

Global Fundamental

Q4 2023 Review

Liontrust India Fund



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Over the quarter, the Liontrust India Fund returned 7.8%, outperforming the MSCI India Index return of 7.1% and the 5.7% average return in the IA India sector*.

The final quarter of 2023 saw Indian stocks continue their positive performance trend this year, returning 7.1% in Sterling terms, and extending their full-year performance to 14.0%. Over the quarter, India comfortably outperformed emerging markets (+3.3%) and also bettered developed markets (+6.7%).

India's economic performance continues to impress, with GDP growth of 7.6% in the September quarter and the central bank forecasting 6.2% for financial year to end-March 2024, underpinned by ongoing robust credit growth, and supported by a well-capitalised banking sector. Inflation has also eased, retreating below 6% and thus back within the Reserve Bank of India's target range. Indeed, domestic sources of inflation have been relatively limited and while inflation has been marginally elevated, India did not see the significant inflation shocks witnessed by many developed markets over the past two years.

As India exited the year, most economic indicators remained robust, with industrial production growing in double digits, electricity consumption growth running at over 20%, port and rail traffic very strong, and tax collections running ahead of expectations and leaving India on track to meet its fiscal deficit target for the current financial year.

The most significant event of the quarter, however, was the result from key state elections held across 5 states in November. The elections saw the BJP taking Madhya Pradesh, Rajasthan and Chhattisgarh, a much better result than prior expectations and exit polls had suggested. Indeed, in Madhya Pradesh the BJP gained as much as 7% in their vote share, and the likelihood of the BJP winning 300 seats or more in the upcoming General Election in April/May has now increased - a result that would be extremely positive in terms of policy continuity.

Over the quarter, strong market performance came from domestic cyclical stocks in the industrials and consumer discretionary sectors, driven by a rebounding investment cycle in turn led by a resurgent domestic real estate market. The real estate sector was by far the best

performing sector in the index as rising sales volumes in the residential market combined with price increases to deliver extremely strong earnings for developers. Indeed, one of the biggest positive contributions to relative returns for the Liontrust India Fund came from the real estate sector, where the Fund's 3 holdings in the sector all performed extremely well against a very positive market backdrop.

Further positive returns for the Fund came from the healthcare sector, where exposure to the hospital sub-sector served the portfolio well. The private hospital sector remains extremely underpenetrated in India, with very few new major hospitals being built. This has led to very high capacity utilisation and therefore good financial returns for our holdings in Global Health Ltd and Max Healthcare. Further positive highlights came in the consumer discretionary sector, where Hero Motocorp, a key 2-wheeler manufacturer, has benefited from the much improved outlook in demand within the 2-wheeler market, which has started to pick up and show underlying growth rates in excess of 4-wheelers for the first time in several years. Within the 4-wheeler space, the Fund's holding in Tata Motors performed well driven by the ongoing turnaround in the Jaguar Land Rover business.

In terms of additions to the portfolio, new positions were initiated in several companies where we see strong prospects. Eicher Motors, manufacturer of Royal Enfield motorcycles, is benefitting from the pick-up in 2-wheeler volumes, but has also lagged due to concerns over competition from Harley Davidson and Triumph, though this has not proved to be material and provides an opportunity for the stock to re-rate. The IT sector is suffering from cyclical headwinds and the Fund has generally been cautiously positioned on the sector, yet we did add a position in Coforge, which has transitioned from a mid-tier client base to scalable Fortune 1000 clients, increasing deal size and creating a resilient revenue profile in comparison to peers. The position in Eicher Motors was funded by exiting 4-wheeler player Maruti Suzuki, where volume growth has slowed considerably after an extremely strong year. Elsewhere, the positions in Emami and Hindustan Unilever in the consumer staples sector were sold due to ongoing sluggish rural demand and less attractive competitive position due to competition from small and aggressive start-up players in the sector.

The outlook for India remains extremely attractive, with the economy on track to become the world's third largest – after China and the US – in 2027, after overtaking both Germany and Japan. We believe India is undergoing a critical economic transformation with a significant increase in investment levels in order to take advantage of shifting global supply chains and attract key global brands such as Apple and Samsung to shift manufacturing capacity away from China and towards India. The key event looming is the General Election in April/May, where Modi and the BJP will seek an historic third consecutive term and a clear mandate to continue the retooling of the Indian economy under way.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust India C Acc GBP	18.5%	1.6%	36.6%	11.5%	-6.7%
MSCI India	14.0%	3.6%	27.4%	12.0%	3.4%
IA India/Indian Subcontinent	17.2%	-1.6%	28.3%	11.2%	1.4%
Quartile	2	2	1	2	4

*Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and income reinvested.

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 any fund is held long term (minimum period of 5 years). We recommend that you hold funds 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.

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