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Liontrust GF SF Pan-European Growth Fund: Q2 2023

Fund managers: Martyn Jones and Peter Michaelis

The Fund delivered a return of 3.3% over the period in euro terms, versus the MSCI Europe Index's 2.3% return (which is the comparator benchmark)*.

Across the portfolio, we continue to see strong progress in the underlying fundamentals of our companies. Businesses rarely improve in a linear fashion, and it requires a long-term perspective to separate short-term noise from fundamental changes. Despite the ongoing disruption caused by Covid-19 on demand and supply chains and interest rate shocks, we continue to focus resolutely on long-term progress and the companies that will help deliver positive change. Currently, market prices are not reflecting the growth and strong competitive positioning of our business, but we are excited about the long-term prospects of the Fund given this misappreciation.

We continue to manage our portfolios in alignment with these themes, which themselves sit within three broader categories of *Better resource efficiency*, *Improved health* and *Greater safety and resilience*.

Within *Better resource efficiency*, the growth of renewables is accelerating for a market that's estimated to be worth half a trillion dollars, while the war in Ukraine has shown how security of supply is another essential attribute of renewable energy.

Under *Improved health*, there has been dramatic innovation in the development of diagnostic tools to aid early diagnosis, cancer and other diseases through the advances that we've seen in gene sequencing. Finally, within *Greater safety and resilience*, with water quality making the headlines, our theme around better monitoring of supply chains and quality control is focused on companies which provide equipment and services that undertake the essential analysis of our water, air and food.

All these areas are important to solving key sustainability challenges and should also deliver growth that is relatively independent of overall economic growth. While 2022 was a tumultuous year for almost every asset class, we believe that the foundations for our key themes – *Better resource efficiency*; *Improved health*; and *Greater safety and resilience* – are stronger than ever.

In terms of performance drivers in the equity portfolio, our top performer over the quarter was global life sciences company **Abcam**. Exposed to our *Enabling innovation in healthcare* theme, the company reported robust first quarter revenue figures, driven by double-digit growth in Americas and EMEA, while China returned to growth in the high-single digits.

Abcam is focused on identifying, developing and distributing high-quality reagents and tools for its customers. These customers are academic and commercial researchers studying biological pathways, critical for an understanding of disease and the progression of diagnostics and drug discovery. By offering a broad catalogue of high-quality products, combined with excellent customer support, the company aims to be the number one partner for researchers. The quality of the reagents provided should enable quality in research and thus the good progression of scientific breakthroughs.

Private equity company **3i Group** was also among the top performers over the quarter after its full year results release in May was received well by the market – reporting net asset value per share that beat average estimates. Exposed to our theme of *Increasing financial resilience*, 3i's private equity business delivered a gross investment return of £5.0bn, or 40%, driven primarily by its position in non-food discounter Action, which recorded a very strong performance in FY2023. The strong returns were also aided by contributions from a number of its other portfolio companies operating in the value-for-money and private label, healthcare, industrial technology and business and technology services sectors.

American-Swiss medical device company **Alcon**, which is held under our *Enabling healthier lifestyles* theme, was also among the contributors over the quarter. Alcon announced a 7% increase in sales to \$2.3 billion for the first quarter of 2023 and also slightly raised its full-year outlook for net sales. It now expects year-on-year growth of between 7% - 9%, compared to its previous forecast of between 6% - 8%.

Having struggled in 2022, we have been pleased with **Spotify's** performance year-to-date, with the company continuing to strengthen in the second quarter. We have felt the market has somewhat misunderstood the company, namely around the key metrics that we believe are important for Spotify – specifically, user and subscriber growth. Spotify has been growing these metrics strongly, reporting monthly active user net additions of 26 million in Q1, which was 15 million ahead of guidance. In addition, the company reported that premium subscribers grew 15% year-on-year to 210 million, again above previous guidance. Looking forward, Spotify reported that it sees premium subscribers increasing to 217 million in the second quarter of this year, with monthly active users expected to grow by 15 million to 530 million.

IT consultant **Nagarro**, which is held under our *Improving the resource efficiency of industrial and agricultural processes* theme, fell sharply after cutting its estimate for 2023 revenue, not including acquisitions made in 2023, from €1,020 million to around €940 million. Nagarro has seen a sharp slowdown in demand particularly among its clients in the financial sector following the fallout from the collapse of SVB and Credit Suisse earlier in the year.

