



## Liontrust Global Smaller Companies Fund

### Q1 2022 review

Fund manager: Robin Geffen & Deputy Will Geffen

**The Liontrust Global Smaller Companies Fund returned -14.5% over the quarter, versus the MSCI ACWI Small Cap Index and IA Global sector respective returns of -3.6% and -5.0% (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 don't 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 banks and traditional insurance businesses.

During a period in which the Fund has faced a number of headwinds – namely the rotation into value stocks and interest rate rises – we have remained resolutely focused on the long-term prospects of the smaller-cap, high-quality companies in which we invest and how they grow year after year. Our experience is that the long-term success of our investments will be determined by the compounding of growth.

In addition to these headwinds, the conflict in Ukraine but while we are following events closely, we do not attempt to forecast macroeconomic or geopolitical factors. We continue to focus on our five key drivers of Science, Intellectual Property, Deep Technology, Positive Change and Entrepreneurial Vision and believe that the companies that we own will endure and grow their value per share regardless of the economic backdrop. At times of indiscriminate sell-offs, the market presents us with opportunities to add to our highest-conviction companies at more attractive valuations.

SailPoint Technologies led the contributors to returns over the quarter. The company is the developer of an identity management solution that helps organizations manage employee permissions, digital identities, information security, data access, compliance and more on a unified portal. Over the

quarter, the company announced its fourth quarter and full-year 2021 results, reporting a total annual recurring revenue (ARR) of \$370m, which is up 48% year-over-year. In addition, announcing fourth quarter and full year 2021 subscription revenue of \$78.8 million and \$273.2 million, up 41% and 39% year-over-year, respectively. The company commented “that fourth quarter performance was a record-breaking finish to a terrific year, with revenue and ARR well above our expectations, driven by strong demand for our SaaS identity security platform”.

Box was also a notable contributor over the period. The company develops and markets cloud-based content management, collaboration, and file sharing tools for businesses. Over the quarter, Box announced preliminary financial results for the fourth quarter and fiscal year 2022, which ended January 31, 2022, giving a forecast for annual revenue growth of as much as 17% in 2025 as the content management software provider works to drive higher sales and improve margins following a bitter proxy fight. Having earlier said sales would increase as much as 14% in the current fiscal year.

Trex, the major manufacturer of wood-alternative composite decking, railing, and other outdoor items made from recycled materials, was the most notable detractor from overall returns over the quarter. The raising of interest rates took a toll on smaller companies, as it reduces the current value of cash flows anticipated down the road, in addition it also raises the prospect of higher borrowing costs. In terms of company news, Trex fell over the quarter after projecting double-digit revenue growth in 2022, citing the return to a “more normalized seasonal cadence similar to pre- pandemic patterns”.

Also among the notable detractors was Ambarella, the fabless semiconductor design company, focusing on low-power, high-definition and Ultra HD video compression, image processing, and computer vision processors. The company fell experienced a sharp single-day decline over the quarter after its forecast for first quarter-revenue fell short of the average analyst estimate, citing a number of headwinds, including geopolitical, public health, and persistent supply chain challenges.

Asana was also among the detractors over the quarter. The web and mobile work management platform designed to help teams organize, track, and manage their work fell c.21% at the start of March after announcing a disappointing margin outlook in their Q4 results. Asana's revenue surged 63.6% year over year in the fourth quarter. The performance brought its full-year revenue up to \$378.4 million, which was up 67% annually. However, the company's guidance for significant sales growth deceleration, narrowing gross margins, and more significant losses this year prompted a sharp sell-off in the stock.

Shares in New Relic also experienced a significant one-day decline over the quarter, after the application software company reported its third-quarter results and gave an outlook where it widened its view for an adjusted full-year loss per share. Fever-Tree Drinks also tumbled after the high- end tonic maker said rising costs and logistics issues will impact margins this year, despite a trend for at-home cocktails helping sales. The company explained that “cost headwinds in 2022 will be more significant than we anticipated, and whilst we are employing a range of mitigating actions, margins are expected to remain broadly flat in 2022”.

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:**

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Global Smaller Companies C Acc GBP	1.8%	48.5%	-6.1%	18.4%	15.9%
MSCI ACWI Small Cap	4.4%	63.6%	-19.1%	4.7%	3.6%
IA Global	8.4%	40.6%	-6.0%	9.0%	2.7%
Quartile	4	1	3	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. 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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