Liontrust Global Dividend Fund: July 2022 review

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Performance summary

During July, the Liontrust Global Dividend Fund returned 7.1% in July*. The MSCI World Index comparator benchmark returned 7.7% and the average return of the IA Global Equity Income sector was 4.3%. The Fund therefore underperformed the index by 0.6% and outperformed the peer group by 2.8% over the month.

Since Fund Manager inception, the Fund has returned 70.5%, which compares to the MSCI World Index return of 61.3% and the IA Global Equity Income sector average return of 36.7%. The Fund has therefore outperformed the Index by 9.2% and its peer group by 33.8%.

The Fund takes a total return approach to income investing by investing in innovative global leading businesses that can drive stock price appreciation and grow their dividends for us as shareholders.

For income investors, the Fund's dividend yield at the end of the month was 2.4% (net of withholding tax) vs the MSCI World Index's yield of 2.1% (gross of withholding tax). We expect to grow the Fund's income distributions for our investors by at least 10% this year compared to 2021, our companies having reported strong fundamentals in the first half of the year.

	Liontrust Global Dividend	MSCI World Index	IA Global Equity Income	Peer group quartile / rank
YTD	-5.4	-4.5	-2.4	47/57 (4)
1 year	-0.1	3.8	4.8	49/56 (4)
3 years	30.9	32.4	19.6	5/52 (1)
Since 31.08.2017	**70.4**	**61.3**	**36.7**	**2/47 (1)**

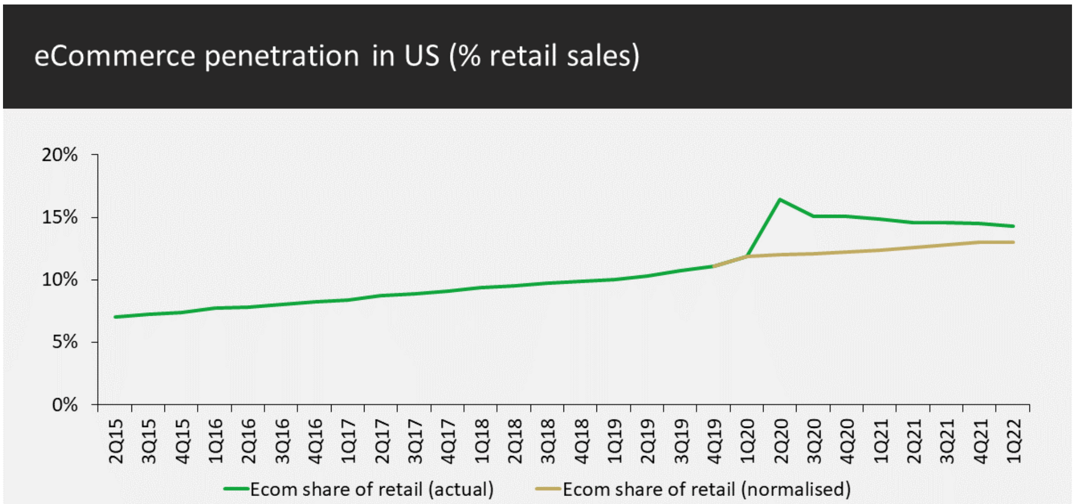
**Source: FE Analytics as at 31.07.22. Liontrust Global Dividend Fund, primary share class performance, C Accumulation GBP, total return (net of fees, interest/income reinvested) versus MSCI World and IA Global Equity Income comparator benchmarks.*

Innovation insights

Over the past two years many industries have experienced volatile consumer demand due to Covid. Nowhere has this been more pronounced than in e-commerce, which saw a boom during lockdowns and a slump afterwards as economies re-opened. Overly exuberant extrapolations of the Covid e-commerce boom has meant that e-commerce stocks have subsequently suffered. For example, Amazon is down 15% year to date, Shopify is down 72% and Sea (in South-East Asia) is down 67%.

