LIONTRUST

GLOBAL EQUITY

Liontrust Global Technology Fund

Q2 2022 review

Fund managers: Robin Geffen & Will Geffen

The Liontrust Global Technology Fund returned -19.8% over the quarter, versus the MSCI World Technology Index's return of -15.2% and IA Technology & Telecommunications sector loss of -16.4% (both comparator benchmarks)*^.

The second quarter of 2022 saw a continued slide for Global markets. The MSCI World Index saw $13tn wiped out so far this year, largely led by US equities, with the S&P 500 having its worst first half of the year since 1970. The themes driving this drawdown remain similar to the first quarter of the year – the Ukraine conflict, China lockdowns, inflation and central bank tightening. Narratively-speaking, these events are closely linked: The Ukraine war and subsequent sanctions have driven up energy and materials prices, which combined with lockdowns in China pinching global manufacturing and supply chains (as well as harming the world's 2nd largest economy) and 2 years of low central bank rates (high money supply) has led to inflation, which the banks now seek to combat by raising rates.

Technology equities have continued to lag the broader market during this quarter with the MSCI World Technology index -15.2% vs the MSCI World index -8.7%. On a surface level, this appears driven by investors moving away from technology to "more defensive" sectors as risk appetite sours. Deeper down, its more a reflection of rising central bank rates driving down the rating of higher growth (higher duration) sectors and companies. The sobriety that kicks in during a downturn also serves to help correct overexuberance for the more speculative parts of the market that run rampant towards the end of a long bull run – it is no coincidence, for example, that cryptocurrencies, and crypto-related stocks, have suffered >50% drawdowns.

Rather surprisingly, our small holdings in Chinese tech companies, namely Tencent, Alibaba and JD.com, have been our top performers this last quarter in spite of tough economic conditions. This is in part as finally had a chance to rebound as the Chinese government appears to be easing its regulatory crackdown of tech companies, but also as markets began to anticipate easing of lockdown restrictions.

As mentioned, rising rates continue to negatively impact the ratings of higher growth stocks in our portfolio, the companies themselves remain more or less individually unaffected, bar a more general anticipation of a possible upcoming recession. For example, Cloudflare continues to execute at an impressive rate on its promise to build a better internet with incredible speed of product innovation in areas ranging from website DDOS protection to Cloud Deployment tool and its prospects remain fairly unchanged, however its market rating (multiple) has been severely hammered in this environment. Similar is true for Nvidia, although it was specifically impacted by the rather severe crash in cryptocurrency markets and subsequent dampening appetite for new crypto mining GPUs.

Microsoft actually fell less than the MSCI Index but its substantial position size in the fund (>9%) earned it a spot in the largest absolute detractors.

The Fund entered no new positions but exited Block and Etsy. These were both smaller positions that were exited after substantial losses (well in excess of the overall drawdown) triggered a review on not just their investment cases, but their short- term market outlook given the current rate environment.

In the case of Etsy, we need to better understand its post-Covid economics and whether the wave of new buyers and sellers stick around – and hopefully grow – now the world has opened back up or whether it was a temporary cohort. With Block, its strong pivot towards blockchain, as emphasised in its name change, suggests a change in direction we are no longer comfortable with given recent events in the crypto market. Both companies remain under review in our watchlist.

While the markets and economic may look bleak on the surface, it's hard not to be excited by the current state of affairs for investors in the technology companies. The sector now presents a large number of fantastic companies available for purchase at a cash yield not seen for many years. This, combined with the strong economics, growth opportunities and defensive qualities of these companies as well as a clear lack of current mainstream investor enthusiasm for the space, presents a clear opportunity for medium and long-term outperformance.

Now, as ever, it is important to actively seek and discern these high performing companies from those whose value is more speculative. By focusing on a company's key financial metrics supporting a strong investment narrative and a discounted cash flow valuation we aim to help provide long term outperformance in this exciting sector through careful and attentive active management.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Global Technology C Acc GBP	-19.5%	29.1%	27.4%	15.2%	32.9%
MSCI World Information Technology	-8.2%	27.7%	36.7%	16.9%	26.4%
IA Technology & Telecommunications	-20.7%	33.2%	30.7%	12.3%	19.6%
Quartile	2	3	3	2	1

***Source: FE Analytics as at 30.06.22**

****Source: FE Analytics as at 30.06.22. Quartiles generated on 06.07.22**

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 is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.