

Sustainable Investment

Q1 2025 Review



Liontrust Sustainable Future Managed Growth Fund



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- Market performance was dominated by anticipated policy shifts under the incoming Trump administration.
- Quarterly results drove notable share price moves in the portfolio during Q1, with Spotify, American Tower and Verisign among top performers, while Alphabet and PayPal were key detractors.
- In Q1, we added positions in Benton Dickinson and IDEXX Laboratories, while selling Ansys, Avanza and Roche.

The Fund returned -6.7% over the quarter, versus the -1.7% return from the IA Flexible Investment sector (comparator benchmark)*.

We started the year strongly, delivering strong absolute and relative returns. However, the first quarter of the year concluded with a sharp shift in equity market direction in late February, driven by escalating geopolitical tensions and increasing concerns surrounding consumer confidence. This shift led to a broad-based equity sell-off, with a notable rotation into more defensive sectors.

Our portfolio's underweight position in the so-called "Magnificent Seven" proved advantageous during this period of market weakness. These stocks, along with other large-cap technology names, experienced substantial declines, and our limited exposure helped mitigate losses.

However, our overweight allocation to small and mid-cap equities was a key detractor from performance, as this segment of the market came under considerable pressure given potential recessionary concerns. This positioning aligned with broader market trends that saw mid-cap equities lagging their large-cap counterparts.

Turning to portfolio performance, **Spotify Technology** (+19%) was the Fund's top performer over the period under review, driven by another strong quarter of better-than-expected subscriber growth in Q4. The Swedish streaming giant reported its first-ever annual profit, a major milestone fuelled by rising user numbers and strategic cost-

cutting efforts. Monthly active users climbed to 675 million, exceeding analyst expectations, while the company added a record number of new subscribers. Paying users grew 11% year-over-year to reach 263 million, also beating forecasts.

Spotify's profitability reflects its push to streamline operations – through layoffs and price hikes – and broaden its offerings beyond music. Its growing presence in podcasts, video, and audiobooks has helped attract a wider audience and reduce its dependence on traditional music streaming.

While Spotify primarily fits into our *Encouraging sustainable leisure* theme, it also contributes to resource efficiency as it has effectively dematerialised much of the physical material consumption used to listen to music such as CD players or vinyl. This has been a rewarding position as we have held the shares for approaching five years now, and experienced a significant drawdown following the pandemic before the shares started to perform.

American Tower (+15%), a leading provider of wireless communications and broadcast infrastructure, delivered strong fourth-quarter results, while management also provided an encouraging outlook, anticipating stable revenue from the U.S. and Canadian operations, driven by resilient data consumption trends. The shares also benefitted from a market sentiment shift towards more defensive companies, given the recurring nature of its revenue streams. As a result, American Tower experienced a re-rating.

VeriSign (+15%), the company that ensures .com websites are running 24/7, also had a strong quarter. After experiencing a period of falling websites using the .com domains in recent years, the company appears to have bucked this trend so far this year, having returned to growth. Similar to American Tower, VeriSign is a highly defensive asset with recurring revenues and contractual price escalators.

Alphabet (-21%) was among the portfolio's top detractors in the first quarter, with its shares declining, we believe, for two main reasons. Firstly, the company missed expectations in terms of growth in its Cloud business, and secondly it announced a big step up in capex guidance for 2025.

The broader market backdrop further compounded performance challenges for Alphabet. The first quarter of 2025 presented a difficult environment for the 'Magnificent Seven' stocks, shaped by trade policy shifts, persistent inflation, and sector-specific concerns – particularly around the pace and profitability of AI investment. These headwinds weighed on mega-cap tech names overall. Within this group, we hold positions in only Alphabet and **Microsoft** (-13%), which also had a weak quarter. After two years of highly concentrated returns in the index, we think it is healthy that there are signs of the market broadening out.

Alphabet is exposed to our *Providing Education* theme and scores a B3 on our sustainability matrix. It's an unusual case, as we typically take a dim view of advertising – Alphabet's primary revenue source via Google Search. However, by aggregating the world's information, Alphabet's core business provides free access to knowledge. Users can learn virtually anything through Google Search and YouTube – something once limited to the wealthy with access to libraries and top educators. We therefore see clear net societal benefits, justifying a B product rating.

Microsoft is exposed to our *Better resource efficiency* theme and scores a B1 on the sustainability matrix. Around a third of its revenue comes from the Productivity and Business Process division – mainly Microsoft Office – which scores a B, as it clearly improves efficiency. About 40% comes from the Intelligent Cloud division, which provides scalable, cost-effective computing power and cybersecurity solutions, enhancing operational efficiency for businesses.

