LIONTRUST

CASHFLOW SOLUTION PROCESS

Liontrust European Dynamic Fund

July 2023 review

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The Fund returned 2.2%* in sterling terms in July. The MSCI Europe ex-UK Index comparator benchmark returned 1.7% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was 2.1%.

Global equity markets rallied in July, helped by expectations that a peak in monetary policy may finally be close. The big development in this regard was consumer price inflation data in the US which came in below expectations, raising hopes that this month's 25 basis point rise to a 5.25% - 5.50% range from the US Federal Reserve could be the last of this cycle.

While the Fed had previously paused its rate hike schedule in June and commented that future increases would be data dependent, the European Central Bank was slower to start its tightening cycle and has stayed relatively hawkish in its rhetoric until recently. As widely expected, the ECB raised deposit rates by 0.25% to 3.75% in July, a level not reached since 2001. ECB president Christine Lagarde said that the bank is now keeping an open mind on the future direction of hikes, with the possibility of a hike or a pause in September. Markets are, however, betting that the peak in the European cycle has already been reached.

As sentiment picked up, the real estate sector led the MSCI Europe ex-UK index's gain, posting a 12% rise, followed by energy (+4.9%), finance (+4.5%) and materials (+4.5%).

In a reversal of the year-to-date trend, technology was weak, losing 1.3%, while utilities (-0.8%) and consumer staples (-0.3%) also lost a small amount of ground. So far this year, the technology sector has gained 21% in sterling terms, behind only consumer discretionary (+22%).

One of the Fund's strongest stocks in July was **Mediobanca** (+10%). Its full-year results came in ahead of expectations, with 22% growth in net interest income to €1.8bn helping drive revenues to €3.3bn. In line with its 2019 – 23 strategic plan, the bank plans a €0.85/share dividend – a 70% payout ratio. In keeping with its new strategic plan running from 2023 to 2026, it will also conduct a share buyback scheme amounting to €200m, around 2% of its share capital.

Although reported sales fell 2.1% to €25bn, like-for-like sales at **Compagnie de Saint-Gobain** (+10%) grew 1.6% in like-for-like terms in the first half of 2023. Operating income growth of 1.0% was helped by an expansion in margins from 11.0% to 11.3%. Investors welcomed upgraded full-year guidance – the company now expects to achieve a double digit percentage operating margin, up from a range of 9% - 11% previously.

Half-year results from **Heineken** (-5.5%) showed 6.6% organic growth in net revenue to €17.4bn, with a 5.4% volume decline offset by a 12.7% pricing uplift. While this pattern was expected given the inflationary environment in most regions and Europe in particular, there was also softer-than-expected demand in its Asia Pacific division. Share price weakness reflected a 9% slide in adjusted operating profit to €1.9bn and a small downgrade in its outlook. Heineken now expects 2023 operating profit growth of mid-single-digit percentage, down from mid-to-high single digits previously. Some analysts think the downgraded guidance may still prove too ambitious given the trends in the first half of the year.

In 2022, **Dassault Aviation's** (-3.8%) business jet division saw a spike in growth post-Covid but this is now easing off. Order intake was €1.6bn, compared with €16bn last year. Adjusted net sales of €2.3bn in the first half of the year was also down 25% on last year's level. The company commented that supply chain issues have deteriorated again recently, impacting its aircraft production.

There were no updates on trading from Danish jewellery retailer **Pandora** (+11%) but shares in the company have strengthened since announcing the latest tranche of its buyback programme in June. Pandora had previously committed to buying back shares worth DKr5.0bn over twelve months. Its initial DKr2.4bn programme completed on June 19 so Pandora brought forward the start of its new DKr2.6bn programme, which will be completed prior to February 2024.

Positive contributors to performance included:
Pandora (+11%), Mediobanca (+10%) and Compagnie de Saint-Gobain (+10%).

Negative contributors to performance included:
Heineken (-5.5%), Dassault Aviation (-3.8%) and Evolution (-3.5%).

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust European Dynamic I Inc	24.8%	-5.9%	43.8%	2.2%	-1.7%
MSCI Europe ex UK	19.0%	-10.6%	21.8%	0.0%	7.3%
IA Europe Excluding UK	18.4%	-12.6%	23.7%	0.9%	3.3%
Quartile	1	1	1	2	4

*Source: Financial Express, as at 31.07.23, total return (net of fees and income reinvested), bid-to-bid, institutional class. Non fund-related return data sourced from Bloomberg.
**Source: Financial Express, as at 30.06.23, total return (net of fees and income reinvested), bid-to-bid, primary class.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.