



## Liontrust China Fund

### Q2 2022 review

Fund manager: Ruth Chambers, assisted by Ewan Thompson

**The Liontrust China Fund returned 8.8% over the second quarter, versus the IA China/Greater China which returned 10.3% and 12.1% from the MSCI China Index (both comparator benchmarks)\*^.**

The Chinese market was initially impacted by increased Covid numbers and strict lockdowns in Shanghai with associated supply chain disruptions and retail sales decline. However, the Central Bank unveiled measures to support the economy and the mortgage benchmark rate was cut, which helped to improve sentiment. There have also been signs that regulation of the technology sector is normalising with a pledge from the State Council to promote growth of internet platforms and China's top economic official encouraging a better balance between the government and the market. This caused a rally in the Hong Kong listed technology names which was further bolstered when Shanghai announced loosening of Covid restrictions at the end of May. This allowed the market to recover earlier losses and finish the quarter in positive territory.

Outperformance came from the technology and consumer discretionary sectors, which saw a recovery after signals from the government that strict regulation may be relaxing. Sixty new mobile games were also approved by the regulator, which helped boost two gaming and entertainment companies in the portfolio. The announcement of good first quarter results from key technology and ecommerce companies also strengthened sentiment and particularly helped companies in the consumer discretionary sector outperform including those in the sportswear sector. An EV manufacturer also performed very strongly as it continues to gain market share in China and after the government announced stimulus measures for the Auto industry. In contrast, some weakness came from our positions in Taiwan, which have been impacted by macro inflation and slowdown concerns.

This quarter, we increased our position in a logistics company as we believe the competitive environment is improving and it is in a strong position to gain market share due to improved technology, superior logistics management and lower costs. We also added to a dairy products company due to clearer visibility and stable costs. These were funded by exiting a position in the auto parts space due to margin compression, operational disruption and supply chain issues. We also trimmed our large positions in the financials sector and used the proceeds to begin reducing our underweight positions in key consumer discretionary names.

While we believe the Zero-Covid strategy will remain in place for the short to medium term, the recent easing of restrictions in Shanghai and Beijing are a positive signal indicating some recovery in consumption and economic activity. There have also been indications that the intensity of the technology regulation is easing and government officials are turning towards a more balanced approach, which will help sentiment going forward. 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. Many stocks remain at a considerable discount to long term averages providing an attractive value proposition.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust China C Acc GBP	-21.4%	18.9%	15.0%	-7.7%	19.7%
MSCI China	-22.4%	13.9%	16.5%	-3.2%	19.3%
IA China/Greater China	-17.0%	22.3%	18.7%	-1.7%	17.3%
Quartile	3	3	2	4	1

**\*Source: FE Analytics as at 30.06.22**

**\*\*Source: FE Analytics as at 30.06.22. Quartiles generated on 07.06.22.**

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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