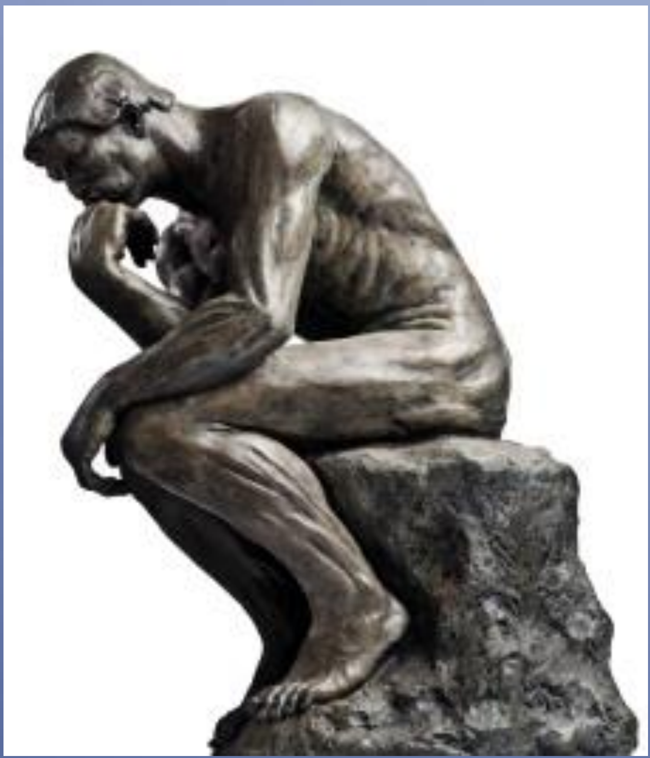

Fund Bites

Liontrust European Growth Fund

The Liontrust European Growth Fund was added to the portfolios in 2012, the exposure to the fund will be increased in the 2013 review. This “fund bites” is a summary of the recent meeting we had with one of the fund managers, Samantha Gleave.

Introduction

We have indicated before the difficulty of identifying good European Funds. This fund came out of that review. We were impressed by the consistent performance as well as the way the fund is managed.

At the time we hadn't met the management team and we were keen to do this. The team is made up of James Inglis-Jones, Gary West and Samantha Gleave.

James and Gary moved to Liontrust in 2006 to develop the strategy behind the fund and Samantha joined in 2012 after previously working with both James and Gary at Flemings.

What we are looking for in funds is threefold, a strong investment process, good fund management and performance. Performance doesn't have to be the best as blended with other options it can provide the right balance and this is important. From a conviction viewpoint we like to meet managers, and we have demonstrated this in a number of funds we hold.

This fund effectively ticks the box from the management side, the process side and performance and this is why we have increased the weighting in this year's rebalance.

The Fund

Where the fund differs from others in the sector is the process which is called cash flow solutions. Effectively this focuses exclusively on company cash flows. The essence is that they focus on forecasts made by company managers and then overlay company cash flows. This tells them if the forecast risk is high or low and provides hidden clues of unexpected changes in return on capital.

The two cash flows that companies are rated on are normalised cash flow and free cash flow. So they will start with 1,500 companies and work this down to perhaps 200 companies.

Once they have a list of 200 companies the investigative work begins, looking at reports and accounts, looking at strategy etc. So for example could there be a restructuring angle (i.e. could they sell parts of the business).

Although they look to see if the managers are aligned to the business interest they are not keen on meeting management as they will only tell you what they want you to hear. This is all about the nuts and bolts of the business.

This is a conviction based portfolio and a concentrated portfolio, it currently holds just 31 stocks. All the stocks have equal weighting at the start of the process (turnover is reviewed annually). This means they allow a company to run throughout the year.

Although they review annually they will take opportunities as they arise during the year but what this process does is ignore the noise and panic sell.

It is not either a domestic or global play it is going where there is an investment case to hold the stock. Of course contrarian stocks will appear as well.

Some examples of this, they have recently invested in a paper manufacturer. This would appear a weak market to invest in at this time. When you start to analyse the company you find the cash flow is strong and actually this is a fantastic opportunity.

Another example is a manufacturer of cooker hoods where the businesses greatest growth is coming from Latin America and South East Asia so it's almost as if the company is European only in name!

This is not necessarily a special situations fund but it can pick up opportunities. For example Tesco's have historically generated good cash flows but focusing on the short term earnings identifies problems. They believe fundamentally this is a good business and have bought it.

They like Roche which has a big family shareholding and is prudent with purchases. Good cash flow and a good stock to hold.

Anheuser-Busch again is a great business but in their view expensive, therefore stocks like this create dilemmas i.e. do they hold or sell and re-invest in other opportunities.

A more recent purchase is Vivendi, this is a messy company in terms of company accounts but it has a number of cash generative businesses. There has been a change in management and the old CEO has been replaced. It is early days but the new team are starting to sell off parts of the business and growing the business.

In summary this is all about the cash flow, if the cash flow is good then they will look at the business. They will then look at price and the ability to increase the return on capital and more importantly they follow a strict process which goes back to the numbers and delivers consistent performance.

Conclusion

We still believe that this is a great fund to include in the portfolios and like the management style and process.

Europe is a difficult market to play but if you focus on companies there are clearly opportunities to be found.

The source of information in this note has been provided by Liontrust and is correct as at 25 April. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.