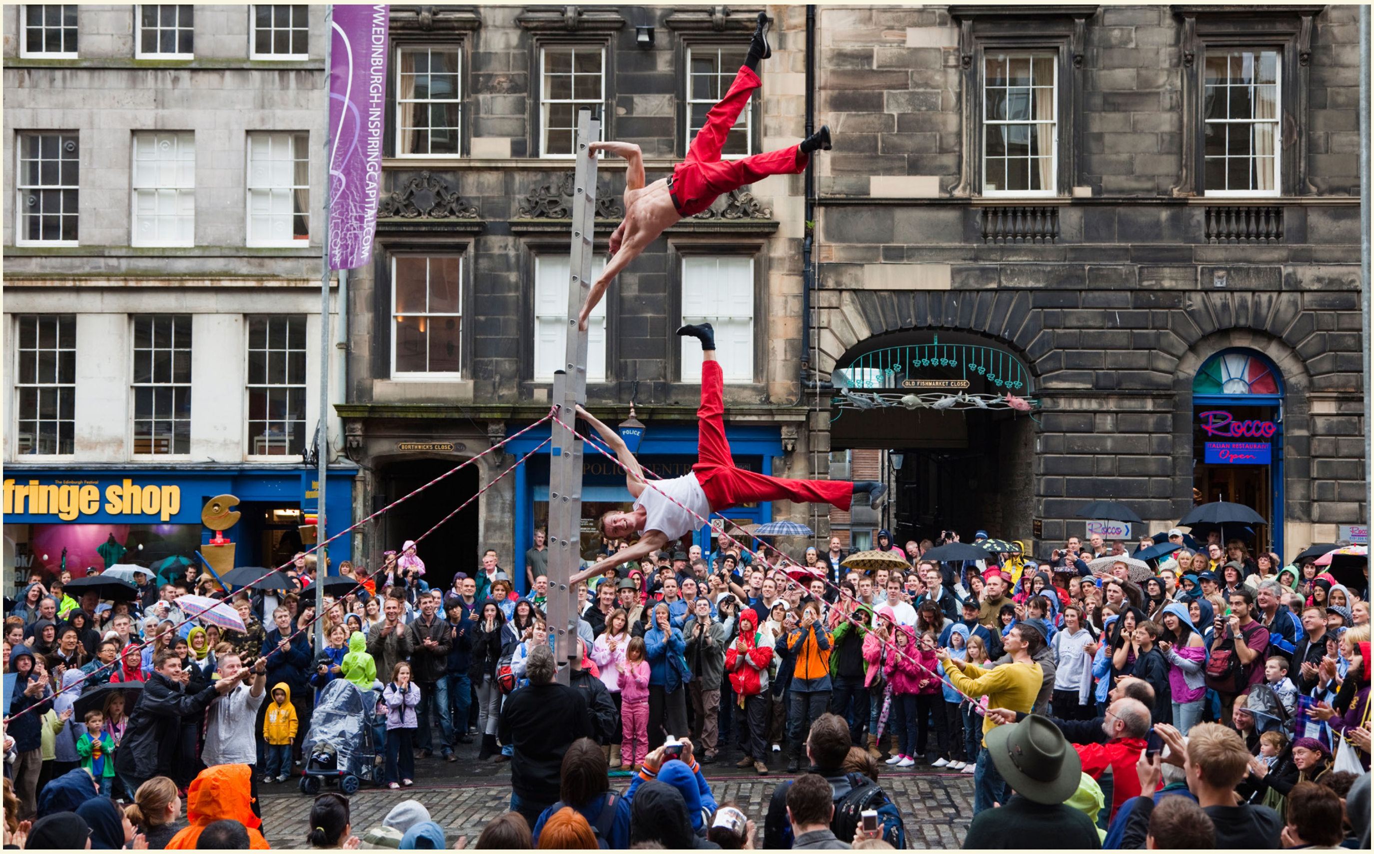
Reflections

April 2022



Edinburgh street performers provide a distraction from the noise of financial markets.

