LIONTRUST
COURAGE · POWER · PRIDE

Sustainable Investment

Q1 2024 Review

Liontrust GF Sustainable Future Pan-European Growth Fund

Peter Michaelis

Head of Sustainable Investment

Martyn Jones

Investment Manager

The Fund delivered a return of 6.9% over the period in euro terms, versus the MSCI Europe Index's 7.6% return (which is the comparator benchmark)*.

Across our Funds, we have been pleased with the ability of the businesses we invest in to deliver growth and execute, in spite of the slowing global economy. This is testament to the structural nature of the themes we invest in, which we believe have strengthened – energy security, innovation in healthcare and environmental efficiency have all a much higher priority than they did even five years ago. We also have great confidence in the quality of the businesses and management teams of our selected companies.

In terms of portfolio attribution, ASML moved sharply higher after issuing strong Q4 results. The company is a key player in the global semiconductor market through its EUV (extreme ultraviolet) lithography systems. Its net sales accelerated 8% quarter-on-quarter to €7.2 billion in Q4, with a gross margin of 51.4% – both of which were ahead of ASML's prior guidance. ASML's advances in semiconductor manufacturing help enable smaller, cheaper, more reliable, more energy efficient and more powerful end products. The company sits within our *Improving the efficiency of energy use* theme.

Spotify performed strongly in 2023 and has carried this momentum over to 2024. In the past, we've felt the market has at times misunderstood the company and its potential, namely around the key metrics that we believe are important for Spotify – specifically, user and subscriber growth, churn and engagement. The strong growth in these metrics has, however, been very clear in recent results and enables significant further monetisation in terms of subscription pricing and ad revenue increases. Q4 results showed a 23% year-on-year increase in total monthly active users to over 600 million, with revenues rising 16% as a result.

Topicus performed strongly as it recorded a 23% revenue increase to €1.1 billion in 2023, 7% of which was organic. Topicus is helping to drive digitalisation within the public sector, moving paper-based tasks into software. This also helps to improve efficiency and productivity through reduction of error and task duplication.

Contract Development and Manufacturing Organisation (CDMO) company **Lonza** was another strong performer. Lonza announced that it had signed an agreement to acquire the Genentech large-scale biologics manufacturing site in Vacaville, California, from Roche for $1.2 billion. In addition, the company stated that it intends to invest a further $500 million to upgrade the facility and enhance capabilities. This has happened at the same time as the US BIOSECURE Act, refocusing on pharma companies on Western CMDOs, and the purchase of Catalent by Novo Nordisk should benefit Lonza's demand.

The big detractor over the quarter was a fall in the shares of blood plasma manufacturer **Grifols**, after being targeted by infamous short seller Gotham City Research, which has criticised Grifols' accounting. The shares fell further in February after management comments alongside a 2023 results release failed to reassure. The company admitted that free cash flow this year may yet again be negative, falling well short of our expectations. We took the decision to exit the company on fundamental and governance grounds, primarily concerning debt and regulatory concerns over their accounts.

Shares in German sportwear company **Puma** dropped after 2023 growth fell short of investor expectations. The company recorded currency-adjusted sales growth of around 6.6% which was heavily affected by the 50% devaluation of the Argentinian peso in December. Puma estimated its underlying sales growth excluding this effect to be above 8%. We have added to our position in Puma due to the historically low absolute and relative position, whilst recognising the strength of the balance sheet and the actions the management team are taking to manage the brand during this difficult time in the industry. The company has also taken the opportunity to commence a buyback at these low valuations whilst maintaining a net cash position.

St James's Place (SJP) – a company we exited over the period – was also among the detractors for the first quarter. SJP has been a very frustrating investment given it is a clear beneficiary of our Saving for the Future theme. However, in spite of the strong demand in the UK for financial and investment advice, the company has executed poorly. This culminated in it being slow to react to the changes in Consumer Duty, and latterly poor record keeping around charging for advice. This has left the business exposed to legal recourse from clients and damage limitation in terms of reputation. Therefore, while we can see attractive value in the shares in some scenarios, the unpredictability of the near term means we see better opportunities elsewhere.

In terms of other trade activity, we bought **HelloFresh**, a meal kit company, which engages in the delivery of pre-selected recipe ingredients in meal kit boxes. Customers select preferred recipes and frequency, and HelloFresh will deliver only the requisite ingredients – meaning if the recipe is followed, food waste will be reduced. HelloFresh focus on minimising waste and providing healthy meals. The company aligns with the theme of delivering a circular materials economy through its minimisation of food waste.

