LIONTRUST

GLOBAL EQUITY

Liontrust Emerging Markets Fund

Q1 2022 review

Fund manager: Ewan Thompson

The Liontrust Emerging Markets Fund returned -7.2% over the first quarter, versus the IA Global Emerging Markets sector average and MSCI Emerging Markets Index's respective performances of -6.6% and -4.30%*^.

The first quarter of 2022 was by any measure both volatile and unwelcome, witnessing as it did the Russian invasion of Ukraine, which not only had significantly negative implications for Russia itself but numerous knock-on effects for all asset classes, especially commodities.

Even before the invasion, the quarter had started negatively with global assets selling off over concerns of significantly higher inflation worldwide and the tighter monetary policy response that would likely follow, particularly in the US, where expectations of rate hikes this year have ratcheted up steadily throughout the quarter.

Emerging markets outperformed developed markets through January and February, partly due to higher index commodity exposure but also because of their much-improved macro-economic resilience in recent years and the pre-emptive monetary policy tightening by the majority of their central banks. However, this relative calm was shattered in late February with Russia's assault on Ukraine.

Although tensions along Ukraine's Eastern border had been building throughout the start of this year, the full attack was still both surprising and alarming. Ahead of this action there was still a convincing case to be made that all-out war would serve no-one's interests, least of all Russia's given the gargantuan task of subduing Ukraine militarily and the potential for missteps leading to significant loss of political capital for Vladimir Putin at home. Regardless, the reality of the invasion has had a profound impact on the world order and the full implications will likely take years, if not decades, to play out.

The immediate impact, however, was Russian assets collapsing to near-zero prices and the country's removal from the MSCI Emerging Markets Index. At the date of writing, Russia remains untradeable. On the flipside, the invasion has seen the prices of global commodities soar higher (from already elevated levels) at a time of ongoing fragility in the global economy, increasing volatility further.

Overall, emerging markets returned -4.3% in the quarter, a little behind developed markets (-2.4%). However, the dispersion in returns was significant – largely divided into beneficiaries and victims of higher commodity prices. The best performing markets (Brazil, Chile, Colombia, Peru, UAE, Saudi Arabia and South Africa) all share heavy weighting of commodity companies in the Index and/or strong economic dividends from higher commodity prices. As a result, they recorded gains of between 15-40%.

Conversely, those markets more geared into global economic activity in general (China, Korea and Taiwan) saw much weaker returns of between -5-15%. China further suffered due to the ongoing zero-Covid policy approach to the global pandemic, which has seen ongoing lockdowns on social mobility and attendant hits to economic growth. Moreover, China's seeming ambivalence (or even tacit support) for Russia threatened to further sour relations with the US: threats to de-list China-domiciled companies listed in the US intensified through the quarter. The weakest market for the quarter was Russia, which was effectively written down to zero in most portfolios.

The Liontrust Emerging Markets Fund had exposure to 2 Russian stocks ahead of the market collapse, Sberbank and Novatek. The former was sold the day after the invasion due to sanctions risk, so only Novatek was left in the portfolio when the market ceased trading. The exposure to Russia provided a comparatively small performance hit to the portfolio on a relative basis due to the roughly neutral position the Fund had in the market. The most significant performance impacts on the portfolio over the quarter can nearly all be traced back to the question of commodity exposure – with an overweight in India (commodity importer) and underweight in Saudi Arabia (commodity exporter) both working against the Fund. Conversely, positions in Indonesia and Chile were positive contributors on the back of higher soft commodity prices (Indonesia) and copper (Chile).

Most portfolio changes during the quarter were in part to address concerns over commodity prices – we added both Vale and Petrobras in Brazil and Oil & National Gas Corp in India to redress the Fund's commodity exposure following the sale of Sberbank and loss of Novatek in Russia. The Fund also added a position in Nedbank, our preferred bank in South Africa, where higher commodity prices have catalysed a much-improved macro-economic backdrop supporting both credit growth and asset quality. In terms of sales, the Fund exited positions in gas distributor ENN in China, where surging input costs continued to pressure margins, and Sberbank, as mentioned above.

The outlook for emerging markets can only be described as uncertain given the volatility surrounding the trajectory of the global economy, with potentially slower growth and higher commodity prices providing a tricky operating backdrop for many emerging market economies.

The trajectory of the Russia-Ukraine war remains unpredictable. That said, we also feel that a great deal of comfort can be taken from the relative performance of emerging markets during an acutely challenging quarter. If one puts aside the not-insignificant impact of the Russian share of the Index going to zero, then emerging markets otherwise weathered the storm better than developed markets. This is a testament to how solid economic stewardship has increased the degree of stability significantly in emerging markets: in previous years, current conditions might well have caused then to decline more notably.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Emerging Markets C Acc GBP	-12.3%	47.7%	-16.2%	-4.8%	13.5%
MSCI Emerging Markets	-7.1%	42.3%	-13.5%	-0.3%	11.4%
IA Global Emerging Markets	-8.7%	46.8%	-15.4%	-1.5%	8.5%
Quartile	3	2	3	4	2

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

****Source: FE Analytics as at 31.03.22. Quartile 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

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.