

# Liontrust European Growth I Inc

November 2021  
Investment Research



## Overview

The fund is focused on delivering outperformance over the longer term through a relatively concentrated portfolio of European equities (excluding the UK). Whilst we believe it will achieve its capital accumulation objective over time, in shorter time periods, the growth in capital may be variable and is not guaranteed.

Note that the managers are also aiming to outperform the MSCI Europe ex UK index by 2% (net of fees) over rolling five-year periods, however, this is an aim and not explicitly targeted by the process. In general, we think this is an ambitious aim, and there may be periods where the fund struggles to achieve it, particularly when financial markets are focusing on other factors outside of stock fundamentals.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

## Square Mile Expected Outcome

We believe this fund should be able to deliver returns of 2% p.a. ahead of the MSCI Europe ex UK index over rolling five year periods.

<b>Active/Passive:</b> Active	<b>Domicile:</b> United Kingdom
<b>Asset Class:</b> Equity	<b>IA Sector:</b> IA Europe Excluding UK
<b>Launch Date:</b> 15/11/2006	<b>Fund Size (as at 12 Nov 2021):</b> £307.7m
<b>Yield:</b> 0.47%	<b>Distribution Pay Date:</b> May 01 (Final)
<b>Fund Manager:</b> James Inglis-Jones, Samantha Gleave	<b>Ongoing Charge Figure:</b> 0.88%
	<b>Transaction Cost ex Ante:</b> 0.12%



## Fund Opinion

Whilst we believe the fund's objectives are achievable over the long term, given the nature of this market, the fund will go through periods of variable performance and may struggle to keep up with its objectives. The fund's strategy has gradually evolved over time, but it has always focused on completely objective measures of companies well being. The managers believe that cash flow is the primary, long-term determinant of shareholder returns. They think that investors frequently undervalue free cash flow, which the pair consider as a fundamental building block of long-term growth, in favour of shorter-term, less reliable profit forecasts. Therefore, they aim to invest in attractively valued companies with strong cash generation, which are run by capable company managers who are committed to using the cash flow in an intelligent manner.

There is a high representation of quality companies in the portfolio and the long-term performance record of the fund is excellent and suggestive that the managers are identifying anomalously priced securities. We like the managers adherence to their process, but this can mean that there will be periods where the market does not reward their stocks. It should be noted that this strategy is unlikely to suit investors who are looking for brief forays into Europe or for those seeking index-like returns.

## Fund Description

The fund is managed by James Inglis-Jones and Samantha Gleave. Mr Inglis-Jones started his investment career in 1997 at Fleming/JP Morgan after a brief stint at Unilever. After six years he joined Polar Capital to manage a European hedge fund and he joined Liontrust in 2006 to develop a European investment proposition. Ms Gleave worked with Mr Inglis-Jones at Fleming in the late 90s, before moving to CSFB as an analyst in 2000. She joined Bank of America Merrill Lynch in 2005 and moved to Liontrust in 2012.

The managers follow a very objective investment process that rests firmly on fundamental research. The pair do not believe that meetings with management enhance their process, and consider that the companies' report and accounts are the primary data source that should be used for analysing stocks. The managers focus on companies that generate a high cash flow and/or companies that are rapidly growing cash flows. Cash flow cannot be manipulated and the managers believe that using this measure is far more reliable than others available to investors. The team uses two main metrics to assess the value in a business, the free cash flow as a proportion of capital employed by the business and secondly, the free cash flow as a proportion of market capitalisation. The managers use these metrics to screen companies listed on stock markets (circa 2000 in their stock universe) to generate a short list of around 200 companies.

The managers then examine these companies through a secondary process to classify companies into one of the following: contrarian value, where the business has historically generated high cash flows, but is currently suffering from a weak share price; cash return, where companies are making high distributions to shareholders through dividends or buy backs; growth companies with strong business momentum, high margins (indicative of economic moat) and self funding their growth; and recovering value, where struggling companies show signs of a pick up in cash flows. The portfolio is typically made up of between 30 and 50 stocks that are equally weighted between 2%-2.5% at the outset. The managers prefer to run their winners before rebalancing the portfolio after their annual review, though there maybe some intra trading such as when the secondary scores have deteriorated.

