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Liontrust Global Technology Fund: Q3 2023 review

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The Liontrust Global Technology fund returned -3.1% in Q3, behind the IA Global Technology sector average of -0.7% and behind the MSCI World IT Index return of -2.2%. Year to date the fund has returned 35.6%, ahead of the IA Technology & Telecommunications sector average of 23.9% and the MSCI World IT Index return of 28.5%.

The Fund remained more robust in Q3 than we expected as there was a parabolic upward move in longer-term interest rates expectations. In particular, the US 20-year yield moved from 4.1% at the end of June to above 5.2% at the close of the quarter.

Importantly, the companies' fundamentals are improving after a difficult 2022 and the market is starting to reward this improvement rather than aggressively reacting to moves in longer-dated interest rates.

In this update, we will focus on the major contributors and detractors to returns over this period. The contributors included Intuit (+16%), Airbnb (+12%) and Atlassian (+25%) while the detractors include Adyen (-55%) and Sea (-33%).

Intuit (+16%) launched Intuit Assist, a new generative AI powered assistant that will provide personalised, intelligent recommendations to help consumer and small business customers make smart financial decisions with less work, enabling them to put more money in their pockets.

Embedded across Intuit's platform and products with a common user interface, Intuit Assist will put the power of next-generation AI in the hands of its customers. Intuit Assist uses powerful and relevant contextual data sets spanning small business, consumer finance and tax to deliver personalised financial insights to its over 100 million business and consumer customers.

This data, combined with the power of Intuit's AI-driven expert platform and the accelerated investment the company has made in Generative AI, will deliver game-changing experiences. Intuit Assist will intuitively show, guide, help, and do the hard work for users, and connect customers to experts on our Live Platform to provide human assistance when needed.

Intuit CEO, Sasan Goodarzi, during the launch of Intuit Assist explained “leveraging our vast amounts of rich data and years of investment in AI and GenAI, we’re unlocking the power of our platform to reimagine AI-assisted customer experiences”.

What is the benefit to Intuit? Intuit Assist is currently available at no additional cost to Intuit customers and access to certain enhancements may be subject to Mailchimp plans. But we see this as further entrenching Intuit’s products into customers workflows initially increasing the switching costs for customers – ultimately leading to higher pricing power for Intuit.

Airbnb (+12%) is often cited as emblematic of technology-led, capital-light businesses disrupting the old guard. Over the 14 years since it was founded it has also often been cited as representative of such businesses in terms of its lack of profits for all of its innovation. However, things change, with Airbnb flexing its scale benefits to generate $4 billion of free cash flow off $9 billion of annual revenues, a phenomenon 40% free cash flow margin.

AirBnB is driving exceptional profitability at scale as demand continues to grow healthily and it continues to take share from traditional hotels. With a current stock of over 7 million listings, it saw room night growth of 11% year-on-year in Q2 2023, ahead of 8.9% and 8.7% for leading hotel booking websites Booking.com and Expedia.com. This is what capital-light innovation looks like at scale and it is a thing of beauty.

A new investment for the Fund, **Adyen** (-55%) fell after issuing a cautious business update. Management highlighted the deterioration in North American competitive dynamics where enterprise business prioritised cost optimisation, while competition for digital volumes in the region provided savings over functionality.

These dynamics are not new, and online volumes are the easiest to transition back and forth but PayPal’s Braintree product is taking market share against Adyen as PayPal positions its offering as a loss-leader.

Beyond these dynamics, another factor that impacted Adyen’s growth over the last three years was the company’s inability to hire enough top-quality talent, so the company has ramped up investment to meet the growing demand on its infrastructure and increased priority on new product launches for North American customers.

In the first half of the year, Adyen added 551 staff to take the team to a total of 3,883. Of the new joiners, a majority (75%) sat in technology roles developing both young and more mature initiatives that power its global platform customer base. The combination of a deceleration in growth combined with heavy investment resulted in the stock price collapse.

While an increase in competitive intensity in key markets is far from ideal, PayPal’s Braintree pricing strategy in the US is not sustainable and we expect Adyen’s superior customer value proposition to customers to win longer term but expect the shorter term market dynamics to worsen before turning as macroeconomic headwinds ease.

Sea (-33%) fell after issuing a cautious update as competitive intensity in its end markets increased following the aggressive entry of TikTok across key e-commerce channels. This, alongside Alibaba’s increased investment in Lazard, another of Sea’s competitors, has resulted in a race to the bottom for South East Asia’s commerce market participants.

We exited this position as Sea’s competitive barriers are weakening as new entrants aggressively attack Sea’s profit pools.

Elsewhere in the Fund, **Atlassian** (+25%) continues to make progress away from growth at any cost to a focus on efficiencies. This Australian company which sells cloud-based collaboration software to software developers is far from a household name, yet you would have been touched by the company’s productivity solutions.

If you have been on a Zoom call, you have experienced Atlassian – its is Xoom’sgo-to-tool for software development and technical project management. If you use Slack to communicate in your workplace, it is Atlassian that helps to power a frictionless experience through its IT service ticketing solutions.

The athletes among us using Strava benefit unwittingly from Atlassian's ticketing resolutions, while the non-athletes gain equal pleasure through Atlassian's developer tools that help Dominos deliver pizza and technology faster.

Crucially, the Atlassian innovation machine has not been sacrificed at the altar of cost efficiencies. When we talk of companies focusing on the core and pivoting to profitability, we want to see the preservation of innovation that fuels their customer growth – companies who can achieve similar growth outcomes with the same customer value proposition just at lower cost.

While senior management's bonuses have been axed, R&D budgets have not. Atlassian is spending over 50% of its revenues on R&D, proportionately almost double its peers who instead spend twice as much on sales and marketing.

The company is turning on the cash generation machine as it pivots to profitability and evidence of this transition provides support for Atlassian's stock price as it recovers from a difficult 2022.

As we look forward, we remain positive about the outlook for the innovative companies we invest in, with stock prices still significantly below 2021 levels and fundamentals improving. We are finding significant value across our watchlist where companies who have pivoted to profitability and are now starting to re-accelerate growth.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Global Technology C Acc GBP	24.2%	-21.8%	23.7%	38.6%	4.2%
MSCI World Information Technology	25.3%	-9.9%	24.1%	38.4%	12.8%
IA Technology & Telecommunications	19.0%	-21.1%	26.6%	34.6%	10.9%
Quartile	2	3	3	2	4

****Source: FE Analytics as at 30.09.23. Quartile generated on 06.10.23**

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments

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.

The Funds managed by the Global Innovation Team:

- May hold overseas investments that 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 a Fund.
- May have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on a Fund's value than if it held a larger number of investments.
- 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, 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.
- May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.
- Do not guarantee a level of income.

The risks detailed above are reflective of the full range of Funds managed by the Global Innovation Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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