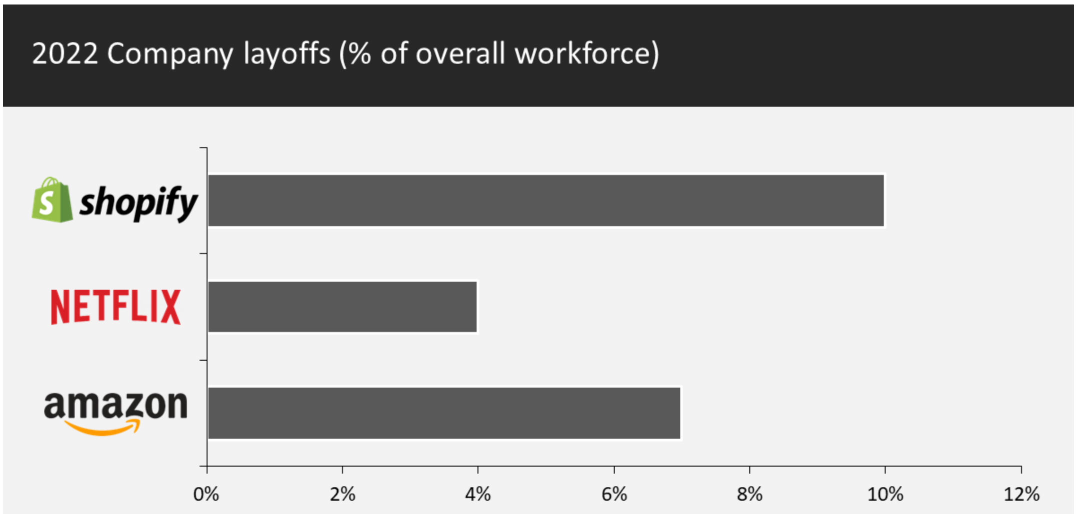
Where are e-commerce fundamentals now and what is the outlook for the stocks? We think the key point is that the fundamentals have likely now fully adjusted following Covid. As the chart below shows: on the eve of Covid, e-commerce represented 11% of US retail. In 2020, during lockdowns, it shot up to 16% but quickly started falling again on re-opening and now sits at 14%.

This level is now only slightly above the 13% or so, where we would have expected e-commerce to now be if Covid had not happened, and we find it difficult to believe that Covid had no impact at all on our shopping habits. This is given that i) many consumers started buying significantly online for the first time in 2020, particularly venturing into groceries for the first time, ii) many people now work a bit more flexibly so can receive orders more easily during the week and iii) significant investment has been put into the e-commerce infrastructure during the past two years improving the customer proposition. As such, given the long-term structural growth opportunity of e-commerce we are currently very constructive on the industry.



Source: FRED Graph Observations, Federal Reserve Economic Data, https://fred.stlouisfed.org. E-Commerce Retail Sales as a Percent of Total Sales, Percent, Quarterly

Moreover, the best e-commerce companies are among those innovators that have adapted first to tough economic conditions – clearly with further economic challenges likely ahead from inflation and an economic growth slowdown – reducing costs across their businesses. Look no further than Shopify, Netflix and Amazon, companies held in our Global Innovation Fund that have significantly reduced headcount during the past quarter.



Source: Liontrust & Company reports, July 2022

For us there are two key insights here: 1) the importance of a leadership team that can execute. Management that are looking to build global leading businesses in today's tough and fast-paced business environment need to act quick while also thinking long-term, and 2) many of these companies who have aggressively cut costs will benefit from significant operating leverage as demand re-accelerates. And since we invest in companies that create huge customer value through innovation, we are very confident in that growth.

As such, as we exit one of the most difficult starts to the year in the stock market – ironically, particularly so for the best companies! – we are excited about the returns we believe we can generate by investing in these companies, not only over the next decade but also the next year.

Company news

LVMH

Shrugging off concerns about slowing global economies, **LVMH** posted stellar Q2 results, driving 19% organic growth and beating expectations at both the revenue and operating profit level. We put this down to the company's extraordinary brand power and scale, which creates a virtuous cycle of innovation.

Louis Vuitton is the largest luxury brand in a fixed cost industry, creating a material profit generation advantage since innovation is expensive and driven upon fixed SG&A costs (LV comprises c.50% of the group's Fashion & Leather Goods division yet powers c.70% of operating profit). We saw this operating leverage play out last quarter as LVMH's Fashion & Leather goods mega-brands propelled operating income above revenues.

