LIONTRUST

THE SUSTAINABLE FUTURE PROCESS

Liontrust SF European Growth Fund: Q1 2023 review

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The Fund returned 3.0% over the quarter, underperforming the 8.9% return from the MSCI Europe ex-UK Index and underperforming the 8.0% IA Europe ex-UK sector average (both of which are comparator benchmarks)*†.

Global equities started 2023 on a strong footing as signs of easing inflation in most major economies and China's re-opening supported positive market sentiment. However, sentiment turned in February as resilient economic data suggested that any pause in interest rate rises may still be some way off, with the Federal Reserve, European Central Bank and Bank of England all continuing with rate rises. The collapse of Silicon Valley Bank (SVB) in March led to a major sell-off in the US and European financial sectors, though this market turbulence was short-lived and did not prevent investor optimism leading global equities higher towards the end of the quarter.

As we have stated previously, we do not attempt to forecast or anticipate the macroeconomic moves that we have experienced in the last two years. Our focus is resolutely on our 20 sustainability themes that over the long-term should provide strong and stable growth, relatively independent of economic cycles, and on finding those rare companies that harness this positive growth and which generate persistently high returns on capital. In the more muted economic years we expect to have ahead of us, we believe the strength of our sustainable themes and the quality of the businesses we invest in will allow for strong performance.

Looking at our top performers over Q1, Spotify led the way during a period in which a number of our holdings released trading updates. The audio-streaming platform released a strong Q4 update, reporting fourth quarter subscriber growth and gross margin improvement that was ahead of average consensus. Paid subscribers grew 14% year-on-year to 205 million, with the company stating that this was 3 million ahead of consensus. Looking forward, Spotify said that is sees premium subscribers increasing to 207 million in the first quarter and that monthly active users are expected to grow by 11 million to 500 million.

Spotify fits perfectly into our *Encouraging sustainable leisure* theme as we believe music has been an important component of leisure time and culture for millennia. Listening to music is a fundamentally positive pastime and is key to the human experience, it brings people together and can also be enjoyed alone.

Semiconductor firm ASML was another notable performer as strong sub-sector performance combined with a robust earnings release to push the company's share price higher. ASML remains at the forefront of improving semiconductor fabrication through extreme ultraviolet (EUV) development and holistic lithography. Smaller process nodes means more chips per wafer in manufacture and smaller, cheaper, more reliable, more energy efficient and more powerful end products. The company reported net sales in the fourth quarter of €6.4 billion, which was around the midpoint of the company's guidance, while gross margin exceeded previous guidance due to additional upgrades and an insurance settlement from last year.

Another top-performing stock in the semiconductor space was Infineon Technologies after the company raised its sales and earnings forecast following stronger-than-expected demand in its core automotive and industrial sectors. The company now sees second-quarter revenue at more than €4 billion, up from an earlier forecast of €3.9 billion. Infineon also expects full-year sales to also be above its previous estimate of approximately €15.5 billion.

Exposed to our *Improving the efficiency of energy use* theme, Infineon produces efficient power management chips, which are used across the economy in electronics, particularly in computing and mobiles as well as autos and industrial automation. It is the largest player in power semiconductors, which are key for electrification, so it is well positioned here.

Among the detractors for the quarter was healthcare company Qiagen, which is held under our *Enabling innovation in healthcare* theme*.* In healthcare, companies such as Qiagen initially benefitted from supplying Covid-19 solutions but are now out of favour with the market as these one-off windfalls diminish. We take a longer-term view of these businesses and see strong fundamentals with respect to returns of capital, balance sheet stability with long runways of growth ahead.

Additionally, our technology businesses help to improve productivity and security, but they too are out of vogue with the market despite continued operational and financial execution. Companies such as Nagarro, which is exposed to our *Improving the resource efficiency of industrial and agricultural processes* theme, offers high growth and excellent returns on capital at cheaper valuations than we've seen in the past five years.

Netcompany was another holding that detracted from returns over the quarter. Held under our *Improving the resource efficiency of industrial and agricultural processes* theme, shares in the Danish IT consultancy fell sharply as EBITDA (earnings before interest, taxes, depreciation, and amortization) guidance for 2023 missed expectations.

In terms of portfolio activity, a new position in the Fund under our *Improving the resource efficiency of industrial and agricultural processes* theme is AutoStore, the market leader in "cubic" automated storage and retrieval systems (AS/RS) for warehouses. Over the past 25 years, AutoStore has developed a compact design to store and retrieve products in warehouses in a simple Rubik's cube design. The system uses autonomous robots moving on top of an aluminium grid to store and retrieve bins and deliver products to port stations for packing and transport.

Compared to a manual warehouse, the AutoStore system can save up to 75% of space by removing all the space between storage boxes and packing the items densely together. This helps to reduce the cost of rent and energy costs in terms of heating/cooling and lighting (as the robots don't require heat or light).

We also initiated a position in live event ticketing company CTS Eventim under our *Encouraging sustainable leisure* theme. The company operates an online booking system that allows event promoters to sell their tickets to millions of fans. As part of our theme, we believe this is socially positive form of consumption.

With regard to disposals, following a period of poor performance and a deterioration in business fundamentals, we took the decision to sell National Express from the Fund. The bus operator is a beneficiary of safety and efficiency in public transport but has seen a marked increase in costs which has squeezed margins, whilst it has also struggled to recruit drivers for its highly profitable US school bus business. This fall in profitability has put further pressure on the balance sheet and we see better risk reward in other parts of the portfolio.

Long-term holding Kone was sold for portfolio construction reasons. We still admire Kone, its business model and its long-term prospects – despite the nearer term slowdown in its China business.

Discrete years' performance*, to previous quarter-end:
Past performance does not predict future returns

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Sustainable Future European Growth 2 Acc	-13.4%	-1.5%	38.6%	3.8%	-2.7%
MSCI Europe ex UK	8.6%	5.5%	33.5%	-8.3%	2.2%
IA Europe Excluding UK	6.5%	4.2%	39.6%	-9.4%	-1.2%
Quartile	4	4	2	1	3

***** Source: FE Analytics, as at 31.03.23, 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:
liontrust.co.uk/benefits-of-investing/guide-financial-words-terms