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Why our focus on liquidity has not stopped us from gaining exposure to AI

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Liquidity is a key tenet of the Tacit investment philosophy and process. Being able to buy and sell investments during euphoric and pessimistic market environments is important for two primary reasons:

1. Firstly, and most importantly, our clients may need access to their capital unexpectedly during periods of economic stress which will likely coincide with periods of market stress.
2. Secondly, we want to have the option to purchase investments during periods of market stress to improve future returns for our clients by buying our favoured investments at cheaper prices. Not being able to sell a Stabiliser holding and purchase a Growth investment at critical market junctures would hinder our clients' longer-term returns.

This does not, however, mean that we are against private companies, we just struggle to square their illiquidity with our clients' time horizons and needs. In fact, many of our clients already hold less liquid assets, whether for tax reasons or simply because they live in them, namely their homes.

So how do we balance this high liquidity bar and invest in private companies which are inherently illiquid investments? Simply, Scottish Mortgage Investment Trust. Investing in private companies is a specific skill and most do not have the patience or knowledge to invest in this arena in our view.

Companies such as SpaceX are each unique in their own way but do have one common feature: what unites them is not just size, but the durability of their competitive positions, with each having built something genuinely difficult to replicate. This takes a long-term perspective, patience during difficult times and the ability to think outside of the box when conventional wisdom is telling you something different.

In our view listed equity markets are not conducive to building something new and innovative at scale as the regulatory and reporting requirements put these companies at odds with conventional thinking. To build something truly innovative at scale, you need to find investors that will see the vision and agree a risk/reward trade off with them for their money.

Our strategies have held Scottish Mortgage Investment Trust for over 15 years to gain exposure to the cutting edge of the technology sector as it has the mandate to hold private investments at their early stage (Amazon in the late 90s, SpaceX now) and to back the companies with patient capital. We have also however been able to sell exposure and buy it back as the market environment has evolved. It is this characteristic which has made it possible for us to own this exposure even whilst maintaining our high liquidity bar.

We thought it was worth highlighting this element of our strategies as it may not be initially visible that our clients have all benefitted from the SpaceX IPO without necessarily knowing it.

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