We were encouraged by management actions to preserve brand equity in Q2. Focusing on its top end brands, restricting entry point items and retaining a tight grip on brand distribution maintains the perception of exclusivity and fuels pricing power. Across the LVMH family of brands, prices increased 3-7% in Q2, with no pushback from consumers.

Few companies can replicate brand power resting on 168 years of heritage, which as per Hamilton Helmer (who identified seven powers as routes to persistent differential returns for a business, Branding being one), is paramount. Strong branding is only possible after long period of reinforcing actions. Dior, the pioneer in innovative artistic collaborations for womenswear and menswear, continued its strong momentum in Q2 as the fastest growing luxury brand over three years. Recent innovative efforts such as the three-year renovation of the Dior Flagship will create new customer engagement and we see LV's profit trajectory as indicative of Dior's potential.

Alphabet

Alphabet earnings demonstrated that not all advertisers are created equal. Amid investor angst following poor prints from digital advertisers such as Snap, Alphabet delivered a resilient Q2, with revenues reasonably in line and a small 3% miss on operating profit. While growth slowed for you-tube ad sales and cloud revenues de-accelerated, Alphabet's core engine, Google search, produced advertising revenue growth of 14% yoy, slightly above expectations. This result was all the more impressive since it comes on top of 68% yoy growth for the comparable quarter last year and is testament to the value the company provides to its customers.

In today's challenging economic environment, businesses become more discerning over marketing spend. Advertisers that can offer the highest ROI for customers become a greater proportion of customer ad wallets, to the detriment of less effective advertisers who fall out of marketing budgets. Google has consistently ranked as a top 2 ROI ad platform on the Internet (alongside META) over the past seven years, positioning them well to gain share through a period of tough operating conditions owing to superior scale and quality. This customer value is down to continued innovation of Google's core proposition.

Late last year, we saw AI powered Performance Max campaigns rolled out, allowing advertisers to access all of their google ads inventory across all channels, in turn improving conversions. The 5x advertiser adoption YTD seen for Performance Max suggests significant value is being created for customers.

AI continues to be deployed across the business, including Google Cloud, which is growing strongly, and management is investing deeply in the opportunity set. Signaling confidence in the company's prospects, a record $15bn stock was repurchased in the quarter.

Admiral continued its poor stock price performance from H1 into July but as the stock price gets weaker, we become more positive on investing in the company. We hold the company because it is the best at pricing risk in UK car insurance and therefore can profitably deliver the lowest prices to customers. As is ever the case in the Global Dividend Fund, this advantage derives from its scale advantage as the market leader and its strong rate of incremental innovation, in this case, in data and digital capabilities for pricing risk and improving the customer experience.

This advantage is amplified by the recent FCA changes to reduce predatory pricing in the market and limits Admiral's competitors from offering aggressive teaser rates to attract customers away from Admiral. We see this as a significant reshaping of the UK insurance industry and benefits the lowest cost offering in the market, Admiral. We started buying in March on share price weakness following poorly received full year earnings for 2021 and profit outlook. Clearly, given further weakness since, this was too early.

That said, negative recent sentiment has been a result of industry level challenges regarding high claims inflation (getting more expensive to fix damaged cars) and we see Admiral as much better positioned to manage this challenge than peers and ultimately taking further market share.

Life science and diagnostic tools behemoth, **Danaher**, delivered excellent all-round performance in Q2, beating expectations on both the top and bottom-line. Structural growth tailwinds in biopharma, genomics, molecular diagnostics and environmental testing drove core revenue growth of 9.5%, whilst continued operational execution drove an impressive 1% operating margin expansion in a challenging climate.

This operational efficiency evidences to us a rare form of competitive advantage in action: process power. Danaher is run according to DBS philosophy (the Danaher Business System), which focuses management on the relentless pursuit of efficiency which is translated to customer value via quality, delivery cost and innovation. This is the same philosophy that Toyota embraced (Kaizen—a Japanese system of thought that encourages incremental daily improvements) in the second half of the 20th century; the efficacy of the TPS (Toyota Production System) eventually brought about the collapse of GM's US market share in automobiles.

