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Global Innovation

Q4 2023 Review

Liontrust Global Technology Fund

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The Liontrust Global Technology Fund returned 17.1% in Q4, ahead of the IA Global Technology sector average of 12.1% and the MSCI World IT Index return of 12.5%. In 2023, the Fund returned 58.8%, ahead of the IA Technology & Telecommunications sector average of 38.9% and the MSCI World IT Index return of 38.9%.

In this update, we will focus on the major contributors and detractors to returns over this period. The contributors include **Adyen** (+66%), **AMD** (+37%) and **Shopify** (+37%) while the detractors include **Fortinet** (-14%) and **Oracle** (-9%).

Lisa Su, CEO of AMD, introduced the MI300 series product lineup in Q4, addressing the growing demand for accelerated computing. While the MI300X chip falls behind Nvidia's HGX chips in key performance benchmarks, it offers more high-bandwidth memory (HBM3), providing a slight advantage in specific inferencing tasks. AMD's swift shift from traditional to accelerated computing is notable, and the specifications of this product launch are impressive.

The primary distinction between AMD and Nvidia lies in their software, where experts estimate Nvidia's lead to be between 1.5 to 3 years. Nevertheless, AMD has made a significant entry into the accelerated computing market with the MI300 series. Although it doesn't quite match Nvidia's key products, the MI300 series represents an excellent initial range. AMD is strategically positioning its accelerated computing roadmap as the low cost alternative compared to Nvidia.

We expect Microsoft to deploy AMD's MI300 series products at scale as part of its c.$50 billion a year data centre buildout. While Nvidia is set to be the main beneficiary of this buildout, Microsoft is motivated to incorporate AMD's and Microsoft's own MAIA chips into core loads, such as co-pilots for Office 365 and Teams functions. These product wins enable AMD to invest behind the transition of its product range towards accelerated computing with confidence.

Adyen's stock (+66%) fell sharply in Q3 following its disappointing first-half results, primarily due to the company's inability to control expenses amidst slowing revenue growth. During the peak of the sell-off in Q3, we established a position as we have long admired Adyen as a transformative force in the financial services industry, known for its superior software offering.

Subsequently, Adyen implemented measures to provide a clearer strategic vision and control expenses, leading to a strong rebound in its stock price. This recovery aligned with our price target in Q4, prompting us to re-evaluate our position. Consequently, we exited our holdings and placed Adyen back on our watchlist after benefiting from this impressive rebound.

After experiencing a period of robust operations, Fortinet has recently faced a challenging phase, marked by a 14% decline. This shift is attributed to the tightening of IT budgets, driven by a phase of optimisation in technology spending. Following a phase of strong growth, the cybersecurity market is currently undergoing a period of consolidation as new technology platforms emerge.

The transition to Secure Access Service Edge (SASE) represents a crucial next step for Fortinet. However, the company is currently lagging behind Palo Alto, a leader in this nascent market. As Fortinet navigates weakening market trends and growing concerns over its execution of the SASE model, we have decided to divest from the company.

On the other hand, Oracle experienced a 9% decline following its earnings report, even though the results were largely in line with expectations. The company has indicated a forthcoming period of significant capital investment which, while likely to impact underlying earnings in the short term, is crucial for its transition into a major competitor in the hyper-scaler market.

This strategic shift is underscored by the announcement of a partnership with Microsoft and the commencement of a substantial data centre buildout, involving 100 centres over the next three years. With these developments, the strategic direction of the company has become very clear and at this stage we are uncertain of the strength of Oracle's competitive advantage as the company pivots its strategic focus away from enterprise software towards hyperscale computing.

Lastly, Shopify (+37%) continued its strong performance in 2023 as the company executed its pivot to profitability. The company observed that increasing the standard price by approximately a third did not lead to any significant issues among merchants. This suggests that Shopify's pricing still heavily favours value. As stated by the company, 'I think the price-to-value equation of Shopify is still so far on the side of value...we can incrementally change our pricing in the future without causing any major shift in that price-to-value ratio.'

This follows similar software frameworks: (1) reduce fixed costs, (2) increase pricing, and lastly (3) return to volume growth as demand returns. Shopify is in the first innings of its pivot to profitability and we applaud the tremendous progress the company's management team have achieved so far.

As we enter 2024, we expect the macro headwinds from rates to turn to tailwinds. While 2023 was a good year for the Fund, we strongly believe that this is the beginning of a new technology cycle with AI the catalyst for a significant investment cycle in a new technology stack.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Global Technology C Acc GBP	58.8%	-33.1%	23.2%	43.9%	23.7%
MSCI World Information Technology	44.6%	-22.1%	31.0%	39.3%	41.9%
IA Technology & Telecommunications	38.9%	-27.5%	17.6%	44.4%	31.0%
Quartile	1	4	2	2	4

*Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and income reinvested.

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 does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

The Fund may invest in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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