PayPal's (-26%) shares declined sharply following the release of its fourth-quarter results. Although they beat market expectations, they disappointed on guidance. At the end of February, PayPal also had its first investor day under the new management team and announced some ambitious targets. Given the share price reaction and the current valuation, it is safe to say that the market is not giving it any benefit of the doubt here. We also believe the shares sold off with the general shift towards more defensive assets, given the discretionary nature of PayPal's business.

Changes to our strategic asset allocation

In early March, we made a strategic decision to adjust our asset allocation across the Managed fund range. We reduced exposure to both equities and corporate bonds, while increasing our holdings in cash. This repositioning

was implemented to reflect the heightened uncertainty in the macroeconomic and geopolitical outlook, and has helped to partially mitigate the impact of the equity market downturn.

Trade activity

During the quarter, we initiated a new position in **Becton Dickinson**, a c.\$60 billion market capitalisation business in the healthcare sector, listed in the United States. The company's products enhance medication management, patient safety, infection prevention, surgical procedures, drug delivery, anaesthesiology care, disease diagnosis, and cellular research. Becton Dickinson is committed to providing high-quality products at very low cost, which aligns well with the shift towards value-based care, given its emphasis on safety, efficiency, and infection prevention. These low-cost items are used daily to such an extent that, without them, modern medicine could not be practised. Approximately 61% of revenues are exposed to the theme of *Enabling innovation in healthcare*, while 39% are aligned with *Providing affordable healthcare*.

After five years of a flat share price, sentiment has deteriorated. Ten years ago, the company traded at a premium to the MSCI World, S&P 500, and the US Healthcare Index. Fast forward to today, and it now trades at a discount to all three. To summarise why we believe this has happened: the company's earnings have not grown meaningfully for around five years. In my view, this has been largely due to capital allocation decisions. However, we believe this has created an excellent entry point into a business that should grow organically at mid-single digits, with earnings per share expected to increase close to double digits. We acquired the shares at just 15x earnings.

Given Becton Dickinson's defensive characteristics and the competition for capital within the Fund, we decided to exit our longstanding holding in **Roche** to finance the purchase. Roche is a Swiss pharmaceutical company that faces significant patent-cliff risks in the coming years. We concluded that our capital would be better utilised in Becton Dickinson. We sold our Roche shares at a multi-year high, driven by enthusiasm surrounding its investments in a new GLP-1 drug – the success of which presents a clear risk in exiting the position today.

Avanza is a company we first purchased in the funds during the summer of 2020. It is aligned with our *Saving for the future* theme by providing a low-cost platform for individuals to manage their savings. We have been gradually exiting our position in Avanza, as rising markets and high interest rates in Sweden have cyclically boosted its earnings. We are also cautious due to the level of management turnover observed over the past 12 months.

We also initiated a new position in US-listed **IDEXX Laboratories**, a \$30 billion market cap company that dominates the animal diagnostics market. It offers diagnostic testing equipment, reference laboratories, consumables for these instruments, and the software that integrates all these products for veterinary clinics. IDEXX's technology enables vets to better diagnose and treat pet health issues, which aligns with our *Healthier lifestyles* theme. Pet ownership is directly linked to improved physical and mental health through increased exercise, social connections, and emotional bonds. IDEXX is a technology leader with strong growth, high returns, and a long runway for expansion over the next decade. The shares have underperformed in recent years due to what we believe is a cyclical slowdown in veterinary visits. We expect this to recover as the large number of pets adopted during the pandemic begin to age.

To fund our investment in IDEXX, we exited our remaining position in simulation software provider **Ansys**. Ansys is a high-quality business and an excellent fit for our investment process, but in January 2024, Synopsys announced its acquisition. The deal was a combination of cash and Synopsys shares, and we sold our holding when the Ansys share price reflected an approximate 8-9% discount to the deal value. The transaction is expected to complete in the first half of this year; however, there remains a non-zero probability that China's competition authority could block it. Given the current geopolitical climate, we decided to exit at a small discount to the deal price.

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

	Mar 25	Mar 24	Mar 23	Mar 22	Mar 21
Liontrust Sustainable Future Managed Growth 2 Acc	-5.5%	20.1%	-7.5%	5.1%	41.8%
IA Flexible Investment	2.9%	10.1%	-4.0%	5.0%	29.1%
Quartile Ranking	4	1	4	3	1

*Source: FE Analytics, as at 31.03.25, primary share class, total return, net of fees and income reinvested.

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.

All investments will be expected to conform to our social and environmental criteria.

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.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares 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.

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