Strong numbers from recent acquisitions (notably Cytiva, formerly GE healthcare, which grew high single digits in Q2) demonstrate the value uplift that Danaher can generate by operating businesses more efficiently, building on the company's consistent value accretive M&A track record.

The robust backlog and order levels reported in Q2 within its bioprocessing businesses show the value customers put on Danaher's assistance when moving from the lab to commercialisation, while in life science instruments, the introduction of Zeno SWATH DIA (an innovative software solution which doubles the number of proteins that can be discovered versus previous approaches), is improving the efficacy of genomics and proteomics research for customers. Strong customer demand across all divisions has left management revenue guidance for mid-single-digit growth intact for the year.

One company, **Intuit** - which we sold last November due to extended market price and managed to buy back this year at a much lower price - unsurprisingly rebounded strongly in July.

Intuit has been the de facto standard in the US for consumer tax preparation (TurboTax) for decades because it focuses on reducing friction for consumers submitting their annual tax return, which is a complex and painful process in the US. In 2013, the company noticed a blue ocean, small business accounting services – the pain point for small businesses is overpaying for accounting services. So they launched QuickBooks online in 2013 to reduce the burden on small businesses. As with any product designed and launched on the Intuit platform, this product is centred around the customer and driving real value for user. Then, just like Alphabet, once you have the captured customer you layer on additional services to reinforce your competitive advantage. This type of innovation is vital for companies we invest in.

Now the company has layered on ecommerce tools, direct marketing services, and secured loan products to help small businesses gain access to product and services previously only available to larger competitors. This drives Intuit's retention ratio higher and increases the ability of the company to upsell and reinvest more in innovative products/services for current and new customers spinning the flywheel. So, when the price of a company's stock like this falls we take advantage of market inefficiencies – very rarely is there "blood in the streets" in high quality innovative companies.

Changes to the Fund

Entries

- HOWDENS JOINERY CO. — *Down 40% from its recent high*
- devon — *Down 33% from its recent high*
- HARGREAVES LANSDOWN — *Down 63% from its recent high*

Exits

- Volkswagen — *Change in CEO*
- bp — *Achieved price target*
- Epiroc — *Better opportunities on the watchlist*

With stock markets experiencing the worst start to the year since the 1970's, opportunities across our watchlist compelled us to make a number of changes to the Fund. Exiting Q2, a number of these companies traded on prices we consider a once in a decade opportunity for long-term investors. Companies like Adobe, Nvidia, Pool Corp & Halma – these companies due to their high-quality footprint have sat patiently on our bench for years waiting for this type of dislocation between price and value.

For **British Petroleum,** the shock to energy markets in 2020 created a unique environment in which energy companies had the mandate to pivot traditional energy business models to a more de-carbonised framework. BP, with a new management team, grabbed this opportunity with both hands and acted quickly to offload uncompetitive legacy oil and gas assets, de-lever and grow its renewable asset base. As management executed on this new strategic plan, simultaneous strong energy prices helped propel the stock price of BP from below £3 per share back in 2021 (when we invested) to above £4.50 this year. This strong stock price moved triggered our price target and so we decided to exit the position. In its place, we have purchased a position in US oil and gas company, **Devon Energy**.

As we have enter a new paradigm for the energy industry what we look for in terms of management execution has evolved. As always, we are searching for the lowest cost producer who is committed to improving operating efficiencies over capacity expansion but we also prefer companies in this industry to be returning capital to shareholders rather than investing for growth. This ultimately results in investing in companies aiding the transition to a de-carbonised energy infrastructure but managing the decline of their asset bases. Very simply, Devon Energy ticks these three boxes and has the scale that provides a competitive advantage over other pure play operators.

Devon is a pure play US shale energy producer with one of the lowest cost energy producing footprints outside of the Middle East. In addition, the company is returning the majority of the cash it generates back to shareholders in the form of a variable dividend, which gives the company adequate flexibility if oil prices weaken significantly from here, but also enables the management team to return capital to shareholders with an efficient mechanism as the industry goes into structural decline.