Market timing

We often extol the virtues of our main office being in Edinburgh, away from the noise of traditional financial centres. The noise increases a little in August as street performers, musicians, comedians, and writers descend on our doorstep as the world's largest arts festival comes to town, but that often comes as a helpful distraction from the distant din of financial markets.

During periods of market volatility, it is essential to reflect on and debate the long-term potential of the companies we hold on your behalf. Knee-jerk reactions are rarely productive, especially when most news is created to sensationalise. As one of our now retired partners previously wrote in an aptly titled paper 'How to invest in equities and stay sane', most information is irrelevant and can be safely disregarded. Some information is altogether misleading, and much is completely ignored although potentially of value. He highlighted that on 18th April 1930, a BBC announcer solemnly announced over the radio at 20:45, that "there was no news today". Those days are long gone.

However, we must not seem insular, desensitised to every piece of news that appears, as many will come with a signal. There are examples where investment cases are not materialising as we would like (Peloton, Beyond Meat, Alibaba), but this is the case in all market environments, not unique to now. With others, we are building confidence in the investment case and developing relationships with management (Adyen, Roblox, The Trade Desk), so it is too early to judge their true long-term potential.

Another cohort is the investment cases playing out handsomely, with progress being reflected in share prices (NVIDIA, Tesla, Hermès). In others, operational progress remains strong, but the share price seems to have other ideas (Carvana, Shopify, Coupang). Case in point, one-third of the names in the LTGG portfolio have greater than 50 per cent year-over-year sales growth but have simultaneously dropped by over 50 per cent in share price terms over the last year.

This volatility shouldn't come as a surprise; we operate in a market with a cacophony of voices.

A pandemic, war, geopolitics, regulation, interest rates, and inflation rates have all had to be digested simultaneously, so no wonder the market seems in a funk. At times like this, we must endure, although it may be painful to do so. We are not making wholesale changes to the portfolio as the operational progress suggests little need to. Nor are we inclined to engage in unnecessary tinkering. Instead, and as usual throughout our 18-year LTGG history, expect any trading to reflect our ongoing fundamental research.

In a recent memo called 'Selling Out', investor Howard Marks asked, "Why sell something you think has a positive long-term future to prepare for a dip you expect to be temporary?" He highlighted that you could get it wrong in three ways: first, the decline may not occur, so you miss out on the ensuing gains; second, if it does happen, you must figure out when to buy back in; and third, if you do sell, you must decide what to do with the proceeds while waiting for the dip to occur. In LTGG, we do not attempt to time the market. We do not believe this is where our skills lie, and besides, there are very few occasions to do so profitably.

So, what are our investors doing right now? They are doing what they do best: meeting and researching companies and firmly focusing on their long-term opportunities. For example, Robert Wilson, one of your LTGG decision-makers, is just back from the west coast of the US after meeting with holdings Carvana, Cloudflare, NVIDIA and Affirm. More trips are in the diary and we have a goal to meet every holding in the portfolio in person this year.

Jensen Huang at NVIDIA continues to steer the business with aplomb, so we are revisiting the company's upside potential from here. Robert probed Affirm's CEO, Max Levchin, on the inflationary environment, to which he replied, "Inflation robs you of your spending power, and we bring it back." The current market environment may prove challenging for Affirm, but the upside opportunity remains huge if things go right.

Carvana continues to invest for the future. We see our thesis of a vast addressable market, a compelling customer proposition and a growing competitive gulf continuing to play out well. This is at odds with the share price, given the market's current aversion to 'growth'. Meanwhile, Cloudflare has grown its sales by over 50 per cent each year over the past five years. We believe the major architectural shift in how enterprises address security, performance, and reliability in their networks will provide a tailwind for its growth for many years to come.

In LTGG, volatility remains a precondition for producing differentiated returns over the long term. Market timing will continue to be a game we don't wish to play.

Important information and risk factors

Annual Past Performance to 31 March Each Year (Net %)

	2018	2019	2020	2021	2022
Long Term Global Growth Composite	40.7	8.4	10.7	104.4	-18.1

Annualised returns to 31 March 2022 (Net %)

	1 Year	5 Years	10 Years	Since Inception
Long Term Global Growth Composite	-18.1	23.1	18.0	13.3

Source: Baillie Gifford & Co. USD.
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