Liontrust China Fund

Q4 2022 review

Fund manager: Ruth Chambers, assisted by Ewan Thompson

The Liontrust China Fund returned 4.4% over the quarter, versus the IA China/Greater China sector average of 1.7% and 5.3% from the MSCI China Index (both comparator benchmarks)*^.

The fourth quarter started poorly for Chinese equities as the market digested a deterioration in Covid data and fresh concerns following the 20th Party Congress, leading the MSCI China Index to fall by more than 19% during October. However, through November and December the market rallied back from the end of October abyss, rising by 25% in November and a further 4% in December. By the end of a volatile quarter, Chinese equities had gained 5% and outperformed both emerging and developed markets.

The catalyst for this reversal was a sharp turnaround in all areas that had been weighing on the market. China's reopening has proceeded earlier and more quickly than expected; there was an easing in property sector regulations alongside a rescue plan; at the Central Economic Work Conference in December there was an emphasis on boosting domestic demand and signals of an easing of regulation towards the private sector and internet platforms; and the statements following Biden and Xi's meeting suggested an easing of geopolitical tensions.

The result of an abrupt policy shift has been a rapid recovery in markets, reflecting the renewed optimism surrounding China’s great reopening. Since the end of October, the MSCI China index has rallied over 50% (in US dollars), against a 7% return for MSCI World and 22% for Emerging Markets. At the market bottom, the MSCI China Index was trading at nearly 9x forward earnings, against a 5-year average of 13.5x, setting the stage for a strong re-rating. The key areas of improvement in the economy are likely to be centred on services and consumption rather than investment, so we are unlikely to see a major stimulus program.

The Liontrust China Fund returned +4.4% during the fourth quarter, slightly behind the MSCI China Index return of +5.3%. The strongest returns came from those sectors which had suffered the most during the first three quarters of the year, including healthcare and communication services, while energy fell having performed very strongly for much of the year.

With the sharp rally in the final two months, Chinese equities ended the year just 2% behind the broader emerging markets. This outcome seemed unthinkable as the 20th Party Congress unfolded but China takes healthy momentum into next year. There will no doubt be bumps along the way as the Chinese economy reopens, as we have witnessed around the world, but the economic outlook for 2023 is now much brighter than was expected just a couple of month ago.

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust China C Acc GBP	-15.5%	-16.7%	26.5%	17.0%	-14.6%
MSCI China	-12.1%	-21.0%	25.5%	18.7%	-13.8%
IA China/Greater China	-16.0%	-10.7%	33.5%	22.2%	-14.2%
Quartile	2	3	3	4	2

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

****Source: FE Analytics as at 31.12.22. Quartiles generated on 07.01.23.**

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.

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