## Risk Summary

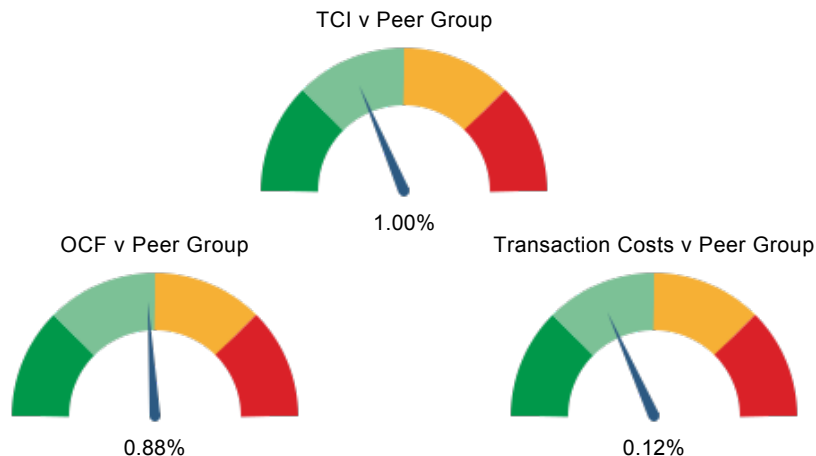
The fund has a high asset class risk score, for it is exposed to stocks listed on developed European markets and these can exhibit significant volatility at times. Investing overseas, the fund is also exposed to currency movements, predominantly between Sterling and the Euro.

The fund also has a high risk score within the asset class. The managers are investing according to a strict set of criteria. Whilst the focus on strong or improving cash flows might seem a sensible approach to have, the market may not always reward the managers stock selection. In addition, the managers run the fund with an equally weighted approach at the time of rebalancing the portfolio, meaning that the fund is likely to have a structural bias towards medium and smaller sized companies versus the benchmark. The fund can therefore look and behave differently.

To help mitigate some of these risks, we believe any investment should be considered over with a long term investment horizon.

## Value for Money

The fund's overall costs are more in line with its peer group. Under MiFID II regulations, Liontrust is absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors.



## ESG Integration

Company Assessment	0	1	2	3
ESG factors are considered formally but are not instrumental within all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
There is no discernible approach to, or consideration of ESG factors in the fund's investment process.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Additional Information

<b>Annualised Return</b>	17.82%
<b>Annualised Volatility</b>	18.95%
<b>Max Drawdown</b>	-26.71%
<b>Max Gain</b>	26.15%
<b>Max Loss</b>	-25.60%
<b>Sharpe Ratio</b>	0.90
<b>Sortino Ratio</b>	0.80

(3 years data to last month end unless otherwise stated)

