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Liontrust GF European Smaller Companies Fund

March 2023 review

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The Fund's A3 share class returned -5.4%* in euro terms in March. This Fund's target benchmark, the MSCI Europe Small Cap Index, returned -4.1%.

The MSCI Europe Index recorded a marginal negative return of -0.1% in euro terms. This aggregate return hides a large divergence in fortunes between sectors. While areas such as IT (+6.2%), healthcare (+4.5%) and utilities (+4.1%) fared well, there were large losses for real estate (-15%), finance (-8.7%) and energy (-7.3%). It also obscures the concentration of weakness in small caps, where losses amounted to 4.1% while large caps held on to a 0.4% gain.

The catalyst for financial sector losses was the collapse of Silicon Valley Bank in the US, an event which sparked some contagion as investors worried over the impact of deposit flight for banks sitting on unrealised bond portfolio losses following two years of rising yields. Credit Suisse was the highest profile casualty in Europe, forced to be subsumed by UBS as its value tumbled, but heavy losses were experienced across the sector.

The European Central Bank, Bank of England and US Federal Reserve all pushed ahead with expected interest rate hikes. After a 25 basis point increase, investors were betting the Fed's new range of 4.75% - 5.0% would mark the top of the current rate cycle – a significant reduction from the start of the month when strong economic data had helped push expectations of peak rates to above 5.5%.

Well over half the Fund's negative return in March stems from its financials sector exposure. Double-digit percentage falls were suffered by all four of the banks it owns: **Bankinter** (-20%), **BPER Banca** (-19%), **Ringkjoebing Landbobank** (-13%) and **Bank of Ireland** (-11%).

These stocks are all held in the portfolio due their strong scoring against our Cashflow Solution investment process. At inclusion, they qualified for our Cashflow Champions watchlist of the top 20% of stocks rated by our core cashflow measures, and were then selected due to strong secondary scores – particularly Momentum (businesses with high margins indicative of economic moat and self-funded growth) and Cash Return (stable companies with robust balance sheets, returning cash to shareholders), but also Recovering Value (management focused on reining in capital expenditure and imposing working capital control, eager to return cash to shareholders).

Should any of these companies' cashflow characteristics deteriorate, we will reassess our investments. This may be as a result of our forensic review of their annual report and accounts or due to ad-hoc investor updates. Until then, we are comfortable holding these stocks as part of a balanced and diversified portfolio.

Outside of the financials sector, **Mobilezone Holding** (-14%) was another heavy portfolio faller. The Swiss mobile phone retailer released 2022 results which fell short of investors expectations. Organic sales growth over the year amounted to 7.5% but operating profit growth was restricted to 5.8%. Operating margins of 7.0% fell short of its target of 7.5% due to cost pressures in the German business in the second half of the year particularly. Profit guidance for 2023 was also disappointing: a SFr70m to SFr77m target range compares to the SKr71m achieved in 2022.

In better news, **4imprint Group** (+7.4%) was once again among the Fund's top performers. Shares in the promotional merchandise group have been in an uptrend since last summer when it reported on very strong trading. A 2022 set of results laid out the extent of growth: a 45% increase in revenues to £1.1bn with a trebling of operating profit to £103m as it acquired over 300,000 new customers. The company also commented that trading in the first few weeks of 2023 has been encouraging.

After a tough 2022, floor covering manufacturer **Forbo Holding** (+7.1%) bounced in March as it outlined a better outlook for 2023. Last year it suffered from a combination of rapidly rising raw material, energy and logistics costs and a collapse in demand in the second half of the year. Although sales volumes fell in 2022, an 11% increase in sales prices helped revenue grow by 8.5% in local currency terms. Operating profit fell by 26% to SFr133m as cost inflation squeezed margins. This year, it expects its higher sales prices to mitigate the impact of ongoing cost pressures, allowing it to achieve a similar level of profitability.

BW Offshore (+4.8%) defied weakness in the oil price and energy sector. The company, which owns and operates floating production storage and offloading (FPSO) vessels, released 2022 results on the last day of February. As well as announcing good year-on-year growth in Q4 revenues and operating profit, BW Offshore also updated on its in-construction Barosso FPSE: it is now around 60% complete, with first gas production expected at the start of 2025.

Positive contributors to performance included:
4imprint Group (+7.4%), Forbo Holding (+7.1%) and BW Offshore (+4.8%)

Negative contributors to performance included:
Bankinter (-20%), BPER Banca (-19%) and Mobilezone Holding (-14%)

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 GF European Smaller Companies A3 Acc EUR	-2.6%	7.9%	70.2%	-21.6%	-2.3%
MSCI Europe Small Cap	-9.1%	1.9%	61.2%	-18.1%	-1.3%

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

*Source: Financial Express, as at 31.03.23, total return (net of fees and income reinvested).
**Source: Financial Express, as at 31.03.23, 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.
A Performance Fee for each Performance Period shall be equal to 10% of the amount, if any, by which the Net Asset Value before Performance Fee accrual of the Fund exceeds the Indexed Net Asset Value of the Fund on the last Business Day of the Performance Period. The Performance Period of the Fund is every 12 months ending on the last business day of each calendar year. Details of the Fund's performance fee in the last financial year can be found in the Key Investor Information Document (KIID) which can be obtained free of charge from the Liontrust website.

Key Features of the Liontrust GF European Smaller Companies Fund

Investment objective & policy[1]	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 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 (SRRI)[2]	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 KIID of the fund; 2. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID 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.

Key Risks:

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates.

Disclaimer

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