Shares in bioprocessing equipment and consumables manufacturer **Sartorius Stedim** fell after lowering its full-year sales guidance, citing longer-than-expected inventory reduction among biopharma customers following the Covid-19 pandemic. Held under our *Enabling innovation in healthcare* theme, Sartorius Stedim provides all the equipment and consumables used in biologic drug development and manufacturing. Currently around one third of drugs are considered “biologic” including gene and cell therapies, but these therapies are set to dominate the market over the next decade with more effective and targeted treatments. While we are disappointed in the short-term performance, we remain confident in the long-term prospects.

Swedish investment platform **Avanza** slid on the announcement of Q1 2023 results, with profits missing expectations. The bank, which is exposed to our *Saving for the future* theme and particularly proactive on sustainable investment and promoting the inclusion of women on its platform, reported that operating income increased by 13% to SEK 868 million. However, net brokerage income decreased over the first quarter due to lower trading activity. We don't feel these factors show a deterioration of their competitive positioning or the long-term tailwinds to the business.

In terms of portfolio activity, we added contract development and manufacturing organisation **Lonza** under our *Providing affordable healthcare* theme. Lonza is a global integrated solutions provider for the healthcare industry, offering outsourcing scale and efficiencies to the pharmaceutical and biotechnology industries in the areas of therapy development and manufacturing.

We also added global information services company **Experian** under our *Increasing financial resilience* theme. As the world’s largest consumer credit bureau, Experian plays a critical role financial stability through the provision of transparent and accurate credit information. Experian has also developed a number of free tools on the consumer side of the business aimed at improving financial inclusion and credit scores – Experian Boost and Experian Go – helping people establish a credit identity and improve their score, all free of charge.

We also initiated a position in live event ticketing company **CTS Eventim** under our *Encouraging sustainable leisure* theme. The company operates an online booking system that allows event promoters to sell their tickets to millions of fans. As part of our theme, we believe this is socially positive form of consumption.

We exited our positions in **Mobico Group** (formerly National Express) and **Helios Towers**. Both businesses have strong thematic growth tailwinds over the long-term but we saw stronger fundamentals and higher risk adjusted returns in other areas of the Fund. Namely, the proceeds were used to fund an increase in our position Puma and initiate our holding in CTS Eventim, which returns to the portfolio. We believe both companies have more resilient balance sheets, strong growth and high returns on incremental capital.

Key Features of the Liontrust GF SF Pan-European Growth Fund

INVESTMENT OBJECTIVE & POLICY¹:	<p>The Fund aims to achieve capital growth over the long term (five years or more) through investment in sustainable securities, mainly consisting of European equities.</p> <p>The Fund is biased towards 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 issues.</p> <p>The Fund will seek to achieve its objective through exposure mainly to equities of companies incorporated in any European Economic Area Member State, the UK and Switzerland, although it can invest globally. In normal conditions the Fund invests at least 75% of its Net Asset Value in European equities.</p> <p>In addition, the Fund may invest in debt securities for liquidity and cash management purposes. Any investment in bonds will be in corporate and government fixed or floating rate instruments which may be rated or unrated up to 25% of the net assets of the Fund. The Fund may also invest in exchange traded funds and other open-ended collective investment schemes.</p> <p>The Fund is not expected to have any exposure to derivatives (contracts whose value is linked to the expected future price movements of an underlying asset) in normal circumstances but may on occasion use them for investment, efficient portfolio management and for hedging purposes. The use of derivatives should not lead to a significant change in the risk profile of the Fund.</p>
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRRI²:	6
ACTIVE / PASSIVE INVESTMENT STYLE:	Active

BENCHMARK:	The Fund is considered to be actively managed in reference to the MSCI Europe Index (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: ¹As specified in the KIID of the fund; ²SRRI = 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**

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust GF SF Pan-European Growth Fund A1 Acc	5.9%	-22.5%	29.4%	8.1%	1.0%
MSCI Europe	16.7%	-6.5%	27.9%	-5.5%	4.5%

	Jun-18	Jun-17	Jun-16	Jun-15	Jun-14
Liontrust GF SF Pan-European Growth Fund A1 Acc	1.1%	17.6%	-12.1%	25.8%	16.3%
MSCI Europe	2.8%	18.0%	-11.0%	13.5%	22.7%

*Source: FE Analytics, as at 30.06.23, primary share class, in euro terms, total return, net of fees and income reinvested.

Key Risks and disclaimer

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