### Currency of Share Class

GBP

### Fund Price (as at 12 Nov 2021)

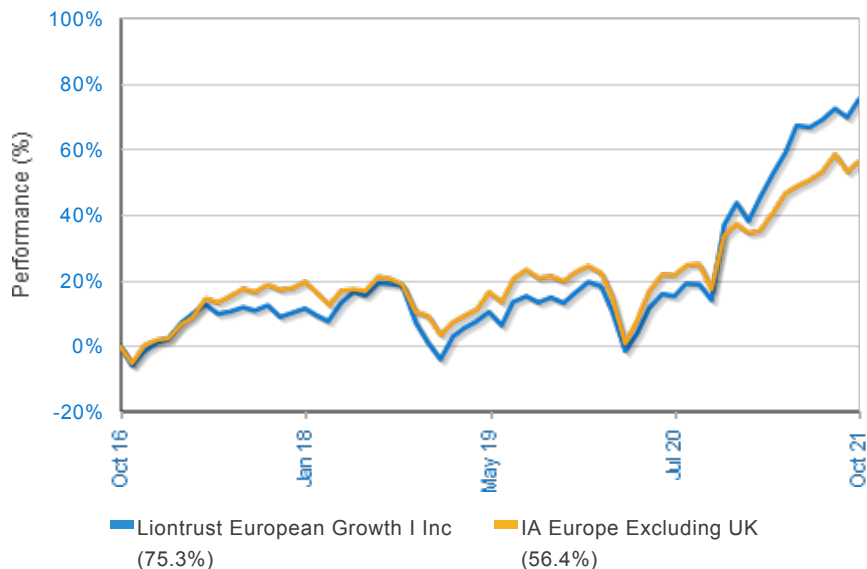
323.3 pence

### Benchmark

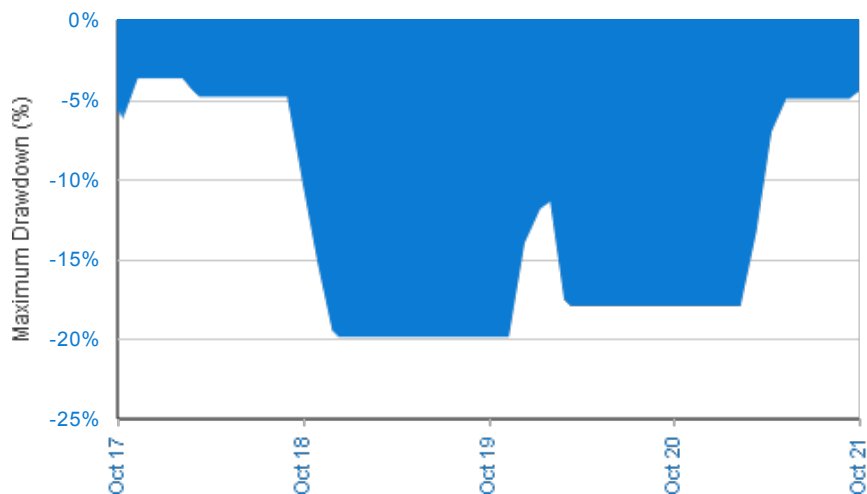
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	42.8	22.4	1
12-24m	3.5	3.1	2
24-36m	-3.0	2.2	4
36-48m	6.8	1.9	1
48-60m	16.7	21.9	4

## Capital Growth



## Maximum Drawdown (Rolling 12 Months)



## Top Ten Holdings

(Data as at 29 Oct 2021)

Company Name	%
PANDORA AS	5.9
ASML Holding NV	5.5
BANK OF IRELAND GROUP PLC	5.1
ATLAS COPCO AB	4.6
STELLANTIS NV	4.5
PUBLICIS GROUPE SA	4.0
AP MOLLER-MAERSK A/S	4.0
BEKAERT SA	3.8
BNP PARIBAS SA	3.8
EPIROC AB	3.5

## Sector Breakdown

(Data as at 29 Oct 2021)



- Industrials (25%)
- Consumer Discretionary (16%)
- Financials (16%)
- Materials (13%)
- Information Technology (8%)
- Energy (7%)
- Health Care (5%)
- Communications (4%)
- Consumer Staples (3%)
- Other (1.8%)

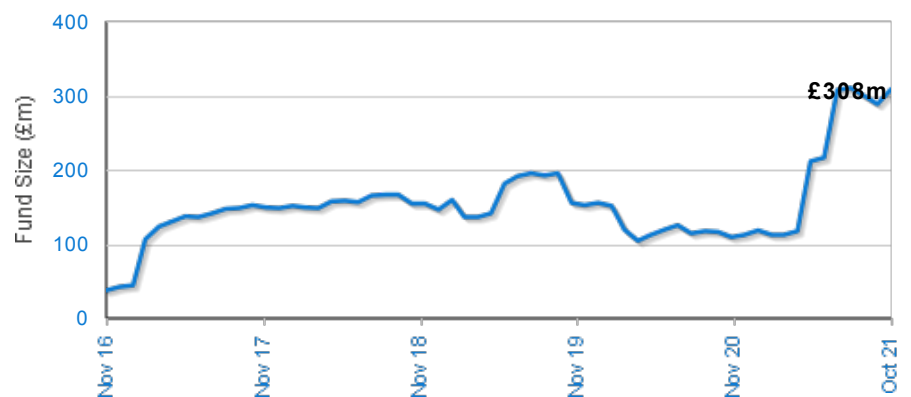
## Geographic Breakdown

(Data as at 29 Oct 2021)



- Denmark (23%)
- France (16%)
- Sweden (15%)
- Netherlands (13%)
- Germany (8%)
- Italy (6%)
- Ireland (5%)
- Belgium (4%)
- Switzerland (3%)
- Other (6.5%)

## Assets Under Management



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk	●		
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk	●		

### Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

### Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

### Credit Risk

This fund does not have significant exposure to corporate debt.

### Exchange Rate Risk

The fund predominately invests abroad and it is exposed to foreign currencies. Currency markets may move sharply.

### Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: -

SRRI: 7

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