LIONTRUST
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Sustainable Investment

Q1 2024

Liontrust Sustainable Future Defensive Managed Fund

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The Fund returned 1.9% over the quarter, versus the 2.5% IA Mixed Investment 20-60% Shares sector average (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.

Strong performance was delivered across nearly all asset classes, with global equities, UK equities and corporate bonds contributing positive returns. Asset allocation and stock selection were both positive, though the latter was the key driver of performance.

We believe that the Funds have now weathered the period of rapid repricing of the discount rate since 2022, alongside a period in which investors shunned mid-cap investment stocks – where we maintain an overweight. The operational performance of our investments is an area we have been pleased with, and we feel the equity portfolios are well set as the style headwinds are now perhaps behind us.

In terms of fixed income, the recent direction of travel has been for higher yields, leading to a negative contribution from the Fund's government bonds. Markets continued to try to price the likely path of short-term interest rates in the face of incoming information, and some economic upside surprises – particularly in the US – led markets to push back their expectations for rate cuts till later in the year.

The Fund is long duration relative to the index, meaning that interest rate risk was a greater headwind for the Fund as yields rose. However, this negative impact was somewhat offset by positive performance from the corporate bond allocation – a combination of credit spread tightening and good credit selection.

We are yet to fully see the impact of higher rates filtering through to the real economy and expect that this will only accelerate. Inflation has broadly shown signs of softening and we expect it to fall further amid weaker consumer demand due to the ongoing transmission of higher interest rates. The latter will also result in weaker economic growth, ultimately making central banks higher for longer narrative unsustainable. Therefore, we still see significant value in government bonds, with continued upside as we are above fair value, and we maintain a long duration position.

While corporate spreads have performed strongly in the first quarter of 2024 and many credit markets are on the tighter end of their historical ranges, we continue to believe that corporate credit offers value, with all-in yields above 5.5%.

Within our equity portfolio, Dutch semiconductor company 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 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, which is held under our *enabling sustainable leisure* theme, and its potential, namely around the key metrics that we believe are important for Spotify – specifically, user and subscriber growth. The strong growth in these metrics has, however, been very clear in recent results. 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.

Ringkjoebing Landbobank also rose following well-received full-year results. Despite economic slowdown, the bank saw minimal loan impairments as credit quality remained high. This, in combination with higher interest rates, allowed it to grow profit before tax by 50% to DKr2.84 billion, ahead of analyst expectations. The Danish bank is one of the best run in the industry, with high customer satisfaction and very low loan losses. It focuses on profitable and niche areas such as renewable infrastructure lending or dental practices. The position sits within our *Enabling SMEs* theme.

German semiconductor manufacturer Infineon Technologies was one of the Fund's poor performers, after lowering its revenue forecast for the year in February. Exposed to our *Improving the efficiency of energy use* theme, Infineon cited a decline in sales for power and sensor chips for industrial applications as it cut revenue guidance to €15.5 billion to €16.5 billion, from its previous guidance midpoint of €17 billion.

Also among the detractors for the period was drug discovery and development company Evotec, which was sold over the quarter following the abrupt departure of its CEO, Werner Lanthalar. The company said this was due to personal reasons, but after we spoke to management it became clear his departure was related to the late disclosure on his share dealings in Evotec shares over the last few years. While the company disclosed the information as soon as it was available, so was in no way liable, the circumstances around the former CEO's transactions are hugely disappointing. The CEO was an important part of the investment case for the Evotec business, and his departure is a significant blow to the investment thesis. While the company itself has done nothing wrong, it has unfortunately been let down badly by its key leader. We decided to exit the position as we feel the management quality threshold we require to invest has not been met.

St James's Place – another 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.

We also exited Kerry Group, a dairy cooperative which was established in 1972 and has evolved to become one of the largest and most technologically advanced ingredients and flavours technology companies. The question remains whether Kerry makes ultra-processed food (UPF) less bad while helping to keep food affordable or enables an unsustainable system needing fundamental reform. For the moment, we don't have an answer to this as the company discloses on the nutrient-based traffic light system, of which it is >50% green traffic lighted. But if there is a big backlash with regards to UPF coming, implicating Kerry, we believe it is prudent to move Kerry to the sidelines until we have a better understanding on this issue.

Last among the positions we exited was IP Group, a long-term holding which help develop innovative companies at universities in the UK. While it has had success with the likes of Oxford Nanopore, the pace of commercialisation has been disappointing. We exited our position in favour of other early-stage investment companies like Molten Ventures.

We made one purchase over the quarter, adding industrial manufacturing company Siemens under our *Improving the resource efficiency of industrial and agricultural processes* theme. Siemens has restructured itself into just four main divisions: Digital Industries; Smart Infrastructure; Healthineers and Mobility. These help to drive improvements in resource efficiency; electricity use; diagnostics and health; and mass transport (trains). We believe each of these divisions will grow as our economies become more sustainable.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust Sustainable Future Defensive Managed 2 Inc	8.7%	-10.1%	-0.7%	20.3%	0.2%
IA Mixed Investment 20-60% Shares	7.7%	-4.8%	2.7%	19.8%	-7.2%
Quartile	2	4	4	2	1

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

**Source: FE Analytics, as at 31.03.24, primary share class, total return, net of fees and income & interest 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.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

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.

Disclaimer