LIONTRUST

GLOBAL EQUITY

Liontrust India Fund

Q4 2022 review

Fund manager: Ewan Thompson, assisted by Ruth Chambers

Over the quarter, the Liontrust India Fund returned -4.3%, versus the MSCI India Index's -5.4% and the IA India return of -7.1%*^.

The final quarter of 2022 saw Indian markets register a small positive return in US dollar terms, capping a strong year of relative performance − though ultimately returns for the year were negative at -8.5% (USD) they were considerably better than almost all other major global markets, where China returned -23.6%, the US -19.4% and Europe -19.5%. However, in the final quarter alone, India did underperform wider emerging markets as a resurgent China led north Asian markets higher. The domestic macro environment continued to be strong in India, with robust economic growth − the highest growth rate of any major economy in the world.

Although India has not been immune from the inflationary trend that has swamped the global economy over the past two years, CPI inflation eased incrementally through the year, from a peak of 7.8% in April to 5.7% by year end. The Reserve Bank of India continued to raise rates, yet at a less aggressive rate in the final quarter, leaving the prospect of peak interest rates early in 2023. Despite the increasing costs of money, credit growth continued to remain extremely healthy at around 16%, illustrating the resilient demand for, and supply of, credit. Moreover, the banking system remains healthy and well capitalised, with no signs of deteriorating asset quality.

Given the robust domestic growth picture it was no surprise to see the more cyclically sensitive areas of the market perform best − in particular, stocks in the materials, industrials and financials sectors. Where there was any relative weakness in the market, it was generally to be found in the consumer-facing stocks, where incomes have struggled against the inflationary backdrop – especially in the rural areas. Companies selling basic consumer products, for example, saw rising costs but an ability to fully pass these onto their customers. On the discretionary end, however, corporate earnings continued to hold up well, with consumption strong in the run up to festival season. Although the Indian market has enjoyed two years of very strong relative returns, foreign investors have aggressively sold the market throughout this period, with domestic investors offsetting these flows. However the final quarter saw foreign buying of Indian equities move into net positive territory for the first time in well over a year.

Key areas of outperformance came in the financials, utilities and consumer staples sectors. In financials, the Fund's long-held preference for private banks was rewarded through stock selection as key overweight position Axis Bank continued to catch up with its hitherto better-performing peers as its operating metrics turned around. The bank has, until now, lagged on both margins and returns after having to pay up to attract funding in order to compete with peers for deposit market share. Now this process is largely complete, operating costs are starting to ease. In utilities it was more a question of what we avoided owning, as the high-flying Adani-associated stocks from earlier in the year suffered a sharp reality check. The portfolio has not had any exposure to these stocks at any point in the past year given our concern over valuations and debt levels across this group of companies. Finally, in consumer staples − a sector that has generally struggled in recent quarters − the position held in Varun Beverages continued to deliver strong returns. Varun, a bottler and distributer of soft drinks, continued to perform well in the ongoing recovery from Covid restrictions the previous year.

There were few substantial changes in the portfolio during the quarter. Incremental changes included increasing the position in Axis Bank in line with our conviction in the stock, reducing our position in ICICI Bank accordingly. The IT sector has been an underweight position in the Fund due to concern over end demand from corporate clients in both the US and Europe; we reduced our exposure further by exiting the lowest conviction holding, HCL Technologies, during the quarter due to its concentration in more at-risk segments of the market, combined with a valuation sitting above medium-term averages. In the real estate sector, we maintained our overweight sector position albeit at a reduced scale after the sale of a small position in Godrej Properties. Although the medium-term outlook for the property market remains robust, the move up in mortgage rates as a result of policy rate increases provides incremental headwinds to the sector.

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust India C Acc GBP	1.6%	36.6%	11.5%	-6.7%	-13.1%
MSCI India	3.6%	27.4%	12.0%	3.4%	-1.5%
IA India/Indian Subcontinent	-1.6%	28.3%	11.2%	1.4%	-6.1%
Quartile	2	1	2	4	4

***Source: FE Analytics as at 31.12.22**

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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.