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Sustainable Investment

Q1 2024 Review

Liontrust Sustainable Future European Growth Fund

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The Fund returned 5.1% over the quarter, compared with the 6.8% return from the MSCI Europe ex-UK Index and the 6.4% IA Europe ex-UK sector average (both of which are comparator benchmarks)*.

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, while 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 while maintaining a net cash position.

German semiconductor manufacturer Infineon Technologies was also among the quarter's poor performers, most notably 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 for lowering 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.

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 express a desire to reduce debt levels, despite a large majority of the debt due to be refinanced in 2026 at likely higher rates of interest.

We sold a small position in software company Unifiedpost recycling the capital into a new position in HelloFresh, a meal kit company, which engages in the delivery of pre-selected recipe ingredients in meal kit boxes.

We also added Irish headquartered global contract research organisation (CRO) ICON Plc. Held under our *Enabling innovation in healthcare* theme, the company provides outsourced clinical trial services, addressing the drug development industry. The company has decades of experience running large complex clinical trials for the pharma industry and given their scale they are one of handful of companies able to carry out these trials on a global basis – a good example being COVD-19 vaccine trials. The CRO industry continues to benefit from the shift of outsourcing trials from pharma companies to the likes of ICON Plc.

Last, we added the Belgian 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.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust Sustainable Future European Growth 2 Acc	8.8%	-13.4%	-1.5%	38.6%	3.8%
MSCI Europe ex UK	12.7%	8.6%	5.5%	33.5%	-8.3%
IA Europe Excluding UK	12.3%	6.5%	4.2%	39.6%	-9.4%
Quartile	4	4	4	2	1

* 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.

Disclaimer