Sustainable Investment

Q4 2023 Review

Liontrust Sustainable Future UK Ethical Fund

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The Fund returned 11.5% over the quarter, versus the IA UK All Companies sector average of 4.5% and the MSCI UK Index's 2.3% (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.

We believe interest rates are at peak levels and should fall towards the central banks' targets by mid to late 2024. The current higher interest rate environment will likely lead to lower economic growth, and we believe there will be cuts in interest rates earlier than the market expects.

Given this view and the fact that interest rate rises were the primary catalyst for the sell-off in the long duration growth equities in which we invest, we should expect that the valuation multiples applied to growth equities should stabilise in conjunction with the peak in interest rates/yields. This would remove a significant structural headwind from returns.

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 top performers over the quarter, British energy infrastructure company **Smart Metering Systems** (SMS) was among the notable contributors over the quarter after it recommended a cash takeover offer from US private equity group KKR in December. Held under our *Improving the efficiency of energy use* theme, SMS is involved in installing smart meters that help improve the management of the grid by automatically updating usage data, providing live information on electricity use as well as providing additional (online) ways for customers on pre-pay to credit their account. These meters pave the way to enable demand-side management and potentially half hour pricing.

Specialist lender **Paragon Banking Group** was among the top contributors, performing strongly in December following the release of its annual results. Held under our *Building better cities* theme, Paragon provides finance for professional landlords and small and medium-sized enterprises (SMEs), with a long history of low impairments and high service levels. Its lending helps to support the sizeable private rental market and the development of new houses. The company noted a stronger-than-expected 25% increase in annual profits, while also announcing another £50 million share buyback.

Also among the top performers were UK mortgage platform **Mortgage Advice Bureau** and independent review platform **Trustpilot**, both of which were beneficiaries of the uptick in positive market sentiment in November and December.

FD Technologies, a leading provider of products and consulting services to some of the world's largest finance, technology and energy institutions, fell heavily after interim results flagged some spending caution from its customers, which led the company to reduce its growth expectations for 2023. While it still expects to deliver 10% - 15% annual sales growth on average through the business cycle, FD says short-term market conditions are challenging.

Shares in UK wealth manager **St. James's Place** tumbled following the announcement that it was reviewing its fees and charges. The company is aligned with our theme of *Saving for the Future*, recognising value that companies such as St James Place offers in helping people prepare for their financial future in a backdrop of increasing financial complexity and diminishing state/employer support.

We have long recognised that the charging approach from the company is distinctive, however felt that over the lifetime of a client it was reasonable given the comprehensive advice and overall value of their service. This view is supported by consistently high customer satisfaction scores and the industry leading advisor training St James Place provides. Earlier this year we met with the Management team following the reduction of long-term client fees in light of the new Consumer Duty rules from the FCA. We felt they were taking proactive sensible actions to the benefit of customers and incentivise long-term investing.

The recent news indicates that they will now additionally be scrapping the exit fee element of their fee model and lower their overall. Our initial view is that this will lead to a hit on shorter term earnings and profitability but the longer term picture is less affected. Ultimately if clients are happy with the service and advice they receive then the company will retain and grow assets under management. This is the metric we focus on, and thus far seems to have held up well. It is under review, but we continue to hold our position in the portfolios.

In terms of portfolio activity, we bought **Spectris**, the seller of high-tech instruments and related services that improve the performance of the life sciences, automotive, and industrial sectors, under our *Better monitoring of supply chains and quality control* theme. Through measurement and analysis their clients can analyse and understand how to increase the effectiveness of medicines, develop longer range batteries, test new electric car designs and even electric planes.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust UK Ethical 2 Acc	3.6%	-25.3%	10.4%	2.8%	37.8%
MSCI UK Index	7.7%	7.1%	19.6%	-13.2%	16.4%
IA UK All Companies	7.4%	-9.1%	17.2%	-6.0%	22.2%
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.

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.

The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

The Fund will invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities 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.

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