Jackson Square Partners International Growth

COMMENTARY | 06/30/21

PHILOSOPHY

We believe that attractive returns can be realized by maintaining a concentrated portfolio of companies that we believe have enhanced business models, strong cash flows, and the opportunity to generate consistent, long-term growth of intrinsic business value.

AVERAGE ANNUAL TOTAL RETURNS (PERIODS ENDED 06/30/21)

	2Q21	Since inception 12/31/20
Jackson Square International Growth Composite (*Gross*)	9.04	8.76
Jackson Square International Growth Composite (*Net*)	8.82	8.34
MSCI ACWI ex USA (benchmark)	5.48	9.16

Source: Jackson Square, MSCI ACWI ex USA Index

Past performance is not indicative of future returns. Investing involves risk, including possible loss of principal.

MARKET REVIEW

The market's high volatility level over the last several quarters ramped further in 2Q21, as surging vaccination rates and economic activity in the United States signaled the end of the pandemic (if at different paces across the globe). The first half of the quarter saw further strengthening of 2021's value rally, while growth struggled, particularly in long-duration growth stocks. As economic activity ramped, inflation concerns followed. This market dynamic began to abate in late May and meaningfully reversed in mid-June when the Fed described US inflationary pressures as "transitory" while indicating it would maintain its supportive posture. Similarly, while traditional value sectors such as materials, industrials and energy were among the quarter's leaders at the mid point, by quarter-end growth had pushed ahead, with technology and healthcare in the lead.

CONTRIBUTORS & DETRACTORS (PERIOD ENDED 06/30/21)

Top contributors relative to the benchmark	
Lonza Group AG	Health Care
Shopify, Inc.	Consumer Discretionary
Atlassian Corp. Plc	Information Technology
LVMH SE	Consumer Discretionary
DSV Panalpina	Industrials

Top detractors relative to the benchmark	
Kuaishou Technology Class B	Communication Services
MonotaRO Co., Ltd.	Industrials
Farfetch Limited	Consumer Discretionary
Vestas Wind Systems A/S	Industrials
GDS Holdings Ltd. Sponsored ADR	Information Technology

Strategy Review

For the second quarter of 2021 the International Growth Portfolio outperformed its benchmark, the MSCI All Country World Index ex USA. While performance was largely driven by our stock exposure, on a sector level, consumer discretionary was the largest contributor to performance and industrials were the largest detractor.

TOP CONTRIBUTORS AND DETRACTORS

Contributors

Lonza Group AG is a contract development and manufacturing organization serving the biopharmaceutical industry. LONN reported two material updates during the quarter: (1) CHF1.05bn in capex investments to meaningfully expand capacity over the next 3 years, and (2) a significant expansion of LONN's partnership with Moderna to supply an additional 300mm doses per year of Moderna's COVID-19 vaccine. We view LONN's capex investments as a leading indicator of robust revenue growth, as the company typically expands capacity when it has high visibility into demand, and therefore believe this supports our view of LONN's long-term growth prospects.

Shopify, Inc. is a cloud-based commerce platform designed to help small and medium-sized merchants operate online. The company again reported outsized fundamental strength, well above consensus (15-30% ahead), exhibiting broad-based durability and an acceleration versus the prior quarter despite reopening of the world's economies. The Shopify ecosystem also continues expanding, driven by uptake of additional value-added merchant services (e.g. Pay, Shipping, Capital, Fulfillment) that create stickiness and crystallize the competitive moat. While we are mindful of the potential for volatility over the next several quarters as the market wrestles with difficult y/y comparisons to the covid-fueled demand boost, we believe this is a transitory dynamic that will have no impact on our longer-term thesis around structural e-commerce adoption and the monetization potential of Shopify's platform which remains under-appreciated.

Atlassian Corp. Plc is a company which engages in the design, development, license, and maintenance of software and provision software hosting services. The company reported strong revenue and margin results well ahead of the market's expectations. Although some of this was driven by pull forward of on-premises sales ahead of a cloud transition, the company's cloud business also performed well. We believe Atlassian has significant runway to drive more enterprise adoption with product enhancements and pricing tiers, and has a uniquely attractive margin structure due to its efficient distribution strategy.

Detractors

Kuaishou Technology Class B, a short form video social platform, was a detractor from performance during the quarter. While its monthly and daily active user growth and engagement continue to be strong, its investment spend in user acquisition was higher than expected. The company said it will continue to invest in user growth, R&D and international expansion. We think monetization is still in an early stage with Kuaishou, but we are monitoring its ROI in investment spend and competitive landscape re: Bytedance.

MonotaRO, Co, Ltd., a competitively advantaged supplier to a broad base of business clients in Japan that provides a premier ecommerce platform for maintenance, repair, and operations (MRO) products, was a detractor from performance during the quarter. The stock underperformed after having rallied to all-time highs in the first quarter. We believe the company is well positioned to continue to grow its market share supplying maintenance, repair, and operations parts to customers via its superior, automated, all-online offering. We believe the company will continue to compound sales growth at attractive margins and returns for many years.

Farfetch Limited Class A, a UK-based online retail business selling multi-brand digital luxury goods in over 100 countries, was a detractor from performance during the quarter. After surging nearly 450% in 2020, Farfetch has underperformed thus far in 2021 as the market rotates out of perceived COVID winners. Quarterly earnings and upward revisions to guidance have been particularly strong YTD in the face of weaker sentiment. We remain constructive on the risk/reward profile at these price levels and would note the balance sheet is well capitalized to absorb temporary disruptions.

Market Outlook

Despite the increase in volatility and ongoing (if lessened) market concern over inflation, the economic backdrop remains accommodative to equity prices. The U.S. market has been buoyed by a mostly successful vaccine rollout and a lower level of political stress and controversy — certainly relative to the Capitol siege that started the year. While a mostly-contained COVID environment in the U.S. has become consensus — assuming any flare ups will be contained to a small number of less-vaccinated geographies — investors have now turned their attention to assessing the level and profile of economic recovery. The back and forth between growth and value factors noted above demonstrated investors' wrestling with the nature of the recovery: will a post-COVID world unleash an unrestricted economic boom that favors the most cyclical companies, or are there enough limiting factors in play to put a cap on economic growth and therefore favor secularly-growing companies, those more in control of their own destinies. Furthermore, there is increasing investor focus on assessing the impact of potential Biden Administration policy changes, including continued COVID relief for consumers, tax hikes for some individuals and for companies, and a sizeable infrastructure bill. In short, the second quarter demonstrated the tension between near-term high versus moderate medium-term economic growth prospects. The translation to equity prices makes the market outlook less clear, especially given the strong absolute equity returns already posted this year.

At Jackson Square, our portfolio turnover has increased since the onset of COVID as we have taken advantage of market volatility to purchase companies at some of the largest discounts to intrinsic business value we have seen since the Global Financial Crisis over a decade ago. We have also pruned companies that were struggling with fundamentals and/or carried a larger amount of leverage than we thought prudent during this crisis. We remain vigilant in watching for volatility that may give us more opportunities to enhance and refine the portfolio.

Regardless of policy outcomes and oscillating investor sentiment, we remain consistent in our long-term investment philosophy: we want to own what we view as strong secular-growth companies with great competitive positions that can grow market share and have the potential to deliver shareholder value in a variety of market environments.

IMPORTANT INFORMATION