



## Liontrust Global Innovation Fund: Q1 2023 review

Fund Managers: James Dowey & Storm Uru

**The Liontrust Global Innovation Fund returned 10.8% over the quarter, compared with 4.4% from the MSCI All-World Index and 4.1% from the IA Global Equity sector (both comparator benchmarks).**

Nvidia remains a pivotal investment for the Fund, albeit occupying a smaller position than at the beginning of the year due to the substantial increase in its stock price during the quarter. At the recent GTC developer's conference and keynote, the company showcased significant advancements in chips, services, and software.

Nvidia demonstrated the vast scope of opportunities, not only in terms of expanding its presence in existing markets (such as extending Hopper into the inference market and introducing Grace CPU to complement its GPUs), but more importantly, in branching out from chips and cards to systems, software, and cloud services. In our opinion, the company is strategically positioning itself to capitalize on the transformative potential of AI investments.

AI, at a high level, is expected to eliminate bottlenecks across all industries and enhance productivity for every company. Although it is challenging to determine the ultimate winners in this arena, the customer will undoubtedly benefit from a significant reduction in the cost of goods and services. Nvidia, with its 90% market share in the accelerated computing market for AI computation, offers a prime investment opportunity in the essential tools during this technological gold rush.

Tesla, after a dismal year in 2022 - which provided the opportunity for us to invest - has unveiled an impressive master plan at its recent investor day, emphasising unprecedented levels of vertical integration that will allow the company to innovate and adapt at a pace unmatched by other automakers. With an unwavering commitment to efficiency and scale, Tesla aims to lead the industry by focusing on cost reduction.

This ambitious vertical integration strategy can only succeed if implemented on an immense scale, with production volumes ranging from 1 to 2 million units per model. Tesla envisions operating the largest manufacturing facilities, with minimal product SKUs and maximum output per factory size. The company aspires to become the world's leading manufacturer by a significant margin, with cost leadership as a determining factor for success.

In light of Tesla's ambitious plans, competitors must adapt or risk becoming obsolete. Tesla intends to invest over \$170 billion in expanding its manufacturing base for electric vehicles and stationary storage. As the company continues to introduce ground breaking innovations, it is expected that these advancements will become industry standards, much like Henry Ford's moving assembly line, William Deming's quality movement, and the Toyota Production System have become the norm in the automotive industry.

A laggard for the \fund, SVB Financial, was a at the centre of dramatic events in markets during the quarter but had a minor impact on the Fund due to our risk guardrails which meant we only had a small position in the US bank. We were fortunate to become concerned about a potential re-acceleration in interest rate hikes in February and reduced our financials weighting in the Fund to a very underweight position, including reducing our holding in SVB by around 2/3's. In hindsight, of course it would have been preferable to have gone even further including selling all of our holdings of SVB, however our large financials underweight and much reduced SVB holding meant the portfolio performed roughly in line with the benchmark during this period of dramatic financial stress.

On the other hand, Salesforce's strong stock performance in Q1 was a result of the recent strategic shift towards efficiency which has been well-received during the quarter, but we believe this is only the beginning. With a large and growing total addressable market (TAM) of over \$200 billion, expanding at a 13% CAGR, Salesforce holds either the #1 or #2 market share in each segment it operates in. Prompted by the involvement of several activist investors, CEO Mark Benioff is now committed to driving organizational efficiencies. The company announced a 10% headcount reduction in January, followed by downsizing office space and initiating a substantial share buyback program with \$16 billion remaining in its authorized buyback plan. Crucially, Salesforce has stepped away from large-scale M&A activities that have historically impacted its margins negatively.

As we look into the future, we anticipate the main market challenge is transitioning from inflationary pressures to a slowdown in economic expansion. Navigating through these testing times, we are confident that the ultimate victors will be innovative companies, thanks to their robust operational resilience, agile adaptability, exceptional structural growth prospects, and formidable competitive moats.

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Global Innovation C Acc GBP	-12.1%	0.1%	42.2%	4.7%	5.0%
MSCI AC World	-1.4%	12.4%	38.9%	-6.7%	10.5%
IA Global	-2.6%	8.4%	40.6%	-6.0%	9.0%
Quartile	4	4	2	1	4

**\*\*Source: FE Analytics as at 31.03.23. Quartile generated on 06.04.23**

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.

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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