LIONTRUST

GLOBAL EQUITY

Liontrust Global Technology Fund

Q3 2022 review

Fund managers: Robin Geffen & Will Geffen

The Liontrust Global Technology Fund returned 0.7% over the quarter, versus the MSCI World Technology Index's return of 2.0% and IA Technology & Telecommunications sector's 1.0% (both comparator benchmarks)*^.

Markets continued to slide this quarter off the back of the worst first half to a year for the S&P500 since the 1970s, as several interrelated factors look to drag the global economy into a recession. These intertwined headwinds include high inflation from years of loose monetary policy, and meeting the supply shock from Covid along with resurgent post-Covid demand. The war in the Ukraine adds geopolitical uncertainty as well as scarcity to energy and key raw materials from trade sanctions with Russia. Harsh lockdowns in China have stalled economic growth in the world's second largest economy and a key link in supply chains. Finally, central bank tightening to combat high inflation is leading the economy away from over a decade of low (and steadily decreasing) interest rates.

Among the portfolio's notable contributors, big tech names **Apple** and **Amazon** had solid quarters, benefitting from the 8% tailwind in the dollar vs. sterling.

Cloudflare follows a pattern of outperformance of cybersecurity companies in the portfolio, with **CyberArk** and **Zscaler** also outperforming nicely. Cybersecurity remains a more "defensive" corner of the software market, being not only the last component of any CIO's budget to be cut, but also the beneficiary of a constant stream of news over the latest hacks and potential vulnerabilities.

As mentioned, rising rates continue to negatively impact the ratings of higher growth stocks in our portfolio, but the companies themselves remain more or less individually unaffected, bar a more general anticipation of a possible upcoming recession.

Adobe's difficult quarter is noteworthy due to the reaction to its monumental acquisition of Figma for $20bn. There are good reasons why the market took this move badly – first and foremost, the price paid is staggering for a company with c.$400m annual recurring revenue (ARR) - a 50x multiple on ARR is a record for an acquisition of over $1bn. Second is that it is hard to see this acquisition as anything other than a panicked defensive move. Clearly, to justify a $20bn tag (15% of its current market cap) Figma and other collaborative creative software (e.g Canva) represented a near existential threat to Adobe's core creative business – a disturbing thought for investors who had previously deemed Adobe's competitive advantages to be enduring and powerful. These advantages were eroded due to slow execution and missing the importance of seamless real-time collaboration as part of modern creative design, as well as its difficulty to reverse engineer down the line.

We do however see silver linings. For one, Figma does represent a fantastic asset, and while $20bn is a steep price at its current run rate, it is profitable and growing 100% year-on-year. Add to the mix a well-oiled Adobe enterprise sales and marketing team to this best-in-class software as well as a host of other synergies and savings that have allowed Adobe to achieve perennially strong margins over the years, and we have the potential makings of a jewel asset for the Adobe crown.

In terms of portfolio activity, the Fund entered no new positions but exited **JD.com** and **Okta**. JD.com was a very small (>10bps) position gained from spinning out of our Tencent holding and was not deemed worth building into a meaningful position given our cautious view on the Chinese macro setup at the moment.

Okta was recently a victim of an embarrassing cybersecurity attack. As a cybersecurity company itself (focussed on identity), we deemed that this now represented, at least in the short to medium term, a critical blow to its credibility, despite the limited nature of the breach. The long-term consequence to Okta remains to be seen, however – given the current climate, there are far better investments to be made from a risk/return perspective.

While the markets and economic outlook may look bleak on the surface, it is hard not to be excited by the current state of affairs for investors in 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 focussing 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:**

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust Global Technology C Acc GBP	-21.8%	23.7%	38.6%	4.2%	41.9%
MSCI World Information Technology	-9.9%	24.1%	38.4%	12.8%	31.9%
IA Technology & Telecommunications	-21.1%	26.6%	34.6%	10.9%	22.4%
Quartile	3	3	2	4	1

***Source: FE Analytics as at 30.09.22**
****Source: FE Analytics as at 30.09.22. Quartiles generated on 07.10.22**

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

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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.

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