



## Liontrust Global Smaller Companies Fund

### Q2 2022 review

Fund manager: Robin Geffen & Deputy Will Geffen

**The Liontrust Global Smaller Companies Fund returned -15.7% over the quarter, versus the MSCI ACWI Small Cap Index and IA Global sector respective returns of -10.1% and -10.0% (both comparator benchmarks)\*.**

We continue to be positive on the outlook for high quality smaller companies that are capable of exponential growth over the next year. We are especially positive as the smaller companies area of the market continues to give considerable scope for further outperformance as the world continues to recover from the Covid-19 pandemic. Smaller companies, particularly in the US, enjoy a lower valuation rating than their large and mega cap peers which we believe can be translated into continued strong returns. We believe these companies can future proof a portfolio by using the five drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision. The fast-growing business we invest in are typically capital light and built upon these five key drivers. This leads us to avoid sectors, sub sectors, and stocks that are capital intensive where larger and existing companies have a huge advantage over sectors and companies that do not further the cause of Positive Change. We believe these sectors include traditional real estate, utilities, mining and oil and gas exploration, integrated oil and gas companies, tobacco companies and arms manufacturers. In addition, within the finance sector, we prefer to avoid capital intensive stocks such as banks and traditional insurance businesses.

Prevailing conditions continue to offer considerable headwinds for our investment approach, with central banks around the world still raising interest rates to curb inflation. For companies where the market expects growth for years to come, a large proportion of the valuation is attributed to cash flows in the future (known as long duration); conversely, for stocks with lower expectations, less value is ascribed to future growth and the bulk of the value is in near-term cash flows.

Companies with strong growth expectations, therefore, have higher sensitivity to interest rate changes than those with lower growth prospects, with the market discounting future earnings more heavily and bringing down their present valuation as a result. This shift has hit the fund hard given its bias to high quality growth stocks and longer duration relative to the market.

SailPoint Technologies, the leader in enterprise security was among the notable contributors over the period after the company announced it has entered into a definitive agreement to be acquired by Thoma Bravo, a leading software investment firm, in an all-cash transaction that values SailPoint at approximately \$6.9 billion.

Upon completion of the transaction, SailPoint will become a privately held company with the flexibility and resources to continue providing industry-leading identity security solutions to modern enterprises around the world. Additionally, SailPoint will benefit from the operating capabilities, capital support, and deep software expertise of Thoma Bravo.

American cybersecurity and data backup company Datto was another strong performer after it was announced that it was agreed to be acquired by Kaseya, the provider of unified IT management and security software for managed service providers (MSPs) and small to medium-sized businesses.

Among the detractors over the period was software-as-a-service (SaaS) company Workiva. The company provides a cloud-based connected and reporting compliance platform that enables the use of connected data and automation of reporting across finance, accounting, risk, and compliance. In terms of company news, Workiva fell sharply trading after the business data software company provided guidance for second- quarter revenue that trailed the average estimate.

Total revenue for the first quarter of 2022 reached \$129.7 million, an increase of 24.4% from \$104.2 million in the first quarter of 2021. Subscription and support revenue contributed \$107.1 million, up 26.1% versus the first quarter of 2021. Professional services revenue was \$22.6 million, an increase of 16.9% compared to the same quarter in the prior year.

Like the majority of technology shares, semiconductor device company Ambarella has been hurt as the fastest rise in inflation in decades is triggering a global cycle of higher interest rates. That has hit first and foremost, the high- growth, high-multiple tech companies, in software and consumer services. But the stock selloff is also affecting the more cyclical chip business, on the perceived view that demand for industrial and consumer goods will suffer as rising rates threaten to tip the economy into a recession. In addition to these macroeconomic headwinds, the company also issued a tepid second-quarter revenue forecast as lockdowns in China weigh on its near-term outlook.

We continue to believe that our emphasis on the drivers of Science, Intellectual Property, Deep Technology, Positive Social Change and Entrepreneurial Vision will, we believe, guide the Fund towards those companies that will change the world as we adapt going forward.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Global Smaller Companies C Acc GBP	-26.1%	31.3%	20.0%	6.1%	30.3%
MSCI ACWI Small Cap	-11.1%	37.8%	-2.7%	0.7%	12.0%
IA Global	-8.8%	25.9%	5.4%	7.5%	9.1%
Quartile	4	1	1	3	1

**\*Source: FE Analytics as at 30.06.22**

**\*\*Source: FE Analytics as at 30.06.22. Quartiles 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>

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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. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

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