In terms of other trade activity, we exited IT services specialist **Netcompany** due to strong year-to-date performance, as well as some concerns over the operational execution of the business, particularly around cyber security – the proceeds have been invested into Kainos.

We also exited industrial services company **Befesa** due to concerns that debt levels were too high for a cyclical company. When we met members of management and the board, they did not appear appropriately concerned with this, despite a large majority of the debt due to be refinanced in 2026 at likely higher rates of interest. We used this capital from Befesa to start a position in **Ashtead**, a company we have much higher conviction in. Ashtead, which rents out industrial, commercial and general equipment across the US, UK and Canada, has a comparatively stronger balance sheet with less leverage, a high-quality management team, cheaper valuation, and greater liquidity.

We sold a small position in the lentiviral vector manufacturer **Oxford Biomedica**, recycling the capital into a new position in **HelloFresh**, a healthy food company, which engages in the delivery of fresh ready-to-eat and pre-selected meal kits.

We also added **Kainos Group** under our *Improving the resource efficiency of industrial and agricultural processes* theme. Kainos is a technology consulting and software development business focused on Workday (the on-demand financial management, human capital management, and student information system software vendor). The company helps organisations of all sectors modernise and digitise their operations – improving efficiency, customer experience, resilience, and digital security.

Under our *Delivering a circular materials economy* theme, we purchased **Ashtead**, which we believe is the embodiment of the sharing economy, renting out industrial, commercial and general equipment across the US, UK and Canada. It maximises the utilisation of equipment that would otherwise sit idle for long periods, and offers assurance that equipment is serviced and maintained properly and is reliable. In doing so, it allows the businesses it rents to, to concentrate on their core competencies and to reduce their inventories of capital equipment.

Last, we added **D'Ieteren Group** (DIG), a family controlled listed investment firm that aims to invest in platform companies that are or have the potential to become market leaders in their industry, generating value for employees, customers, society and shareholders. Exposed to our *Making transport more efficient or safer* theme, the crown jewel of DIG is Belron, the global leader in vehicle glass repair, replacement, and recalibration (VGRRR). Windshields are critical to the structural integrity of passenger cars, but if incorrectly fitted it can significantly increase fatality risk in the event of a collision or accident. Autonomous Driver Assistance Systems (ADAS) employ sensors and cameras that enable features like lane assistance, braking, and pedestrian detection which require recalibration.

Key Features of the Liontrust GF SF Pan-European Growth Fund

INVESTMENT OBJECTIVE & POLICY[1]:	The Fund aims to achieve capital growth over the long term (five years or more) through investment in sustainable securities, mainly consisting of European equities. The Fund is biased towards companies that provide or produce more sustainable products and services as well as having a more progressive approach to the management of environmental, social and governance issues. The Fund will seek to achieve its objective through exposure mainly to equities of companies incorporated in any European Economic Area Member State, the UK and Switzerland, although it can invest globally. In normal conditions the Fund invests at least 75% of its Net Asset Value in European equities.

	In addition, the Fund may invest in debt securities for liquidity and cash management purposes. Any investment in bonds will be in corporate and government fixed or floating rate instruments which may be rated or unrated up to 25% of the net assets of the Fund. The Fund may also invest in exchange traded funds and other open-ended collective investment schemes. The Fund is not expected to have any exposure to derivatives (contracts whose value is linked to the expected future price movements of an underlying asset) in normal circumstances but may on occasion use them for investment, efficient portfolio management and for hedging purposes. The use of derivatives should not lead to a significant change in the risk profile of the Fund.
RECOMMENDED INVESTMENT HORIZON:	5 years or more
SRI[2]:	6
ACTIVE / PASSIVE INVESTMENT STYLE:	Active
BENCHMARK:	The Fund is considered to be actively managed in reference to the MSCI Europe Index (the "Benchmark") by virtue of the fact that it uses the benchmark(s) for performance comparison purposes. The benchmark(s) 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 benchmark.
SUSTAINABILITY PROFILE	The Fund is a financial product subject to Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

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.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF SF Pan-European Growth Fund A1 Acc	13.9%	-15.1%	-1.8%	42.2%	-1.3%
MSCI Europe	14.8%	3.8%	9.3%	35.3%	-13.5%

	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
Liontrust GF SF Pan-European Growth Fund A1 Acc	-1.5%	0.6%	12.0%	-8.4%	23.8%
MSCI Europe	5.5%	-0.4%	16.9%	-13.7%	22.0%

* Source: FE Analytics, as at 31.03.24, total return, net of fees and income reinvested

** Source: FE Analytics, as at 31.03.24, 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.