Liontrust India Fund

Q3 2023 review

Fund manager: Ewan Thompson, assisted by Ruth Chambers and Thomas Smith

Over the quarter, the Liontrust India Fund returned 7.6%, compared with the MSCI India Index return of 7.0% and the 7.1% average return in the IA India sector*.

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. Against this somewhat troubled backdrop, India remained a standout market - significantly outperforming both developed and emerging market peers, recording a return of 7.0%.

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. Consumption - especially at the higher end - remains robust, underpinned by strong corporate earnings. Although inflation, as everywhere, has been somewhat elevated, it has remained within a similar range to recent history. The third quarter saw a temporary spike in food inflations due to elevated vegetable prices, but recent data has seen these adverse effects moderating. The degree to which India has managed to shake off higher oil prices over the quarter reveals the decreased fiscal link between energy prices and government accounts - the steady removal of fuel subsidy regimes in recent years as reduced the negative impact of higher energy costs, previously one of India's weakest links.

The Indian market was led primarily by domestically driven sectors such as industrials, healthcare & consumer discretionary, where earnings have been especially strong. Indeed, these sectors were the most significant positive contributors to outperformance for the Fund. In healthcare, mid-cap pharmaceutical manufacturer JB Chemicals & Pharma was an especially strong performer delivering consistently better than market growth rates and bolstering margins through improvement in sales mix. Hospital players KIMS and Medanta delivered strong returns in the hospital sector where occupancy rates remain high given the huge structural deficit in private hospital beds relative to demand. In industrials, Larsen & Toubro continued to record robust order flow across segments, demonstrating the depth of the investment revival within India. Other positive contributions came from KEI, a wires & cables manufacturer benefiting from capital expenditure across both infrastructure projects and the wider housing market. Property stocks also continued to perform well driven by the extremely positive market background, with the premium end of the market proving especially robust.

Elsewhere, the hitherto strongly performing financial sector underperformed the wider market, albeit delivering positive absolute returns, as expectations of a peak in margins weighed on performance marginally. Moreover, the continued underperformance of large-cap HDFC Bank weighed on the sector, following its merger with mortgage lender HDFC Limited, which was completed in the quarter.

The Fund is comfortably ahead of the benchmark and peer funds over both 1 and 3 years and sits in the top quartile of funds over 3 years. New stocks over the quarter included on-line delivery player Zomato, which is nearing profitability as it gains market share and focuses on margin expansion, and electricity transmission company Power Grid, a beneficiary of ongoing investment in power capital expenditure, especially as renewable energy projects come on stream requiring grid connection. These positions were funded through a further reduction in weight to consumer staples, where the consumer recovery at the lower end has been more anaemic and concerns over El Nino weather conditions affecting planting season has weighed on expectations for farm incomes. The position in Godrej Properties was removed to reduce the somewhat sizeable overweight position in the real estate sector. Given the Indian interest rate cycle is closely aligned with the US Federal Reserve's and there is a chance of "higher for longer" there, a reduction in the size of the real estate overweight was warranted given the high rate sensitivity of these companies.

We remain very positive on the outlook for India over the coming year and over the coming decade as the country shifts towards upper-middle income status. Already the largest country by population, the economy is on track to become the world's third largest after the US and China in the next few years. India is currently enjoying a cyclical recovery in conjunction with a structural investment cycle after a decade of low investment working off the previous cycle, leaving the economy in excellent condition with very low corporate and consumer debt as well as robust macro-economic fundamentals.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust India C Acc GBP	5.2%	4.0%	59.3%	-4.1%	-2.0%
MSCI India	0.7%	8.8%	46.8%	-4.2%	10.8%
IA India/Indian Subcontinent	3.0%	5.8%	48.6%	-7.3%	11.3%
Quartile	2	3	1	1	4

***Source: FE Analytics as at 30.09.23**
****Source: FE Analytics as at 30.09.23. Quartiles were 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

This document is issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

It should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. The investment being promoted is for units in a fund, not directly in the underlying assets.

The document contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty is given, whether express or implied, by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified.

This is a marketing communication. Before making an investment, you should read the relevant Prospectus and the Key Investor Information Document (KIID) and/or PRIIP/KID, which provide full product details including investment charges and risks. These documents can be obtained, free of charge, from www.liontrust.co.uk or direct from Liontrust. If you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.