

Cashflow Solution

October 2023 review

Liontrust GF European Strategic Equity Fund



James Inglis-Jones

Co-head of Cashflow Solutions Team



Samantha Gleave

Co-head of Cashflow Solutions Team

The Fund's A4 share class returned -2.6* in euro terms in October. The Fund's comparator benchmarks, the MSCI Europe Index and HFRX Equity Hedge EUR Index, returned -3.6% and -1.1% respectively.

Most markets fell in October as investors grappled with ongoing inflationary pressures and adjusted to the possibility that interest rates may remain high for some time, while the unfolding crisis in the Middle East has also added a degree of geopolitical uncertainty. In Europe, the European Central Bank left its deposit rate unchanged at 4%, altering its path after ten consecutive rate hikes, though the bank did not rule out further tightening.

Sector returns were broadly negative for the period, with the exception of utilities (+0.5%) which posted a marginally positive return. The weakest sectors in the European market were healthcare (-5.4%), consumer discretionary (-5.2%), industrials (-4.8%) and financials (-4.5%).

Strong relative performance from the Fund in October was driven by its short book (c.36% NAV), with the portfolio making a positive contribution of 3.7% as the average short position dropped by more than 10%. This was partially offset by negative return from the Fund's long book, which contributed -5.6%.

Danish jewellery manufacturer and retailer **Pandora** (+9.0%) rose after a positive update at its capital markets day, where the company announced new financial targets which were well received by the market. Pandora announced an EBIT margin target of 26-27% by 2026, an increase from c.25% in 2023. Furthermore, the company expects revenue to reach DKK 34-36 billion in 2026, up DKK 7-9 billion from the expectation of around DKK 27 billion for 2023.

In addition, Pandora noted the successful implementation of its Phoenix strategy which was launched in 2021 to focus on growth opportunities in brand, design, personalisation and markets, while also announcing it intends to scale up investments to accelerate revenue growth.

Novo Nordisk (+5.5%), the Danish pharmaceutical group performed positively on the announcement of the decision to stop its *semaglutide* kidney drug trial due to its results meeting a pre-specified efficacy criteria. Other encouraging news included the announcement of an upgrade to both sales and operating profit for 2023. Following the strength of Wegovy and Ozempic volumes, the company raised sales growth expectations from 27-33% to 32-38%, while operating profit expectations rose to 40-46% from 31-37%.

The Fund's short position in a Swedish textile-to-textile recycling company was a notable contributor following the release of a lacklustre Q3 update, while the company also forecasted a negative impact on Q4 sales, profit and cashflow. There was also a strong contribution from a French pharmaceutical company which downgraded its outlook for the full year.

Swedish cloud-based accounting software company **Fortnox** (-26%) was also among the detractors, dropping on the release of its interim report to September. Analysts were disappointed with the company's organic growth figures which amounted to 25% - Fortnox blamed the drop from 35% the previous year on generally lower activity in the market.

Despite announcing a 13.8% year-on-year increase in third quarter revenue, French carmaker **Renault** (-14.6%) reported a decline in sales volumes for the period versus the first half of the year, citing that dealers were opting for lower inventories. However, Renault confirmed its full-year targets, with the company expecting an operating margin of between 7-8%.

Verallia (-18%), the producer of glass packaging for beverages and food products, fell on the announcement of its results for the first nine months of the year. Despite reporting an increase in revenue, the company stated that it observed a drop in demand since August due to slowing consumption and ongoing destocking along the value chain. Following these deteriorating market conditions, Verallia announced that it would adjust production capacity as it prepares for more stable market conditions in 2024.

Discrete years' performance (%) to previous quarter-end**:

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust GF European Strategic Equity A4 Acc EUR	3.7%	29.2%	36.8%	-14.9%	3.0%
MSCI Europe	19.2%	-11.0%	28.8%	-7.8%	5.7%
HFRX Equity Hedge EUR	2.5%	-4.0%	16.5%	-2.4%	-3.5%

	Sep-18	Sep-17	Sep-16	Sep-15
Liontrust GF European Strategic Equity A4 Acc EUR	2.6%	5.2%	0.7%	14.5%
MSCI Europe	1.5%	16.3%	1.8%	2.6%
HFRX Equity Hedge EUR	-1.1%	5.8%	-1.3%	-3.6%

*Source: Financial Express, as at 31.10.23, total return (income reinvested and net of fees).

**Source: Financial Express, as at 30.09.23, total return (income reinvested and net of fees). Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (25.04.14). Investment decisions should not be based on short-term performance.

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

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.

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