Liontrust India Fund

Q2 2023 review

Fund manager: Ewan Thompson, assisted by Ruth Chambers

Over the quarter, the Liontrust India Fund returned 9.3%, compared with the MSCI India Index return of 9.2% and the 9.9% average return in the IA India sector*.

The second quarter of 2023 saw global markets diverge somewhat, with developed markets surging onwards in the expectation that any US recession would be milder than expected, or might even be avoided altogether. Ongoing reassuring economic data regarding the health of the world's largest economy, as well as moderating inflationary fears, tied together with optimism over the positive earnings impact of the coming wave of AI-led innovation to push markets higher.

Emerging markets in general, however, were weighed down by the ongoing economic weakness in China, which in the second quarter failed to live up to the hopes of rapid economic recovery established late last year as the economically damaging Zero-Covid policies were reversed. India, however, stood out amongst emerging markets, outperforming by a margin, and also bettering the performance recorded by most developed markets.

Having underperformed emerging markets in December and January due to the brief resurgence of China, India has steadily continued its established trend of outperformance since February and this extended throughout the second quarter. In contrast to the economic woes in China and concerns of slowdown and potential recession in developed markets, India's economy has gone from strength to strength, relatively insulated as it is from global trade and more dependent on domestic policy. In addition, the oil price - one of the key external variables which does have the capacity to affect and which, when elevated, can cause inflationary problems for India - has traded in a very benign level.

Real economic growth is in excess of 6%, while inflation – which remained relatively grounded throughout the last two years, in contrast to much of the developed world – has steadily fallen back from near 8% to the 4-5% range. The domestic investment cycle continues to recover strongly, with private sector capital expenditure picking up to join already-strong public sector outlays. Moreover, the residential property market has moved from strength to strength, comfortably weathering a period of elevated interest rates, with inventories of available properties remaining at low levels and prices beginning to move up strongly to incentivise new supply. The financial sector remains in excellent health, with system credit growth well above 15%, supported by a well-capitalised banking sector willing and able to lend to support property purchases and corporate investment alike.

Given the rude health of the domestic economy, it was sectors exposed to these trends that outperformed during the quarter, namely consumer discretionary, industrials and healthcare services. The key underperformer was the large IT services sector which is heavily exposed to US and European corporate investment dynamics and, as such, was largely shunned in favour of domestically facing earnings streams.

The Fund's key positive contributors to performance over the quarter were a significant allocation to hospital stocks such as **Max Healthcare** and **Krishna Institute of Medical Sciences** – where demand is far outstripping supply, leading to high occupancy rates and increased profitability – as well as real estate companies such as **DLF Ltd**, which have reported very strong earnings on the back of significant upward moves in pricing in key urban markets as well as robust new project launches. Holdings in the industrial sector have also seen strong positive returns, in particular **KEI Industries**, a major cables and wires manufacturer benefiting from increased capital expenditure across industries, as well as gaining market share against informal competitors. Offsetting these positive contributions somewhat were drags due to stock selection in the financials sector where smaller

NBFCs (non-bank financials) rallied much in excess of the larger bank holdings that dominate the portfolio's exposure.

The portfolio saw a number of additions in the quarter following a fruitful week of on-the-ground company visits. These include **Sona Comstar**, a manufacturer of precision differential assemblies for autos, **Hero MotorCorp** – in order to add exposure to the two-wheeler auto market which we see recovering from very depressed levels and hitherto highly underrepresented in the portfolio – and also **Titan**, a retailer of jewellery and watches that is benefitting strongly from robust consumer spending at the higher end of the market. These purchases were in large part funded by reducing the Fund's allocation to IT services, through a reduction in the weight of **Infosys** and a sale of **Tata Consultancy**. Both remain attractive companies longer term, but recent company reporting has confirmed the poor visibility over contract awards and uncertainty over corporate spending intentions in key developed markets.

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust India C Acc GBP	12.2%	7.5%	55.8%	-21.9%	-4.1%
MSCI India	9.0%	8.3%	39.8%	-14.6%	12.0%
IA India/Indian Subcontinent	11.6%	4.3%	40.2%	-14.8%	4.7%
Quartile	2	1	1	4	4

***Source: FE Analytics as at 30.06.23**

****Source: FE Analytics as at 30.06.23. Quartiles were generated on 07.07.23**

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.

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.