LIONTRUST

GLOBAL EQUITY

Liontrust Global Technology Fund

Q1 2022 review

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The Liontrust Global Technology Fund returned -9.6% over the first quarter of the year, versus the MSCI World Technology Index's return of -7.6% and IA Technology & Telecommunications sector loss of -10.5% (both comparator benchmarks)*^. The long-term track record of the Fund remains strong, returning 77.3% and 161.5% over three and five years respectively, marginally behind the benchmark 104.8% and 181.9%, but well ahead of the peer group average of 74.3% and 128.0%.

It has been a rough start to 2022 for global markets. Global equities, particularly growth stocks, were in decline from the start of January as investors began to price in a series of likely rate hikes from the Fed as inflation started to appear less than transitory. This, however, was quickly overshadowed by geopolitical events.

Technology equities have further lagged the broader market during this quarter, seeing an aggressive sell-off as investors rotated to lesser-rated sectors and companies in anticipation of central bank tightening and continuation of post-Covid mean reversion. Institutional investors now have the lowest net allocation to technology since 2008. This led to a significant underperformance of the MSCI World Technology Index (-7.6%) vs the MSCI World index (-2.6%).

The Fund's liquidity position remains very strong with a weighted average market cap of over £200bn compared to a Fund size of around £110m. We have no positions in a company with a market cap below the £1bn mark, and stress testing indicates the Fund can easily be liquidated in its entirety within just one working day while remaining below the 20% Monthly Average Daily Volume (ADV) threshold, even during periods of market stress such as March 2020.

Our cybersecurity companies, including Palo Alto Networks and CrowdStrike, performed well during Q1 with higher anticipated demand in the wake of the Russian invasion of Ukraine and the subsequent sanctions. Russian state-backed hackers have been a constant threat to Western-based organisations, with a series of recent high-profile attacks. This is likely to ramp up as a vector of retaliation by the Kremlin.

Ongoing worries over rate rises and slowing growth trends have had a large impact on some of the high-flying "pandemic winners", including online payments companies such as PayPal. Similarly, Twilio, after an exceptional couple of years, has been clipped as investors fear fading growth coinciding with a less friendly rate environment.

Meta (formerly Facebook) has badly underperformed as it has failed to persuade the market of both the need and the capacity for the company to pivot to the Metaverse. After a disappointing set of results, Meta has cemented its conviction by pledging $10bn of capital expenditure to this new endeavour with any profits unlikely to come for the better part of a decade. This is understandably cause for concern: Meta does not have a great track record of innovation. Rather, its strength has been its ability to acquire or copy competitors quickly and effectively. We do, however, continue to hold a (modest) position in Meta for two reasons. First, while not proven, the metaverse opportunity is compelling. As with many trends, it is likely to have been overhyped in the short term, but there does appear to be a steady trend of increasing spend on digital presence andgoods. Secondly, even if the metaverse turns out to be a fool's errand worth $0 (and we do not think Zuckerberg is a fool), Meta remains an outstanding leader in social media and a firm player in the digital advertising duopoly with plenty of cash to spare.

In terms of portfolio changes over the quarter, the Fund entered no new positions except for a negligible position (<0.1%) in JD.com after a spinout of shares from our holding in Tencent.

The Fund exited Asana, Dynatrace, Olo and Varonis. These were all smaller positions that were exited after losses in excess of the overall drawdown, which triggered us to review their investment casesand their short-term market outlook given the current rate environment. We decided that these high growth, high multiple names did not present enough upside for the substantial near-term risk and we exited them in favour of other higher conviction positions.

In terms of the road ahead, it is hard to look past the Russian-sized elephant in the room and it is clearly consuming a large amount of current investor mindshare.

Within the technology sector, beyond potential macro impacts, the effects are fairly minimal. i.e., a global slowdown will of course be detrimental, but the Ukraine war is unlikely to impact tech companies that much. The key reason for this is that Russia (and Ukraine) are not big markets for tech companies, nor do they export much of note in that sector. Russia, in fact, has been fairly hostile to Big Tech with a harsh regulatory environment that includes policies or policing of platform content and mandatory domestic storage of data. Instead, Russia has favoured its local "Big Tech" champion Yandex (which we, thankfully, do not own in this Fund).

The one area of caution for technology lies within the semiconductor industry. Two key materials for the preparation of high-end semiconductors are neon gas (for laser cutting) and palladium. Half of semiconductor-grade neon gas and around one third of all palladium comes from Ukraine and Russia. Thankfully, a useful side effect of the recent supply chain issues in semiconductors is that most fabrication companies have built a solid stockpile of these materials and have between six weeks to three months' worth in reserve. As this conflict goes on, however, and sanctions persist, we do need to keep a close eye on both prices and availability of these key resources.

Zooming out of the current crisis, it is hard not to see tremendous opportunity for investors in the technology sector. The recent drawdown was perhaps overdue for many stocks that had simply been bid up beyond the point of being able to yield a reasonable return. The sector now presents a fresh raft of opportunities within and (perhaps a few outside) our portfolio, of fantastic companies now available for purchase at a price that should yield strong long-term returns. This, combined with a clear lack of investor enthusiasm for the sector, presents a contrarian indicator rarely seen in tech, arguably not since the 2008 financial crisis, which saw a tremendous period of outperformance in its wake.

As always, we believe high quality companies providing vital technology goods and services continue to be a fantastic place to invest. They both benefit from, and continue to drive forward, the digitisation trends that have now remained resilient both during the height of the pandemic and continue on now.

These trends include the rise of ecommerce, the shift to cloud software and cloud infrastructure, digital payments and next generation entertainment. Now, more so than ever, it is important to actively seek and discern 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 provide long-term outperformance in this exciting sector through careful and attentive active management.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Global Technology C Acc GBP	18.0%	40.5%	6.9%	24.9%	18.2%
MSCI World Information Technology	20.6%	50.8%	12.6%	21.2%	13.5%
IA Technology & Telecommunications	4.3%	57.0%	6.5%	19.3%	9.6%
Quartile	1	4	2	1	1

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

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

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.