



## Liontrust Global Innovation Fund: Q2 2023 review

Fund Managers: James Dowey & Storm Uru

**The Liontrust Global Innovation fund returned 7.5% in Q2 ahead of the IA Global Equity sector average of 2.4% and the MSCI All-World Index return of 3.3%. Importantly, this performance was driven by broad based stock price appreciation across the portfolio.**

As usual, this quarterly update will focus on the top contributors to performance over the period: **Shopify (+31%)** and **Tesla (+23%)** and significant detractors, namely **Sea (-35%)**.

**Shopify** performed strongly after reporting another stellar quarter and releasing a transformational announcement to sell Shopify Logistics. As we know, the key investor debate over Shopify for the past year has been the buildout of Shopify Logistics; whether solving the merchant pain point of fulfillment and logistics justified the capital intensity required of a logistic buildout. The sale of Shopify Logistics to (existing partner) Flexport (in exchange for 13% of Flexport) removes this debate entirely, significantly altering the capital requirements of the company going forwards. Overnight, the company has once again become an asset-light company with management now expecting to achieve free cash flow profitability for each quarter of 2023.

A letter from Shopify's Founder and CEO essentially described the decision in terms of Shopify re-focusing on its core: *'Shopify's main quest is to make commerce simpler, easier, more democratized, more participatory, and more common. I think that we have built the best commerce platform in the world for that.'* Logistics is a side quest for all merchants, and Shopify took on that burden for them, building software addressable logistics that did not previously exist. But this remained a side quest for Shopify also, even if a worthwhile one. *'Making the global supply chains efficient and software addressable is Flexport's main quest and so this is the perfect home for this part of Shopify.'*

What will change from the merchant's perspective? On the face of it, not a lot – merchants can still use their Shopify app to reorganize logistics, but this will plug into Flexport's operations (who will be their preferred partner, but Shopify also integrate others). Ultimately this is about providing more efficient, reliable delivery service for customers and letting Shopify focus on its main quest. We view the partnership in a similar way to how Shopify partnered with Stripe in payments in order to go to market faster – a material positive for the company going forward.

Among the detractors for the quarter, **Sea** continues to lag in the portfolio as e-commerce sales in South-East Asia remain soft. We continue to add to our position in this investment on stock price weakness as this business executes its strong focus on profitability. Importantly, 2022 was the year this business pivoted to focusing on driving profitable growth rather than growth at any cost and given its dominant-commerce position in key SE Asian markets combined with weakened competition in important markets, Sea is set to emerge from this difficult period in a strong financial position with increased market share.

On the other hand, **Tesla** continues to ramp production into weak end markets by reducing prices of its key Model 3 and Model Y to customers as benefits from scale, production breakthroughs and cost deflation are passed through to the end customer. Driving down prices to customers not only gives customers better value for money but also heightens competitive intensity across the industry. Tesla has a decade lead in this emerging market and by taking advantage of its dominant market position by driving down prices for its electric vehicles and selling high value-added services to its competitors like electric charging capabilities and self-driving capabilities, the company is strengthening its moat.

Our team visited the Berlin gigafactory recently to witness the most advanced production factory in motion and it surpassed even our lofty expectations. It takes 10 hours for the factory to produce a Tesla model Y – Volkswagen down the road takes 30 hours. And, the factory has already ramped production to 500,000 units a year. This facility already employs 10,000 people and has the ability to expand production to 2 million units a year. After making an investment in Tesla last year during the extreme market volatility, we continue to manage our position sizing based on upside to our price target and diversification benefit to the portfolio. The key for us is that Tesla’s continues to drive prices lower for consumers so we are happy to report you can purchase a Tesla Model 3 in the UK for £40,000 and a Model Y for £45,000. It’s no wonder the Tesla Model Y is the best-selling motor vehicle in the world in Q1 2023.

After a strong start to the year, we remain optimistic for generating strong returns into the end of 2023 and beyond. We worked hard for our clients to invest in companies that stock prices had fallen significantly last year and are now invested in a wide range of attractively priced innovators at the beginning of a new market cycle.

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Global Innovation C Acc GBP	16.7%	-25.1%	24.2%	23.0%	2.0%
MSCI AC World	11.3%	-4.2%	24.6%	5.2%	9.7%
IA Global	10.8%	-8.8%	25.9%	5.4%	7.5%
Quartile	1	4	3	1	4

**\*\*Source: FE Analytics as at 30.06.23. Quartile generated on 07.07.23**

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.

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