



## Liontrust China Fund

### Q1 2022 review

Fund manager: Ruth Chambers, assisted by Ewan Thompson

**The Liontrust China Fund returned -10.2% over the first quarter, versus the IA China/Greater China which returned -12.9% and -11.7% from the MSCI China Index (both comparator benchmarks)\*^.**

The war in Ukraine has impacted global markets and we have seen increased volatility this quarter. The Chinese benchmark saw steep declines in March as a result of associated political risk and concerns around inflation. China has also been facing renewed Covid outbreaks, most significantly in Shanghai, which have caused concerns of supply chain disruptions and decreased consumer sentiment. However, in mid-March, Vice Premier Liu He announced that the government would be taking measures to support the economy, which resulted in a dramatic rebound in stock prices, helping the market to recover a significant proportion of their declines so far this year. Positive news also came from the Chinese securities regulator which will adopt a new approach with regards to Chinese companies listed in the US, allaying delisting fears for those companies and spurring the market higher.

Consumer discretionary and information technology were amongst the sectors hit hardest by the downturn. However, the Fund outperformed by avoiding some of the most volatile stocks, especially those in technology hardware and software services. Some underperformance came from a position in the healthcare sector which was affected by its addition to the US unverified list. However, this was balanced by outperformance in the utilities sector as a wind power generator reacted positively to news that the government will be paying long due subsidies. The financials and consumer staples sectors also outperformed the benchmark both due to allocation and stock selection.

This quarter, we diversified our holdings in the financials sector by adding a bank with a strong position in retail banking. We believe this advantage should serve it well in an easing environment amidst deposit competition. This was paid for by selling a company in the telemedicine space due to a change in its strategy. We also took some profits in the sportswear sector after a rally through January and February as we believed valuations were elevated compared to the rest of the discretionary sector. We also trimmed our position in a gas distribution company due to rising gas prices and therefore the potential for a margin squeeze.

Sentiment remains cautious but the announcement by Liu He has injected optimism into the market. He also indicated that the intense tech regulation could be nearing an end and this, coupled with a reduced delisting risk, should help sentiment going forward. Covid remains a challenge for China, with new outbreaks in Shanghai, however the government has so far been successful in its strategy and we believe the zero Covid approach will remain until year end. As outlined in the five-year plan, we believe China will continue to place emphasis on technological development, domestic consumer demand and

the transition to cleaner energy. Stocks are also now trading at a considerable discount to long term averages providing an attractive value proposition.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust China C Acc GBP	-27.0%	36.8%	-0.5%	-3.6%	18.9%
MSCI China	-29.3%	29.1%	-1.0%	0.9%	23.8%
IA China/Greater China	-21.5%	40.9%	-0.2%	0.9%	19.1%
Quartile	3	2	2	4	2

**\*Source: FE Analytics as at 31.03.22**

**\*\*Source: FE Analytics as at 31.03.22. Quartiles generated on 05.04.22.**

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>

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## 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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