Liontrust GF SF Pan-European Growth Fund: Q3 2023

Fund managers: Martyn Jones and Peter Michaelis

The Fund delivered a return of -6.1% over the period in euro terms, versus the MSCI Europe Index's -2.1% return (which is the comparator benchmark)*.

The Fund's performance versus the index and sector was negatively affected by the market reaction to the 'higher for longer' interest rates message from the US Federal Reserve which impacts the cost of capital across the world. The resulting rise in rate expectations, and therefore discount rates, has impacted all asset classes, but particularly the growth and quality companies that we believe are tackling the world's most challenging problems. The higher cost of capital also disproportionately impacted small and mid-caps – where the Fund is overweight – which are often viewed as higher risk compared to large-caps which have continued a historic run of outperformance

Over the quarter, the European Central Bank raised interest rates twice while the US Federal Reserve raised once before opting to hold rates steady at it second meeting, marking the second pause this year. However, the investors have concluded from the Fed's accompanying comments that we are going to be living with higher rates for longer. Despite the potential economic damage from maintaining rates at these levels, the Fed is signalling they feel tackling inflation is their main task.

Another key theme this year negatively impacting some of our healthcare and consumer companies is destocking. Covid-19 supply chain disruptions induced many companies to over order and build up very large inventories to ensure they wouldn't run out of inputs. As Covid has diminished and supply chains have normalised, companies are now running down these inventories back to normal levels, while also facing a lower demand from an impending recession.

This is painful normalisation process but it's not going to last forever and is providing the chance to add to some fantastic companies at very attractive valuations.

Longer term, we believe the small-mid cap underperformance will mean revert and destocking within healthcare and consumer companies will normalise. Our themes focusing on a cleaner, healthier and safer economy remain undiminished and our companies are trading historically cheaply for their growth and quality.

In terms of positive stock-specifics, independent digital review platform **Trustpilot** rose sharply after beating earnings expectations following a strong first half of the year. The company, which is exposed to our *Connecting people* theme, upgraded earnings guidance to beyond the top of the range of market expectations after a 16% rise in bookings to $99 million.

Trustpilot plays an important role in improving trust in e-commerce in the digital economy, helping to address the asymmetry of information between consumers and businesses. With bricks and mortar retailers you can go into a shop and leave feedback – this interaction is more difficult to have in a digital economy; a free, fair and independent reviewing system helps to improve trust in the digital economy.

Kingspan Group performed strongly over the quarter consolidating on a sharp rally in July with further gains in August. In its July trading update, the high performance insulation and building envelope specialist commented that trading profit in the first half of 2023 would be around €435 million, up from prior guidance of just over €400 million. In August it issued a full set of half-year results, confirming the trading result and commenting on an improving order intake trend.

Held under our *Improving the efficiency of energy use* theme, Kingspan's products dramatically improve the energy efficiency of buildings. We believe Kingspan is well positioned to have a significant impact in reducing global energy use from buildings, which is essential if we are to prevent global warming exceeding the 1.5C threshold that the IPCC (Intergovernmental Panel on Climate Change) warns is critical.

Signs of slowing growth in **Adyen's** interim results led to a sharp de-rating of the shares. Net revenues of €739 million, while up 23% year-on-year, fell =short of consensus expectations of €777 million. Adyen's management commented that the moderation in growth had come about as a result of high inflation and interest rates and the knock-on impact this had on US digital clients Switching their payment volumes to lower cost, lower value-add providers.

The shares were trading on a premium valuation prior to the results, leaving them vulnerable to any setbacks in its growth trajectory – hence our below average position weight. However, we still think it will rapidly expand its market share within a structurally growing market, and we admire the constant innovation into useful, high value-add, adjacencies for customers such as omni-channel platform services, and financing for customers. Adyen operates a global payments platform which services businesses globally. It provides a very important service for a small fee, thereby playing an important role in making transacting online safer and easier. The company is a core part of our *Enhancing digital security* theme.

Sweden-based conglomerate **Lifco** was also among the detractors after reporting a 0.9% decline in organic sales in Q2 due to lower volumes in its demolition and tools division, though the company states that demand in the division remains at high level. Exposed to our *Enabling healthier lifestyles* theme, Lifco acquires small businesses in niche markets with strong competitive advantages and high barriers to entry. Lifco's competitive advantage is its reputation – it has decades of history in buying small businesses and treating employees with respect.

Danish manufacturer of hearing aids and headsets **GN Store Nord** fell sharply in August after cutting guidance for its Audio segment due to challenging markets conditions as well as buyer hesitancy. Held under our *Enabling healthier lifestyles* theme, around a third of GN Store Nord's business is focused on improving the lives of people with hearing difficulties and the remaining part of the business develops and manufactures headsets for the unified communication market and consumer audio.

In terms of portfolio activity, we added industrial manufacturing company **Siemens** under our *improving the resource efficiency of industrial and agricultural processes* theme. Siemens has restructured itself into just four main divisions: Digital Industries; Smart Infrastructure; Healthineers and Mobility. These help to drive improvements in resource efficiency; electricity use; diagnostics and health; and mass transport (trains). Each of these divisions will grow as our economies become more sustainable.

Swiss multinational specialty chemical company **Sika** was added under our *Building better cities* theme. Sika produces specialist chemicals for the building industry − these are adhesives, sealants, acoustic, protective and reinforcing systems and products. These range from admixtures to cement/concrete to improve its characteristics, for instance waterproofing or structural qualities. It helps to improve the performance of materials and so reducing the amount of material used, or prolongs its life. Sika also have innovative additives for cement to reduce CO2 emissions and for recycling of old concrete for re-use.

Private equity company **3i Group** was added under our *Increasing financial resilience* theme. 3i predominantly invests in retail, infrastructure, healthcare, technology and industrial sectors. It has strong responsible investment policies and firm exclusion on no-go areas.

We also sold **Intertek** over the quarter. We have become increasingly concerned that the "reshoring" phenomena is a headwind for growth and margins for Intertek. As production is incrementally brought back to home shores, particularly in the US, the level of complexity in terms of supply chain auditing also falls, which we feel may negatively affect the long-term earnings and returns profile of Intertek.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust GF SF Pan-European Growth Fund A1 Acc	9.9%	-32.9%	30.5%	10.1%	4.7%
MSCI Europe	19.2%	-11.0%	28.8%	-7.8%	5.7%

	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14
Liontrust GF SF Pan-European Growth Fund A1 Acc	-4.3%	15.8%	0.7%	15.6%	6.7%
MSCI Europe	1.5%	16.3%	1.8%	2.6%	13.4%

*Source: FE Analytics, as at 30.09.23, primary share class, in euro terms, total return, net of fees and income reinvested.

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

INVESTMENT OBJECTIVE & POLICY[1]:	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. 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. 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. 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. 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.
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRI[2]:	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: [1]As specified in the PRIIP KID of the fund; [2]SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

- All investments will be expected to conform to our social and environmental criteria.
- Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- The Fund may, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

Disclaimer