs collapse, which will add to the economic headwinds.

Given this, we believe that the market is pricing in too many rate hikes and expect that we are close to the peak in interest rates. Economic data has been more resilient than forecast than at the start of the year, and whilst we do expect a recession, we believe that this will be shallower than the market is pricing in. Against this backdrop we are long interest risk, expressed via a 0.75 years long duration position in the UK, as we believe that government bonds offer attractive value.

In terms of credit positioning, we remain of the view that credit offers attractive value, with credit spreads trading well above their long-term average.

A shallower recession is supportive for credit markets coupled with a strong starting position from a fundamental perspective. Balance sheet strength in terms of leverage and liquidity remains strong as do other metrics such as interest cover. This reflects well termed-out debt maturity profiles and companies previously locking in financing at low all-in funding costs.

From a technical perspective the Bank of England corporate bond disposal programme – which had been viewed as a potential negative overhang – continues to progress smoothly as investor appetite remains strong for credit. This is also evident in the new issue market.

So, while we do expect economic headwinds to increase going forward, we believe that corporate bonds are well positioned to face this.

Key Features of the Liontrust GF SF European Corporate Bond Fund

INVESTMENT OBJECTIVE & POLICY[1]:	The Fund aims to maximise total returns (a combination of income and capital growth) over the long term (five years or more) through investment in sustainable securities, primarily consisting of European investment grade fixed income securities. The Fund invests at least 80% of its assets in bonds issued by companies which are denominated in Euro or non-Euro corporate bonds that are hedged back into Euros. The focus is on investment grade corporate bonds (i.e. those which meet a specified level of creditworthiness). The Fund invests in companies that provide or produce more sustainable products and services as well as having a more progressive approach to the management of environmental, social and governance (ESG) issues. Although the focus is on investment grade corporate bonds, the Fund may also invest in government bonds, high yield bonds, cash or assets that can be turned into cash quickly. Where the Fund invests in non-Euro assets, the currency exposure of these investments will generally be hedged back to Euro. Up to 10% of the Fund's currency exposure may not be hedged, i.e. the Fund may be exposed to the risks of investing in another currency for up to 10% of its assets. The Fund may invest both directly, and through the use of derivatives. The use of derivatives may generate market leverage (i.e. where the Fund takes market exposure in excess of the value of its assets). 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
SRRI[2]:	4
ACTIVE / PASSIVE INVESTMENT STYLE:	Active
BENCHMARK:	The Fund is considered to be actively managed in reference to IBOXX Euro Corporate All Maturities (the "Benchmark") by virtue of the fact that it uses the benchmark(s) for performance comparison purposes. The benchmark(s) are 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.

SUSTAINABILITY PROFILE	The Fund is a financial product subject to Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

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

Discrete years' performance*, to previous quarter-end:
Past performance does not predict future returns

	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF Sustainable Future European Corporate Bond A5 Acc EUR	-9.3%	-5.5%	10.1%	-4.6%
Markit iBoxx Euro Corporates Index	-7.8%	-5.7%	8.7%	-3.4%

*Source: FE Analytics, as at 31.03.23, A5 share class, in euros, total return (net of fees and income reinvested). Discrete data is not available for 10 full 12-month periods due to the launch date of the portfolio.

For a comprehensive list of common financial words and terms, see our glossary at:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks and Disclaimer

†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 value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. The Distribution Yield is also the Underlying Yield for this fund. Non-UK individuals: This document is issued by Liontrust International (Luxembourg) S.A., a Luxembourg public limited company (société anonyme) incorporated on 14 October 2019 and authorised by and regulated as an investment firm in Luxembourg by the Commission de Surveillance du Secteur Financier (“CSSF”) having its registered office at 18, Val Sainte Croix, L-1370 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under number B.238295. UK individuals: This document is issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business. **This is a marketing communication.** This document should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. It contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. While care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust. Always research your own investments and if you are not a professional investor, please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.
23/256