Liontrust Global Innovation Fund

Q1 2022 review

Co-Fund Managers: James Dowey & Storm Uru

The Liontrust Global Innovation Fund returned -10.3% over the quarter, versus the MSCI AC World Index which returned -2.6% and IA Global Equity sector average of -5.0% (both comparator benchmarks)*^.

American Express (+17.8%) was the top performer over the first quarter of the year. The company is gaining market share against the big two card networks Visa and Mastercard as card transactions migrate to electronic transactions. Digital wallets and online checkouts create a more level playing field than leather wallets. The burgeoning ranks of Amex members are increasingly focused on rewards, where American Express beats the big two hands down.

As commerce shifts online, merchants are pressured to reduce even the smallest payments frictions so accepting Amex is essential. Moreover, Amex is thriving while travel remains subdued. Its revenues and profitability are already above pre-covid levels and as travel recovers it will enjoy excellent operating leverage.

Costco (+4.5%) is an instructive example of resilience to inflation through innovation. Its resilience comes down to its bargaining power with suppliers and flexibility with customers. Two of Costco's key mainstay innovations are its staunch commitment to a fixed markup of 14-15 per cent above costs on everything it sells and its limit on the number of different items it sells to only 3,700 per store on average. This gives it very strong bargaining power with its suppliers, because every product must make sense to Costco and its customers at its fixed markup to stay in the store ahead of the competition on the bench.

Equally, customers understand that the stores chop and change in their best interest based on pricing. So, when particular products become too costly, Costco just sells other products. Meanwhile, as the lowest cost retailer, customers respond to any cost-of-living squeeze by shopping more at Costco.

Focusing on the detractors over the quarter, PayPal (-36.9%) fell sharply after saying growth in spending on its platform continued to slow during the fourth quarter as economies around the world reopened and consumers flocked to in-store shopping. The company announced that total payments volume climbed just 23% to $339.5 billion in the final three months of last year as the technology giant's former parent company, eBay, continues to move payments offerings away from PayPal.

The company also announced a change in its growth strategy towards monetising its core customer base rather than focusing on customer acquisition. Once a company has scaled, a focus on capital efficiency is vital to driving longer-term shareholder value so we see this as a positive shift, however, the company has done a poor job of navigating a difficult environment in the last 9 months and the recent share price weakness reflects management's missteps. With the stock price off significantly from its high's, we see these risks priced into the share price, however, we are not adding more to our position until we hear a strategic update from the company in May.

Shopify (-49.5%), which provides software and other services that underpin the websites of many small businesses, also fell sharply after giving a weaker outlook for growth this year as online spending resets and consumers face higher inflation. As a result, the company announced that full year revenue growth will be lower than the 57% increase in 2021.

Shopify is building the infrastructure for small and medium sized enterprises to digitise their operations and sales channels, however, the long-term value for Shopify is helping digital first businesses launch and provide the products and services as a company grows – embedding the company as a critical provider of online commerce operations, data analytics, payments processing and inventory management. Many of these companies will become the FANG's of the future.

The Russian invasion of Ukraine shattered air travel across much of eastern Europe as carriers avoided airspace above the beleaguered country as well as neighbouring nations amid fears for the safety of flights. Wizz Air (-31.0%) along with other European companies exposed to the secondary effects of the Russian invasion suffered.

Whilst it's difficult to quantify the duration of the impact on Wizz Air's operations due to the evolving dynamics, the company is well capitalised and able to withstand a difficult operating environment as we have seen over the last two years. Long-term, we do not see the current environment as significantly impacting the company's business model and ability to outcompete in the low-cost airline industry so will add to the position on significant strength.

Sea (-44.9%), the Singaporean low-cost ecommerce company, was also among the detractors for the quarter with the company forecasting e-commerce revenue for 2022 that beat the average analyst estimate. However, its fourth-quarter net loss widened as the firm spent more on market expansion. In addition, the company announced that it is shutting its main e-commerce operation in India just months after its October launch, blaming "market uncertainties" for scuppering one of its more promising overseas endeavours.

The current adjustment to interest rate expectations taking place presents a short-term valuation challenge to innovative growth companies, but, we believe, not a significant longer-term operational one. Indeed, innovative companies are the most resilient and adaptable in the face of challenges and, as such, as higher interest rates lead to tougher macroeconomic conditions, we expect them to manage much better than non-innovators. When interest rate expectations fully adjust to their new higher level, we expect valuation headwinds for the fund to abate and for the fund to strongly outperform.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Global Innovation C Acc GBP	0.1%	42.2%	4.7%	5.0%	13.0%
MSCI AC World	12.4%	38.9%	-6.7%	10.5%	2.4%
IA Global	8.4%	40.6%	-6.0%	9.0%	2.7%

Quartile	4	2	1	4	1

***Source: FE Analytics as at 31.03.22**

****Source: FE Analytics as at 31.03.22. Quartile generated on 05.04.22**

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.

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.