



Liontrust Global Innovation Fund

Q2 2022 review

Co-Fund Managers: James Dowey & Storm Uru

The Liontrust Global Innovation Fund returned -19.3% over the quarter, versus the MSCI AC World Index which returned -8.6% and IA Global Equity sector average of -10.1% (both comparator benchmarks)*^.

Agriculture-focused technology platform Pinduoduo (+66.7%) and ecommerce platform Meituan (+35.0%) were among the top performers over the quarter following an end-of-quarter surge in Chinese tech companies after hopes that Beijing is close to ending a yearlong regulatory crackdown on the industry. Having ensnared sectors from e-commerce to fintech and even online education, Beijing has recently taken a more lenient line, introducing a raft of policies aimed at propping up tech companies and the Chinese economy.

In addition, a number of Chinese stocks traded higher throughout the month amid easing lockdown restrictions in the country's two largest cities, Shanghai and Beijing, which were initially implemented following a spike in Covid-19 cases.

When it comes to corporate healthcare insurance, UnitedHealth (+9.4%) offers the best value proposition in the market. For slightly above average cost of healthcare coverage, an employer can insure its workforce with comprehensive high-quality care. The company enjoys a dominant market position in a fragmented market and is extending its leadership position by funding its long-term AI aspirations in Optum from its core healthcare insurance offering.

Longer term, the opportunity for the company is significantly lowering the healthcare costs for the expensive and inefficient US healthcare system. Almost 10 years ago, the company launched this initiative and has built an insurmountable industry position.

AI lending platform Upstart (-68.6%) had a tough quarter, falling sharply following the announcement it was cutting its full-year revenue outlook. While the company reported revenue of \$310 million, an increase of 156% from the first quarter of 2021, it also reduced expectations for its 2022 revenue forecast to \$1.25 billion from a prior estimate of \$1.4 billion, citing a slight deterioration in economic conditions. The company, which makes lending more efficient by using artificial intelligence to gauge creditworthiness, also said climbing interest rates were hurting loan volumes. "In addition to increasing rates for approved borrowers, this also has the effect of lowering approval rates for applicants on the margin".

Upstart will remain volatile in the near-term as it achieves scale in the AI lending industry – however, we are long-term investors in this company which is disrupting the traditional banking industry and expect periods of volatility as the business scales. Long-term, the opportunity for Upstart is significant,

however, in the short term we are focused on management's ability to scale the business efficiently without taking undue risks.

Netflix (-49.4%) was also among the notable detractors after the company fell after announcing a surprise decline in its subscriber base. The streaming service shocked the market by losing 200,000 customers in the first quarter, the first time it has shed subscribers since 2011. It also projected it will shrink by another 2 million customers in the second quarter. With content creation taking a pause during Covid, 2022 was always going to be bumpy for subscriber growth as the core proposition to new consumers is new blockbuster content. We will continue to look through the short term noise but expect the company to ramp up content investment over the next 12 months to offset this weakness.

ING (+7.3%) was another notable contributor over a tough quarter. The company focused on operating system innovation over a decade ago and has now built a leading software infrastructure offering for the Dutch bank. Enabling the company to expand digital financial services across its banking footprint quickly and effectively to meet customer expectations.

The Dutch conglomerate has a dominant footprint across key European markets and by building out an in-house software offering, the company has a leadership position in Europe as it can build on-top of current digital infrastructure.

We believe the strong performance of value stocks generally over the past 18 months or so has been due to the great relief afforded to companies whose operational vulnerabilities were painfully exposed in 2020 by the pandemic. While these stocks strongly rebounded in 2021, better companies – including ours – had much less of a recovery to make, having typically navigated the pandemic well.

But we believe the macro picture is about to change significantly. Having kept their foot firmly on the accelerator last year, contributing to economic strength, central banks have now been forced by inflation to slam on the brakes. Therefore, the economic growth backdrop of the past 18 months of a rising tide lifting all boats, favouring relatively weak companies' stocks, is likely to be replaced by a much tougher economy with slower growth, which is being exacerbated by economic headwinds from Russia's invasion of Ukraine, ongoing Covid disruption in China and the cost of living crisis.

We believe the companies that will manage these tough conditions best over the next couple of years will be high-quality innovative companies given their operational resilience, adaptability, good balance sheets and structural growth drivers.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Global Innovation C Acc GBP	-25.1%	24.2%	23.0%	2.0%	19.4%
MSCI AC World	-4.2%	24.6%	5.2%	9.7%	8.9%
IA Global	-8.8%	25.9%	5.4%	7.5%	9.1%
Quartile	4	3	1	4	1

*Source: FE Analytics as at 30.06.22

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

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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