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Cashflow Solution

December 2023 review

Liontrust GF European Strategic Equity Fund

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The Fund's A4 share class returned 0.3%* in euro terms in December. The Fund's comparator benchmarks, the MSCI Europe Index and HFRX Equity Hedge EUR Index, returned 3.7% and 1.4% respectively.

European markets continued their strong end to 2023, with two-thirds of the year's 15.8% return coming in November and December.

Investors continued to bet on rate cuts next year, defying the more measured recent message from central bankers that policy direction remains in the balance and data-dependent. This shift gained more impetus mid-month as the US Federal Reserve signalled several rate cuts next year within its 'dot plot' forecasts and surprised investors who had been expecting a stronger effort to rein in the rally in bonds.

The European Central Bank and Bank of England were more consistent in re-iterating the ongoing risks from inflationary pressures, with ECB president Lagarde saying ""we should absolutely not lower our guard."

Nevertheless, markets finished the year pricing in 160 basis points of rate cuts from the ECB in 2024, compared with the 100bps forecast at the start of the month.

As investor risk appetite improved, European markets joined in the global equity rally, led by cyclical sectors such as real estate (+11%), industrials (+7.2%), materials (+6.5%) and IT (+4.7%). The MSCI Europe laggards were energy (-1.3%), consumer staples (+0.8%) and communication services (+0.9%).

The Fund's current net market exposure was relatively high at 72% heading into December, reflecting our fairly constructive outlook. The long book was modestly geared at 112% and the short book comparatively small at -40%.

During December, the Fund underperformed relative to its net market exposure due to a disproportionate negative impact from the short book in a rising market. The move dovish message from the Federal Reserve game impetus to growth stocks as discount rates on future growth declined in line with interest rate expectations. This effect was particularly amplified for those growth stocks that had been suffering from poor momentum. Shorting expensive and poor momentum stocks has been one of the key style bets contributing to the Fund's strong performance in recent years. With returns from the momentum style factor going into reverse in November and December, the Fund's short-term returns have been constrained.

The long book's top performers reflected market trends, with cyclical stocks such as travel and leisure operators **Intercontinental Hotels Group** (+15%) and **Booking Holdings** (+12%) prominent. Other large risers included market research group **Ipsos** (+15%), enterprise software provider **Fortnox** (+11%) and electrical supplies distributor **Rexel** (+12%).

The Fund's largest detractors included long-book positions in banks such as **Caixabank** (-9.8%) and **Bank of Ireland** (-4.3%) – which were derated due to the implications of interest rate cuts on net interest income – and **Games Workshop** (-8.3%), whose half-year trading update underwhelmed investors despite the group describing revenues and profit forecasts as in-line with expectations.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust GF European Strategic Equity A4 Acc EUR	1.4%	18.3%	32.9%	-10.0%	23.2%
MSCI Europe	15.8%	-9.5%	25.1%	-3.3%	26.0%
HFRX Equity Hedge EUR	4.7%	-5.2%	11.0%	2.9%	8.5%

	Dec-18	Dec-17	Dec-16	Dec-15
Liontrust GF European Strategic Equity A4 Acc EUR	-7.1%	4.2%	4.8%	6.1%
MSCI Europe	-10.6%	10.2%	2.6%	8.2%
HFRX Equity Hedge EUR	-12.3%	7.8%	-1.7%	-3.1%

*Source: Financial Express, as at 31.12.23, total return (income reinvested and net of fees).

**Source: Financial Express, as at 31.12.23, total return (income reinvested and net of fees). Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (25.04.14). Investment decisions should not be based on short-term performance.

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.

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.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

As the Fund is primarily exposed to smaller companies there may be liquidity constraints from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares. In addition the spread between the price you buy and sell units 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