

# Cashflow Solution

March 2024 review

## Liontrust GF European Smaller Companies



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The Fund's A3 share class returned 4.3%\* in euro terms in March. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned 4.3%.

European markets participated in the global equity rally in March, as investors became more confident that the central banks' policy tightening efforts have successfully walked the fine line between bringing inflation down and allowing the economy to maintain some momentum.

As widely expected, the US Federal Reserve held interest rates steady for the fifth consecutive meeting, but investor sentiment was boosted by forecasts for cuts later in the year despite mounting evidence of economic resilience. The central bank upgraded its forecast for 2024 US GDP growth from 1.4% to 2.1%. In Europe, we saw the first rate cut in this monetary cycle from a developed world central bank as the Swiss National Bank reduced its benchmark rate from 1.75% to 1.5%.

The overall trend in Q1 was, however, towards an expectation of fewer rate cuts in the remainder of 2024. Looking at the eurozone for example, markets started 2024 expecting between six and seven quarter-point cuts this year but by the end of March price in only three to four cuts. This modest revival of the "higher-for-longer" theme that dominated for periods of 2023 provided a tailwind to the banking sector, which typically earns larger net interest margins when benchmark rates are higher. In March, the European market rise was led by real estate (+9.2%) and finance (+7.6%), while consumer staples (+1.2%) and IT (+1.2%) were laggards.

Italian cement and concrete producer **Buzzi** (+17%) rallied through the month, helped by positive broker coverage which included one analyst raising their price target and describing the stock as possessing deep value attractions. In February the company had reported full-year results describing an environment of lower volumes which have been more than offset by higher prices.

Italian banks **BPER Banca** (+18%) and **Bankinter** (+17%) both strengthened in March without issuing significant investor updates. Sector strength looks to have been partially supported by rumours of potential consolidation of Italian banks.

**Fortnox** (-10%), the Swedish provider of internet-based business applications, performed strongly in February after releasing consensus-beating Q4 results. Some of these gains were given back in March as a prominent financial press article raised question marks over the manner in which Fortnox defines its addressable market and the level of transparency of its accounts.

**Bytes Technology Group** (-8.3%) fell sharply last month after its CEO, Neil Murphy, resigned after notifying the board that he had made undisclosed trades in company shares. During March, the software, security and cloud service specialist issued a full-year trading update outlining 12% growth in adjusted operating profit and cash conversion in line with its 100% target. It commented that, despite macroeconomic headwinds, demand from corporate and public sector clients has been very strong. This upbeat assessment remained overshadowed by the shock leadership change; the company released an additional statement outlining its dismay at the more than 100 undisclosed transactions by Mr Murphy between 2021 and 2023.

**Positive contributors to performance included:**

BPER Banca (+18%), Bankinter (+17%) and Buzzi (+17%).

**Negative contributors to performance included:**

Fortnox (-10%), Norwegian Air Shuttle (-8.3%) and Bytes Technology Group (-8.3%).

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF European Smaller Companies A3 Acc EUR	16.4%	-2.6%	7.9%	70.2%	-21.6%
MSCI Europe Small Cap	10.2%	-9.1%	1.9%	61.2%	-18.1%

	Mar-19	Mar-18
Liontrust GF European Smaller Companies A3 Acc EUR	-2.3%	1.2%
MSCI Europe Small Cap	-1.3%	8.3%

\*Source: Financial Express, as at 31.03.24, total return (net of fees and income reinvested).

\*\*Source: Financial Express, as at 31.03.24, total return (net of fees and income reinvested). Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (01.02.17). Investment decisions should not be based on short-term performance.

**Key Features of the Liontrust GF European Smaller Companies Fund**

Investment objective & policy <sup>1</sup>	The investment objective of the Fund is to achieve long term capital growth by investing primarily in European smaller companies. The Fund may invest in all economic sectors in all parts of the world, although it is intended it will invest primarily in equities and equity related derivatives (i.e. total return swaps, futures and embedded derivatives) in European companies (including the UK and Switzerland). The majority of the assets of the Fund (more than 85%) are expected to be invested in smaller companies (with a market capitalisation of less than 5 billion euros at the time of the initial investment). In normal conditions, the Fund will aim to hold a
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	diversified portfolio, although at times the Investment Adviser may decide to hold a more concentrated portfolio, and it is possible that a substantial portion of the Fund could be invested in cash or cash equivalents. The Fund may use FX forwards to hedge the Fund's currency exposures. 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 (SRII) <sup>2</sup>	6
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to MSCI Europe Small -Cap Index net total return (the "Benchmark") by virtue of the fact that it seeks to outperform the Benchmark. However the Benchmark is 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.

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>.

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## 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.

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.

The Fund uses derivative instruments that may result in higher cash levels. Outside of normal conditions, the Fund may choose to hold higher levels of cash. Cash may be deposited with several credit counterparties (e.g. international banks) or in short dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

There is no guarantee that a positive absolute return will be generated over any time period.

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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