LIONTRUST

CASHFLOW SOLUTION PROCESS

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Liontrust GF European Strategic Equity Fund

Outlook and portfolio positioning

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The last year has seen an evolution in the team's market outlook from a more pessimistic stance taken over the course of 2022 to a much more constructive view of European markets emerging over the course of 2023.

The fund managers adjust the degree of net market exposure in the Fund to reflect the market outlook from the Cashflow Solution investment process.

This exposure can vary significantly over the course of a market cycle. When the managers' market regime indicators point to a constructive outlook for equities, the net market exposure can rise significantly and approach 100%, particularly if market volatility is simultaneously expected to be low. If the managers are more circumspect about the market environment and believe it to be a more volatile and conducive for shorting, the net exposure can fall significantly.

The evolution in the fund managers outlook over the last year can be observed through the net exposure of the Fund, which has risen significantly during 2023. At the beginning of the year the net exposure was around 25%. By March this had risen to 40% and by the middle of the year the net exposure had risen to around 75%, where it has since remained.

The reasons for the Cashflow Solution team's improving market outlook are threefold. First, the technical assessment of the market changed significantly from a mixed picture of a rudderless market in late 2022 (after the September 2022 trough), towards a much more convincing uptrend emerging early in 2023.

Second, the valuation gauge the managers use highlighted that, whilst the market was not at very cheap levels, it was approximately fair value. When accompanied by an up-trending market – as seen now - this is usually a good sign for equity markets. Third, the concerning signs of company mal-investment that had emerged in late 2021 and remained high over the course of 2022 waned significantly in 2023. This is another constructive sign for markets and an indication that short strategies were unlikely to be as profitable.

Currently the Fund is positioned to reflect these views: the short book is comparatively small at -40% of NAV, reflecting the less conducive shorting environment; the long book is modestly geared at 120% of NAV – reflecting an up-trending market that sits on valuations that are not particularly challenging. Net exposure is therefore relatively high at around 80%.

The type of strong cashflow stocks the managers are focused upon in the current environment are particularly those with excellent momentum characteristics as identified by the team's proprietary secondary score system. This is an important style indicator which highlights the risk of a momentum crash and currently this risk is judged to be extremely low. Accordingly, the managers have selected

long positions that have attractive momentum secondary scores whilst in the short book care has been taken to identify poor cash flow stocks with poor momentum secondary scores.
As a result, the portfolio currently contains a significant factor bet on momentum, which the managers believe will generate positive alpha.

The investment process continues to highlight that value stocks should perform well. However, in the current environment the managers want to invest in value stocks which also show evidence of positive momentum. The process is clear that this is not an opportunity to buy exceptionally cheap contrarian value stocks with poor momentum. Instead, the managers have focused on the recovering value secondary score. This means investing in stocks which are not only in the top 20% of the European equity market as rated by key cash flow scores, but also are cheap in conventional valuations terms and showing some signs of recovery.

The Cashflow Solution long/short investment process
The Fund's net and gross market exposure and the size and composition of its long and short books are all informed by the Cashflow Solution process's market regime indicators.

The size of the long book is determined by valuations, market momentum and investor behaviour.

The long book will be larger when valuations are attractive, there is momentum behind a market uptrend and investor complacency is low (or, conversely, anxiety is high). The fund managers make investments in companies that are able to generate strong cash returns from their capital and appear cheap on those cash flows, and which are run by corporate managers committed to an intelligent use of capital.

The Cashflow Solution team screens the European equity universe on two key cash flow ratios in order to create a 'Cashflow Champions' watchlist of the top 20% stocks. From this, they conduct fundamental cash flow analysis in order to categorise stocks by a 'secondary score' type: momentum, cash return, recovering value or contrarian value. The fund managers tilt their stock selections towards or away from these scores depending on the prevailing market regime.

The size of the short book is determined by the proportion of companies with undesirable cash flow characteristics. When company managers have a rosy view of the future the short book will be close to 100% of Fund net asset value; when they are pessimistic the short book will be close to 30% NAV. Companies that invest significantly more cash than they can produce to back bold forecasts of future growth often disappoint. The fund managers target expensive companies run by managers who combine over-confidence in their forecasting ability with a willingness to invest heavily to grow operating assets.

A performance fee of 20% is calculated and accrued at each valuation point. Payment is subject to the Fund's net asset value exceeding an Adjusted Prior Net Asset Value which is a High Water Mark adjusted by any new subscriptions or redemptions and a 4% hurdle per calendar year. No Performance Fee will be payable with respect to a Fund class in any Performance Period unless such class has recovered any accumulated underperformance for previous Performance Periods. Any performance fees are only payable on the positive difference between the NAV and the Adjusted Prior Net Asset Value. 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 Strategic Equity Fund

Investment objective & policy[1]	The investment objective of the Fund is to achieve a positive absolute return over the long term for investors through a portfolio of long, synthetic long and synthetic short investments primarily in European equities and equity related derivatives. The Fund may invest anywhere in the world but will primarily invest in European companies either directly or via derivatives. The Fund may use financial derivative instruments for investment purposes and for efficient portfolio management (including hedging). The Fund will take both long and short positions in derivatives meaning the gross exposure of the Fund will typically be greater than 100% of the net asset value of the Fund. The Investment Adviser will alter the ratio of long and short exposures in the Fund depending on the Investment Adviser’s confidence in the investment process’ ability to generate returns from the short positions. Where sufficient short opportunities can be found, the Fund will have an approximately equal weighting in long and short positions. At other times, the Fund will have a net long position i.e. more long positions than short positions held in the Fund. Where investments are held in a currency other than the base currency, the exposure to currency risk may be minimised by hedging. The Fund expects to provide a positive absolute return under all market conditions over the medium to long term. However, there is no guarantee this will be achieved over this or any other time period. Income from the Fund's investments is reinvested. 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 (SRI)[2]	4
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to MSCI Europe Index and the HFRX Equity Hedge (EUR) Index (the “Benchmarks”) by virtue of the fact that it uses the Benchmarks for performance comparison purposes. The Benchmarks 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 Benchmarks.

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.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/glossary

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

- 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.
- This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.
- As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance
- and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units 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

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