LIONTRUST

GLOBAL EQUITY

Liontrust India Fund

Q2 2022 review

Fund manager: Ewan Thompson, assisted by Ruth Chambers

Over the second quarter, the Liontrust India Fund returned -5.5%, versus the MSCI India Index's -6.4% and the IA India return of -5.6%*^.

The second quarter of 2022 continued to see considerable market volatility and saw losses from the first quarter extended. The global economic backdrop remains challenging, as central banks continue to attempt to rein in resurgent rates of inflation. As price indices continue to climb worldwide, so too have expectations of higher interest rates. The ongoing conflict in Ukraine has, moreover, led to sustained high prices in oil prices and agricultural commodities, with crude oil averaging above $110 per barrel over the quarter (and above $100 for the year). Having initiated a tightening cycle in March with a 25 basis point rate increase, the US Federal Reserve followed up with further significant increases of 50 basis points in May and 75 basis points in June, taking the benchmark rate back to pre-Covid levels.

Given the significant macro headwinds, global markets declined in unison, making this on many measures the worst first half for equities in 50 years. With such a toxic backdrop of higher yields, a substantially higher US dollar and sharply negative markets, one would have expected emerging markets to underperform developed market peers, however the reverse was true, with the MSCI Emerging Markets Index falling 12.4% (US dollar terms) against MSCI World at -16.6%. Among emerging market peers, India's performance was generally in line with the average, though a resilient first quarter leaves India as a solid outperformer within the asset class over the first six months of the year.

Indeed, India in many ways continues to buck the global economic trend, with underlying growth remaining solid, illustrated by ongoing robust tax collections, supporting the government's fiscal position. As elsewhere, it is also a reality in India that inflationary pressures are continuing to build and requiring policy interventions to cool price increases – indeed the Reserve Bank of India increased the benchmark interest rate in both May and June by a combined 90 basis points. However, whilst inflation remains somewhat elevated, we have not seen the level of disruption in India – where inflation rates that are ordinarily around 5% have risen to 7% – that we have seen in the Western world, where we have seen a major shock as inflation rates have spiked from near-zero to near double-digit levels.

Moreover this cycle, emerging market central banks – including the Reserve Bank of India – have kept ahead of the curve by maintaining interest rates at higher levels in recent years meaning India has not had negative real interest rates that are now sharply normalising. As an agricultural economy India is a major producer of rice, sugar and wheat, so price pressures have predominantly been found in energy prices. In this regard, the removal of energy subsidies over the last decade has been enormously supportive of India's ability to cope with such elevated energy prices. Nevertheless, over the quarter we did see numerous interventions from policy makers to offer relief from price pressures − including a windfall tax on domestic crude production and export duties on key commodities such as refined products.

Over the second quarter the Liontrust India Fund outperformed, returning -5.5% against a benchmark return of -6.4%, leaving the Fund in the first quartile of peers over both 1 and 3 years. The outperformance was driven primarily by stock selection − where notable examples included the position in Varun Beverages, a producer and distributor of Pepsi products in India for which the opening up of the economy and elevated temperatures have supported a rigorous earnings recovery, as well as JB Chemicals & Pharma, which continues to outperform its peers in terms of growth through a tight focus on niche and profitable market segments and brand development.

The Fund did experience a degree of performance drag early in the quarter from low exposure to the consumer discretionary sector, where we are now beginning to see a recovery in the auto sector. Indeed, the Fund initiated positions in tractor manufacturer Mahindra & Mahindra, commercial vehicle player Ashok Leyland and in auto company Maruti Suzuki. Having been subdued for a number of years we are now seeing rural consumption rates begin to recover, supported by higher agricultural prices and a revival in the domestic property market, supporting the income of rural construction workers.

We continue to believe India remains well placed in a global context. The domestic mood is positive across the corporate spectrum and the March state elections − successful for the incumbent BJP − underscored the reality of unprecedented political stability and ensures that policy stability continues. Moreover, the one criticism levelled at the Indian market at the end of 2021 − after a spectacular year of performance − was that valuations were too extended, yet now as markets have corrected, the market P/E is now back average levels.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust India C Acc GBP	7.5%	55.8%	-21.9%	-4.1%	-0.7%
MSCI India	8.3%	39.8%	-14.6%	12.0%	4.8%
IA India/Indian Subcontinent	4.3%	40.2%	-14.8%	4.7%	3.8%
Quartile	1	1	4	4	4

***Source: FE Analytics as at 30.06.22**

****Source: FE Analytics as at 30.06.22. Quartiles were generated on 06.07.22**

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.