LIONTRUST

GLOBAL EQUITY

Liontrust India Fund

Q3 2022 review

Fund manager: Ewan Thompson, assisted by Ruth Chambers

Over the third quarter, the Liontrust India Fund returned 14.7%, versus the MSCI India Index's 15.9% and the IA India return of 16.2%*^.

The third quarter continued − and even amplified − the well-established negative trends predominant in 2022 so far. Equity markets suffered ongoing losses across the board, taking year-to-date dollar returns to -27% and -29% for developed and emerging markets respectively. They key macro dynamics remain the relentless rise in global interest rates in order to respond to high and rising inflation across the majority of economies. The rise in US interest rates in particular, along with the prevailing cautious economic outlook has also served to push the US dollar higher, which has in turn seen currency weakness across both emerging and developing markets, exacerbating the inflation and interest rate cycle.

With global liquidity sharply tightening, the outlook for growth has also clearly deteriorated, with recessionary threats increasing in both the US and Europe. Moreover, the other key driver of the global economy − China − remains in the economic doldrums with its ongoing Covid zero policy hampering any potential economic recovery.

Despite this extremely gloomy backdrop, India has continued to surprise by its resilience in 2022, and indeed recorded a positive dollar return of 6.2% over the quarter, against a dollar emerging market return of -12.5% and developed markets loss of -6.6%. Returns in sterling have been even more impressive, with the MSCI India index returning 15.9% over the quarter.

India continues to benefit from an ongoing cyclical economic recovery from the Covid-driven lockdowns of 2020 onwards, with real GDP recorded at a 13.5% growth rate in the June quarter. Whilst it is true that inflation has also risen in India − as it has across the globe − it has done so at the margin, with CPI sitting at around 7%, roughly where it was at the end of 2019. This is stark contrast to the huge shifts seen in Europe, the UK and the US. Prudent fiscal and monetary policy in the period leading up to the current global financial tumult has left India in a very strong position to weather the current situation. The property market continues its steady recovery with inventories depleting and volumes increasing, leading to regional price increases. The banks are in good health having spent years cleaning up their books and as such are now ready and able to lend − credit growth is now running at 15% a year. Political − and therefore policy − stability is a key supportive backstop for the economy, which remains in robust health.

The Liontrust India Fund had a solid quarter, returning 14.7%, a small amount behind the MSCI India comparator benchmark in what was a very strong market. Key positive contributions to the Fund's performance came from the healthcare sector where Southern Indian hospital chain Krishna Institute of Medical Sciences and domestic pharmaceuticals player JB Chemicals & Pharma enjoyed robust performance, supported by highly resilient domestic demand.

Elsewhere, the strong property market − demonstrated by extremely strong pre-sales volumes − saw property players **Prestige Estates** and **DLF** outperform the market. The industrial recovery story in India also remains intact, with holdings in that sector also enjoying returns ahead of the wider market − for example industrial cables manufacturer **KEI Industries**, infrastructure contractor **Larsen & Toubro** and logistics and freight services provider **Container Corp of India**.

Offsetting these positive returns, there were performance drags from the sharp correction in energy stocks on the back of windfall tax interventions from the government in order to support the economy in the face of rising prices. The Fund also suffered on a relative basis from no positions in the runaway Adani stocks, where valuations have entered extreme and unjustified territory in a number of cases − despite the short-term performance drag from not owning them we believe this is the prudent decision. And finally, the sector underweight in materials was a weight on relative performance as that sector performed robustly in the strong market conditions.

India has clearly been one of the star performers over the past 2 years − since the March 2020 Covid lows India has returned 115% in US dollars against 55% for developed markets and 21% for emerging markets. This outperformance just underscores the extent to which the stable policy environment and resilient domestic growth story contrasts with the economic woes of much of the developed world.

Whilst valuations are arguably now somewhat stretched and therefore a pause in the degree of outperformance would not be a great surprise, we remain firmly of the view that over the medium and long-term India represents the most attractive structural investment story across global markets.

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

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust India C Acc GBP	4.0%	59.3%	-4.1%	-2.0%	-9.1%
MSCI India	8.8%	46.8%	-4.2%	10.8%	4.0%
IA India/Indian Subcontinent	5.8%	48.6%	-7.3%	11.3%	-2.7%
Quartile	3	1	1	4	4

***Source: FE Analytics as at 30.09.22**

****Source: FE Analytics as at 30.09.22. Quartiles were generated on 07.10.22**

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.

The portfolio is invested in smaller companies - these stocks may be less liquid and the price swings greater than those in, for example, larger companies. 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.