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Sustainable Investment

Q4 2023 Review

Liontrust Sustainable Future European Growth Fund

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The Fund returned 12.3% over the quarter, outperforming the 7.6% return from the MSCI Europe ex-UK Index and the 8.1% IA Europe ex-UK sector average (both of which are comparator benchmarks)*.

The future of sustainable investment has been questioned by a number of different parties recently. Yet, in contrast, we are more excited about the prospects for the sustainable themes and stocks we invest in than we have been for many years.

Interest rates are likely close to peak levels and are predicted to start falling in 2024, with the current higher interest rates quelling inflationary pressures and cooling the economy.

Given this market view and the fact that interest rate rises were the primary catalyst for the sell-off in the long duration 'growth' equities, and this fund, which has a bias to faster growing companies, we could see the valuation multiples applied to growth equities stabilise as interest rate hikes come to an end. This would remove a significant valuation headwind faced by the fund over the past two years.

Indeed, the final quarter of 2023 delivered strong performance for investors, with positive returns across most major asset classes as a number of softer inflation prints in the US, Europe and UK eased investor worry regarding the length of time that interest rates would remain at elevated levels.

We are confident about the outlook for our sustainable investment strategies and believe they will build on their long-term positive track record as we back those businesses which are growing profitability while delivering solutions to critical environmental and social problems.

Those businesses which are providing these solutions will potentially access vast growth opportunities. In many cases, the speed and scale of this growth is likely to be underestimated in the valuation of their shares.

This is where the opportunity lies – finding great companies and helping to solve challenges we face as a society and world, whose prospects are undervalued by the market.

In terms of Fund attribution for the fourth quarter, after poorly received Q2 results in August, a more reassuring Q3 update from **Adyen** sparked a relief rally that recouped some of the lost ground. The company disclosed 22% year-on-year growth in net revenue to €414m and set a medium term growth target of low- to high-twenties revenue growth through to 2026. 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.

Among these notable performers was **ASML**, the Dutch semiconductor company held under our *Improving the efficiency of energy use* theme, which remains at the forefront of improving semiconductor fabrication through EUV development and holistic lithography. As with a number of other companies within the semiconductor industry, ASML has performed strongly as expectations of an interest rate pivot were revived in Q4.

Lifco, the acquirer of medical and industrial companies, was also among the notable contributors, rising after Q3 results which beat expectations. An EBITA margin improvement of 1.2 percentage points to 23.2% lifted earnings ahead of consensus forecasts. The company's sales growth continues to be driven by acquisitions; net sales rose 16.5% in Q3 despite a 0.5% organic contraction.

Danish wind turbine manufacturer and service provider **Vestas Wind Systems** posted a better-than-expected third quarter net profit and narrowed its full-year guidance following strength in its services business and higher sales prices. Wind turbine orders more than doubled, driven by higher activity in North American and Europe. Towards the end of the quarter, Vestas received another boost following the announcement of two large orders for wind projects in the US and Australia.

German sportwear company **Puma** was among the detractors for the period as it was negatively impacted in December by read-across from two competitor firms. Exposed to our *Enabling healthier lifestyles* theme, Puma has struggled over the year, battling a large overstocking crisis within the sportswear industry and has also faced a substantial de-rating due to global interest rate rises. December saw an underwhelming outlook from Canadian-American company Lululemon, as well as a weaker sales outlook from Nike.

Lonza was another notable detractor. While it confirmed its 2023 guidance of mid-to-high single-digit sales growth, **Lonza** noted in a capital markets day that the outlook for 2024 will be affected by lost Moderna revenue and a smaller Kodiak Sciences business. It therefore expects its EBITDA margins – on track to be more than 29% this year – to dip to the high twenties.

Exposed to our *Providing affordable healthcare* theme, Lonza is a Contract Development and Manufacturing Organisation (CDMO), providing outsourcing scale and efficiencies to the pharmaceutical and biotechnology industries in the areas of therapy development and manufacturing. Customers come to Lonza because of its unique end-to-end experience, combined with a history of quality. Many start-ups and smaller players do not have the employee base or maturity to understand the full process of discovery to commercialisation.

In terms of trade activity, we sold the Fund's position in card box manufacturer **Smurfit Kappa** on asset allocation grounds, recognising the potential integration risk from a proposed large acquisition in the United States. We have recycled the capital to other areas of the portfolio with a higher risk reward ratio.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Sustainable Future European Growth 2 Acc	6.7%	-27.7%	13.7%	24.3%	25.9%
MSCI Europe ex UK	14.8%	-7.6%	16.7%	7.5%	20.0%
IA Europe Excluding UK	14.0%	-9.0%	15.8%	10.3%	20.3%
Quartile	4	4	4	1	1

* Source: FE Analytics, as at 31.12.23, total return, net of fees and income reinvested

** Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and income reinvested

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.

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 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.

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