# Liontrust Emerging Markets Fund

## Q3 2023 review

Fund manager: Ewan Thompson

**The Liontrust Emerging Markets Fund made a flat return over the quarter, compared with the 1.1% return from the MSCI Emerging Markets Index comparator benchmark and the 0.3% average return from the IA Global Emerging Markets sector, also a comparator benchmark.***

The third quarter of 2023 saw a return of global stock market volatility after a relatively benign first half of the year. US bond yields continued to climb rapidly, with the 10-year Treasury yield rising from 3.8% to 4.8% over the quarter as US economic data remained robust, suggesting interest rates would need to remain higher for longer. A steady rise in oil prices from $75 per barrel to $95 also contributed to macro-economic concerns. This backdrop saw markets in general fall back, with both developed market and emerging market equities falling nearly 4% in US dollar terms - although the strength of the dollar meant returns to UK investors were roughly flat. Indeed, the renewed strength of the dollar has been a significant headwind for emerging markets in general in recent months.

Amont the heaviest-hit markets were Taiwan and South Korea, dominated as they are by the Technology sector, which came under particular pressure due to the strength in bond yields weighing on growth-style stocks − short-term bubbles in areas such as Artificial Intelligence (AI) chips and Electronic Vehicles (EVs) continued to unwind. Against this somewhat troubled backdrop, India remained a standout market − significantly outperforming both developed and emerging market peers.

India continues to provide a bright spot in the global economy, recording a real GDP growth rate of 7.8% as of the end of the second quarter, by far the highest level of the major world economies. Credit growth remains strong as demand for investment stages an ongoing recovery thanks to both public sector infrastructure spending and private sector capital expenditure to build out new capacity in constrained sectors such as metals production and manufacturing. The housing market has also continued to move from strength to strength, with both sales volumes and pricing picking up meaningfully so far this year, supported by low inventories and high affordability. In China, markets were mixed as incremental policy easing measures were rolled out, targeting stability in the property market and a rebound in consumption and investment. While data is incrementally improving, especially in terms of consumption, fundamental concerns over the health of the property market remain and developers within China remain cautious. The market continued to fall, but the pace of declines abated somewhat and was certainly not the worst performer in the quarter.

The biggest positive contributor to the Fund’s performance was India, where healthcare holdings in particular performed very strongly. Domestic pharmaceutical player JB Chemicals & Pharma continues to record growth rates well in excess of the general market and hospital operator KIMS is enjoying a continued growth in profitability thanks to high occupancy rates in a severely under-penetrated private healthcare market. China on the whole provided a positive contribution with our holding in Samsonite providing strong returns as growth in higher-profitability Asian markets continues to recover strongly driving margins higher. In Brazil, Petro Rio, an energy producer, rallied strongly on the back of higher energy prices.

At the other end, weaker performance in holdings in the technology sector in Taiwan and South Korea offset better performance elsewhere. Samsung SDI, a Korean battery manufacturer, has seen weaker performance on the back of declining volume growth in electric vehicles and we in fact exited the position during the quarter. In Taiwan, the weak performance of Taiwan Semiconductor was compounded by the fact the Fund holds the ADR line of the stock, which declined well in excess of the underlying Taiwanese listing − despite being neutrally positioned in the stock the position proved costly over the discrete calendar quarter. And finally back to China, where holdings in banking stocks underperformed due to ongoing concerns over economic growth in general, as well as property loans in particular. As the government encourages economic stimulus there are also concerns that banks will have to play a role of 'national service' and see margin compression as they are forced to lend at lower rates.

The key portfolio changes centred around trimming existing positions in India that have performed extremely well, and adding a new position in Bharti Airtel, a telecoms operator enjoying an increasingly strong market position as the industry consolidated further around two key players, with number 3 player Idea suffering financial difficulties and unable to invest in new 5G networks. In China, a position was added in Lenovo, the world's largest PC brand, where a bottoming out in the hitherto troubled PC market is in evidence. Lenovo has been expanding its footprint in the enterprise server and cloud spaces as well as continuously taking market share from major competitors such as HP and Acer.

In Brazil a position was added in Rumo, the largest independent logistics in Latin America, operating rail concessions in Brazil as well as terminal and port services for sugar and grain exporters. Grain production in Brazil is structurally increasing and freight and storage capacity have not kept pace with production, providing a compelling opportunity for Rumo, which is behind one of the few significant expansions in capacity, and is benefitting from higher freight prices due to the bottlenecks. These positions were funded through the reduction in position size in Taiwan's TSMC as well as the sale of Samsung SDI in Korea. In China exposure to the banking sector was also reduced.

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

| | Sep-23 | Sep-22 | Sep-21 | Sep-20 | Sep-19 |
|---|---|---|---|---|---|
| Liontrust Emerging markets C Acc GBP | -2.0% | -16.7% | 15.5% | 1.6% | 5.3% |
| MSCI Emerging markets | 2.2% | -13.2% | 13.3% | 5.4% | 3.7% |
| IA Global Emerging markets | 2.6% | -15.4% | 17.0% | 2.0% | 6.5% |
| Quartile | 4 | 3 | 3 | 3 | 3 |

***Source: FE Analytics as at 30.09.23**

****Source: FE Analytics as at 30.09.23. Quartile generated on 07.10.23**

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 does not predict future returns. You may get back less than you originally invested.**

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

- Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- Investments in emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability. This may result in higher volatility and larger drops in the value of the fund over the short term.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

## Disclaimer