



Liontrust Global Technology Fund: Q2 2023 review

Fund Managers: James Dowey & Storm Uru

The Liontrust Global Technology Fund returned 16.7% over the quarter, versus the MSCI World Technology Index's return of 11.5% and IA Technology & Telecommunications sector's 7.7% (both comparator benchmarks). 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 responded strongly after reporting another stellar quarter of performance and, importantly, the transformational announcement that they have opted to sell *Shopify Logistics*. As has been well highlighted, the key investor debate over Shopify for the past year has been the buildout of *Shopify Logistics*, and whether solving the merchant pain-point of fulfillment and logistics justified the capital intensity required of such a logistics buildout. The sale of *Shopify Logistics* to existing partner Flexport (for a 13% ownership stake in Flexport) removes this debate entirely, significantly reducing Shopify's capital requirements going forward. Overnight, the company has once again become asset-light with management now expecting to achieve free cash flow profitability for each quarter of 2023.

A letter from Shopify's Founder and CEO effectively 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 embraced that burden on their behalf, building software-addressable logistics that did not previously exist. But this remained a side-quest for Shopify as well, even if a worthwhile one, making the sale to Flexport the ideal solution for all stakeholders: *'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 Shopify's preferred partner, though Shopify can also integrate with 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.

Elsewhere in the portfolio, **Sea** was a key detractor for the quarter, continuing to lag as e-commerce sales in South-East Asia remained soft. Importantly, 2022 was the year this business pivoted to focusing on driving profitable growth rather than growth at any cost. Given its dominant-commerce position in key South-East 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. We thus continue to add to our position in this investment on stock price weakness as the business continues to execute on its strong focus on profitability.

On a more positive note, **Tesla** continues to ramp production into weak end-markets by reducing prices of its key Model 3 and Model Y as benefits from scale, production breakthroughs and cost deflation are passed through to the end customer. Driving down prices not only gives customers better value for money but also heightens competitive intensity across the industry. Tesla has a decade-long lead in this burgeoning market, positioning it well for heightened competitive intensity as it leverages its dominant market position to strengthen its moat by driving down electric vehicle prices and selling high value-added services like electric charging capabilities and self-driving capabilities to competitors.

Our team recently visited Tesla’s Berlin gigafactory to witness the most advanced production factory in motion and we are pleased to announce that it surpassed even our lofty expectations. It takes just 10 hours for the factory to produce a Tesla model Y – competitor Volkswagen down the road takes 30 hours for their equivalent. The Berlin factory currently employs 10,000 people and has already ramped production to 500,000 units a year, but has the ability to expand production up to a massive 2 million units each year. Having invested in Tesla during the extreme market volatility of last year, 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 continues to drive prices lower for consumers, so we are happy to report that you can now 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 was 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 whose 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 Technology C Acc GBP	29.1%	-19.5%	29.1%	27.4%	15.2%
MSCI World Information Technology	30.7%	-8.2%	27.7%	36.7%	16.9%
IA Technology & Telecommunications	21.1%	-20.7%	33.2%	30.7%	12.3%
Quartile	1	2	3	3	2

****Source: FE Analytics as at 30.06.23. Quartile generated on 06.07.23**

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.

Disclaimer

This document should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. It contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust. Always research your own investments and if you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. [23/435]