Liontrust Global Technology Fund: Q1 2023 review

Fund Managers: James Dowey & Storm Uru

The Liontrust Global Technology Fund returned 19.8% over the quarter, versus the MSCI World Technology Index's return of 17.8% and IA Technology & Telecommunications sector's 15.9% (both comparator benchmarks)* .

In early February, the Fund welcomed new management, with Storm Uru and James Dowey stepping up as the two lead managers. Notably, both have been instrumental in the Fund's development and are committed to guiding it into the future. The team will maintain the same proven management approach while enhancing rigor, particularly in terms of valuation discipline.

As we transition into Q2, you'll notice a shift in our terminology. Instead of using "embracers," "enablers," and "disruptors," we will now refer to these companies as "leaders" and "disruptors" – importantly, this change is to align terminology with the Global Innovation process but no change in the types of companies the process seeks to identify and invest in. We firmly believe that innovation is the most significant driver of shareholder returns and given the abundance of innovative companies in the technology sector and the opportunities arising after the upheaval of 2022, we are confident in our ability to generate attractive returns from the ground up in the upcoming cycle.

Historically, the technology sector has delivered 20% annual returns from trough to peak over the last two cycles, and we believe a new cycle has already commenced. Our sales representatives will be reaching out to you throughout the next quarter to address any inquiries you may have. In the meantime, our quarterly commentaries will provide insights into the major themes and companies contributing to the portfolio's relative performance.

You may observe that our communications to clients tend to exclude macro-economic commentary. We hold the view that attempting to predict the future is unwise; instead, we focus on investing in exceptional, innovative companies at appealing prices. Please feel free to reach out with any additional questions, as we are always enthusiastic about providing support. With further ado, lets delve into Q1.

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.

After a difficult year in 2022, Amazon performed strongly for the Fund in Q1. It important to put in context that despite the rise of e-commerce, physical stores continue to dominate the global retail market, accounting for 80% of the total market share. In the realm of IT, AWS generated a remarkable $80 billion in revenue in 2022, even though an overwhelming 90% of global IT spending remains on-premises and has yet to transition to the cloud. The development of generative AI and large language models, such as BEDROCK, has been ground breaking in recent years.

During the initial stages of the pandemic, Amazon's consumer business experienced exceptional growth, with annual revenues soaring from $245 billion in 2019 to $434 billion in 2022. This rapid expansion enabled the company to double their fulfilment centre footprint, previously built over 25 years, and significantly expedite the construction of a last-mile transportation network comparable in size to UPS – all within a mere two years. Now as investors, we require the company to focus on operational efficiencies now the infrastructure for growth is built out. Historically, this drove significantly positive returns for the stock price of Amazon as management focus on generating shareholder value. This process has just started.

A laggard for the Fund, Wise has recently emerged from an exceptionally lucrative growth phase, thanks to the favourable impact of increased interest rates on consumer account balances. As a result, our total customer base has expanded by an impressive 33% year-over-year. However, it is important to note that our stock price has recently experienced a downturn due to uncertainties in the financial sector. This has been attributed to concerns surrounding the potential for financial contagion. Despite these challenges, we remain steadfast in our mission to offer cost-effective cross-border payment solutions for both individual consumers and enterprises alike.

On the other hand, Palo Alto Networks' (Palo Alto) strong stock performance in Q1 and remains a formidable contender in the cloud security sector, consistently excelling in this rapidly expanding market. As one of the fastest-growing segments within enterprise software, cloud security accounts for only 1% of the annual public cloud spending exceeding $200 billion (IaaS+PaaS), indicating its vast untapped potential. Palo Alto boasts several competitive advantages, such as: (1) extensive customer base and superior distribution: With over 70,000 customers, a robust sales organization, and thousands of channel partners certified to sell a comprehensive product portfolio, Palo Alto's reach is truly impressive.

More than 50% of clients have purchased multiple Palo Alto's products. As a persistent commitment to innovation: As an early pioneer in cloud security, Palo Alto continues to allocate substantial resources towards product development, dedicating over $1 billion to annual R&D expenditure, which is 2-5 times greater than that of its nearest specialised security competitors. This unwavering focus on innovation has propelled growth and heightened demand for Palo Alto's Prisma Cloud offering – strong product growth with a renewed focus on profitability propelled the stock price in Q1.

As we look into the future, we anticipate the main market challenge 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 Technology C Acc GBP	-11.4%	18.0%	40.5%	6.9%	24.9%
MSCI World Information Technology	-0.7%	20.6%	50.8%	12.6%	21.2%
IA Technology & Telecommunications	-6.0%	4.3%	57.0%	6.5%	19.3%
Quartile	4	1	4	3	1

****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

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.