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## Liontrust GF European Smaller Companies Fund

June 2023 review

Fund managers: James Inglis-Jones and Samantha Gleave

**The Fund's A3 share class returned 2.4%\* in euro terms in June. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned 0.8%.**

The European Central Bank lifted its benchmark deposit rate by 25 basis points to 3.5% in a move that was widely expected. The bank's president Christine Lagarde commented that a further hike in July is very likely due to the outlook for eurozone inflation to remain "too high for too long". At the start of the month, financial markets had been pricing in June's increase as well as a strong possibility of a further hike to 3.75% later this year. By the end of the month, futures markets had moved to fully price this in as well as the likelihood of one additional increase to 4.0%

The Bank of England also increased rates by the same margin, and while the US Federal Reserve chose to pause its tightening cycle, it also made clear that further increases should be expected. With rate expectations once again on the rise, the MSCI Europe Value Index outperformed the MSCI Europe Growth Index by 1.6 percentage points in June.

This trend provided a tailwind to the portfolio which continues to carry a tilt towards value factors, albeit with less of a bias against growth stocks than for the majority of the last three years. Value still looks cheap relative to history, so we have retained the portfolio's focus in this area, but this position is now much less of a relative bet against growth-style stocks and we are now approaching a neutral stance on growth. The Cashflow Solution process secondary scores we are currently targeting are momentum and recovering value.

Within the MSCI Europe index, consumer discretionary was the strongest sector, rising 5.7%, followed by finance (+4.1%), industrials (+3.2%) and materials (+3.0%). Communications services (-1.5%) and health care (-0.8%) were the only sectors to lose ground in euro terms.

The Fund's financials sector exposure helped drive outperformance – a combination of an overweight position and positive stock selection. Within this, **BPER Banca** (+16%) was the Fund's strongest riser, continuing to perform well on the back of Q1 results in May which showed better-than-expected revenues. Net interest income rose 28% y-o-y as the bank benefitted from higher interest rates and interest rate margins. Management subsequently raised guidance for full year net interest income.

At the end of April, **Fortnox** (-10%) issued Q1 results which showed rapid organic sales growth of 32% and better-than-expected operating profit after margins rose to 38%. Although this initially propelled the shares higher as analysts upgraded their forecasts, their valuation has come under scrutiny in May and June, leading some investors to take profits. Fortnox is a Swedish provider of cloud-based business applications including accounting tools. Despite the apparent high valuation, our investment process identified significant value in the shares due to its high cash return on assets score, and the position was added to the portfolio during this year's portfolio restructuring.

**Ipsos** (+11%) shares bounced back from April's poorly received Q2 results, helped along by a reassuring capital markets day mid-month.

**Positive contributors to performance included:**

Rexel (+18%), BPER Banca (+16%) and Ipsos (+11%).

**Negative contributors to performance included:**

Norwegian Air Shuttle (-19%), Fortnox (-10%) and Balfour Beatty (-7.0%).

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust GF European Smaller Companies A3 Acc EUR	9.0%	-9.9%	59.6%	-10.7%	-2.4%
MSCI Europe Small Cap	6.7%	-17.7%	43.1%	-4.1%	-4.4%

	Jun-18
Liontrust GF European Smaller Companies A3 Acc EUR	2.3%
MSCI Europe Small Cap	9.8%

\*Source: Financial Express, as at 30.06.23, total return (net of fees and income reinvested).

\*\*Source: Financial Express, as at 30.06.23, 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 <sup>1</sup>	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 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 (SRRI) <sup>2</sup>	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. SRRI = 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>.

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#### **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.

#### **Disclaimer**

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