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Liontrust European Dynamic

Opinion

- This Recommended fund has a long heritage and a distinct and repeatable investment process, which has evolved over time.
- The approach is objective and fact-based, allowing the managers to express high conviction through an equally-weighted portfolio.
- An unusual feature is that they typically rebalance the fund annually, which reinforces their methodical approach. Interim adjustments may occur in response to important developments, but this overall approach ensures that there is no unnecessary tinkering of portfolio positions.

Characteristics and Utility

- The purity of the approach results in a portfolio that evolves naturally through time, according to the managers' objective analysis.
- With this in mind, there is no structural bias to growth or value, or to defensiveness or cyclicality.
- Market cap-wise, the equally-weighted portfolio structure results in a greater emphasis on medium-sized companies when compared to the index.
- Given these distinctive attributes, portfolio positioning and outcomes can differ markedly from the benchmark. In particular, the fund has a history of fallow periods of relative performance, followed by stronger phases as strong cash flow fundamentals are reflected in stock prices.
- The fund is suitable for investors who appreciate the clarity and diligence of the approach, as well as its low turnover. For investors who are concerned about risks and returns relative to a benchmark, the fund should be a component of a broader blend.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The score is in keeping with other funds in the sector, as are other observed risk metrics. However, the fund is not managed with close attention to the index and investors should expect meaningful variability in its relative risk and return outcome. Different share classes could have different SRRI scores.

LOWER RISK (Typically lower rewards) **HIGHER RISK** (Typically higher rewards)

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Key Fund Facts

Inception Date:	15 November 2006
Manager(s) Since:	James Inglis-Jones (Nov 06) Samantha Gleave (Sep 12)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI Europe ex UK
IA Sector:	Europe excluding UK

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A European equity fund managed with a focus upon cash flows and the forensic analysis of company reports and accounts. It is bottom-up in nature and its composition changes through time in response to the managers' objective assessments of company profitability. Within its sector, the fund features in our 'Larger-Cap, Blend' category.

Investment Team

The fund is managed jointly by James Inglis-Jones and Samantha Gleave, co-heads of Liontrust's Cashflow Solution team. Mr Inglis-Jones joined Liontrust in March 2006 to develop the "Cashflow Solution" investment process. He began his career at Fleming Investment Management in 1997 and subsequently worked at JP Morgan and Polar Capital. Samantha Gleave joined Liontrust in 2012, having worked as an equity analyst at Credit Suisse First Boston and Bank of America Merrill Lynch.

Investment Philosophy

The managers believe that stock prices are frequently mispriced because they tend to reflect the forecasts of future profitability as determined by company management, which are often unreliable and can be misleading. Rather, they believe that the analysis of historic cash flows is a more reliable basis upon which to forecast a company's future profitability and stock price. In this way, the managers seek anomalies in order to unearth undervalued opportunities.

Investment Process

The managers' focus on historic cash flows, and how these cash flows are deployed, is the key to assessing a company's future profitability. The emphasis is firmly upon the quality and sustainability of company cash flows and the valuation that investors are prepared to attach to those cash flows.

The process is objective and based upon the forensic analysis of historic cash flows and balance sheet development, as presented by companies in their annual report and accounts. Indeed, the managers do not use broker research, or seek meetings with company management. The investment screen consists of two cash flow ratios, namely, cash flow relative to operating assets and cash flow relative to market value. These ratios incorporate a number of proprietary definitions of capital and cyclically-adjusted normalised cash flow (excluding temporary or exceptional items).

Using these two ratios in combination, companies are ranked on the basis of their relative cheapness and returns on capital. The research effort is on researching and understanding companies in the top quintile. These companies are then categorised by four secondary scores, namely: "growth", defined as businesses that have strong momentum, high margins and are self-funded; "cash return", defined as stable businesses with robust balance sheets; "recovering value", defined as those with robust capital controls; and, "contrarian", defined as companies that exceed expectations as they improve their operations. The final stage sees the managers work through all the accounts, notes and annual commentaries with a view to ensuring that the cash flow ratios reflect the investment opportunity accurately.

Portfolio Construction and Risk Controls

The portfolio features between 30 and 50 positions, which are equally weighted at the outset. Given that the majority of companies in Europe have December year ends, the bulk of the portfolio turnover occurs around that time. In the absence of corporate developments that alter the investment case, stock positions are allowed to grow or contract in line with short-term performance, unless individual positions lead to unnecessarily concentrated risk. Annual turnover is between 40% and 50%.