Battered by the 'Dieselgate' scandal, **Volkswagen** had no alternative but to reposition its strategy to align with all stakeholders. Back in 2020, the company pivoted its business model to compete toe to toe with Tesla but unlike Tesla, VW already had the supply chain and manufacturing footprint that Tesla did not. With new CEO Herbert Diess at the helm, VW immediately reshaped its organisation to encourage innovation and reallocated significant capital from traditional internal combustion engine development to EV technology. The size of the pivot is staggering and is highlighted by the $42bn investment the company is making in this technology over the next five years. The key to the company's ability to compete with the lower priced Tesla model 3 was speed and focus. Once the company hit scale with its EV platform, we gained enough confidence to invest in the company as an innovative global leader.

However, over the past couple of months, the execution missteps in the centralised software development team have ultimately cost Diess his job. For us, without a clear voice in the company driving VW towards a difficult destination we decided to exit this position due to the uncertainty of the new management team to execute against this strategy.

On the other hand, **Epiroc** is a classic innovative global leader with strong pricing power and a capital-light business model. This capital compounder sells excavation machinery (particularly underground diggers), including EV powered machinery into the mining sector**.**

Epiroc derives around two-thirds of its revenues from the after-sale market (maintenance, training etc.), which means it provides low-cyclicality exposure to the mining industry and embeds strong relationships with customers, working permanently on-site with them. Meanwhile, Epiroc's innovations in electric powered mining machinery and diggers means it is becoming a key partner for mining companies in their mission to become more environmentally sustainable. However, after solid stock price performance over the last year, we sold the position to make way for new holding on the watchlist that offers better upside. In the place of Volkswagen and Epiroc, we have purchased **Howdens Joinery,** a UK industrial company, and **Hargreaves Lansdown**, a UK financial services company.

Howdens Joinery, a new addition in July, is the largest UK kitchen manufacturer. Founded in 1995, the company has grown from just 14 depots to over 800 across the UK and Europe thanks to the success of their trade-only model. The company only sells to trade who have the expertise to ensure that the products are fitted to the highest possible standards. Howdens' purpose is to help trade customers achieve exceptional results for their own customers and to profit from doing so − creating genuine value for customers by driving down the price of a new kitchen.

A customer has their pick of around 80 kitchen ranges and thousands of products across joinery and hardware, ensuring you do not end up with the same kitchen as your neighbour but also benefiting from cost efficiencies from standardisation and scale. We have always admired Howdens' business model with the core of the business generating the bulk of the profitable growth at scale and building products and services that drive genuine value for customers.

Companies with this approach either in building supplies, mining equipment or accounting software tend to win because they are driving prices lower and solving problems for loyal customers. With the recent sell off in UK high quality growth companies and consumer weakness, Howden's stock price softened enough for us to find enough upside to move the company from our watchlist and into the Fund.

Hargreaves Lansdown needs no introduction to many UK investors. Founded in 1981 to provide personal advice to clients on unit trusts and tax planning matters, Hargreaves Lansdown became one of the great disruptors in the industry, democratising personal investing, and today services more than 1.6m clients with more than £135bn in Assets under Administration. The business model has, over years, evolved to include a wide range of activities including wrap platform provision, stock broking, investment management, research, distribution and advisory services.

We are focused on the core business driving the profitability, which is its direct-to-consumer financial services platform. The company has expanded its UK D2C market share from 25% a decade ago to 43% today, making it the largest in the market. The company has built this dominant position through cultivating a reputation as the best place for savers and investors in the UK and a relentless focus on improving the customer experience indicated by a retention rate of 92% – and driving growth.

With its scale, dominant market position and proven ability to innovate ahead of the competition to stay ahead, we expect the company's stock price to perform strongly from here over the long-term.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Global Dividend C Acc GBP	-7.3%	26.5%	9.9%	17.2%	8.8%
MSCI World	-2.6%	24.4%	5.9%	10.3%	9.3%
IA Global Equity Income	1.0%	21.2%	-2.6%	8.4%	3.6%
Quartile	4	1	1	1	1

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

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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. Do remember that the value of an investment and the income generated from them can fall as well as rise and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital. The MSCI World Index and IA Global Equity Income sector are comparator benchmarks.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates.

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