

Global Fundamental

Q1 2024 Review

Liontrust Emerging Markets Fund



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The Liontrust Emerging Markets Fund returned 8.6% over the quarter, compared with the 3.3% return from the MSCI Emerging Markets Index comparator benchmark and the 3.4% average return from the IA Global Emerging Markets sector, also a comparator benchmark*.

Emerging markets performed well in Q1, continuing a steady rally seen since the final quarter of 2022. The move upwards tracked wider moves in global equities, which moved up in tandem despite the backdrop of steadily rising oil prices and bond yields. Oil prices moved up from a low of \$73 in mid-December to over \$90 in early April due to ongoing tensions in the Middle East as Israel's military campaign against Hamas in Gaza periodically threatens to break out into wider conflict. The US, a key supplier of crude, has also seen supply disruptions, and demand has remained robust. Rising commodity prices, as well as sticky growth and inflation data in the US has seen market expectations of interest rate cuts from the US Federal Reserve dramatically reversed. As the US dollar and yields have rebounded, this has put pressure on emerging market currencies, with all falling against the dollar through the quarter. This led emerging markets to underperform developed markets despite strong local-market performance.

In a year of a significant number of elections, the first quarter saw two key events, namely polls in Taiwan (January) and Indonesia (February). In Taiwan, Lai Ching-te of the Democratic Progress Party (DPP) won the presidential election against the Kuomintang (KMT) challenger Hou Yu-ih, as was widely predicted by pre-election polling. The election ensured the status quo in Taiwan prevailed and the market duly moved on, driven by the ongoing tech upcycle led by optimism surrounding the growth and practical applications of artificial intelligence. Taiwan was consequently one of the best performing markets over the quarter. In Indonesia, again the status quo was upheld when Prabowo Subianto won the presidential election, having been endorsed by the incumbent Joko Widodo (widely known as Jokowi), who was ineligible to run again but remains popular and influential in Indonesia. As with Taiwan, markets were unruffled by the election and continued to move upwards, though Indonesia saw a degree of selling pressure at the end of the quarter due to currency pressures created by rising bond yields.

While India's election will be a key feature of the current (second) quarter, February saw the release of the Interim Budget, an opportunity for the ruling BJP party to set out its store for a potential third term. The budget was notable for its fiscal restraint, while also continuing to support investment in infrastructure. There were no pre-election populist measures and therefore it was well received and India's government bond yields fell. The Indian rupee has been notably stable during this recent phase of emerging market FX weakness, a testament to the strong work carried about by the RBI and the significant macro-economic repair work carried about by the Modi administration since taking office. India was again one of the strongest performing markets, only a shade behind Taiwan. Weaker markets were mainly those suffering on the back of a stronger dollar and delayed interest rate cuts – most notably Brazil, as well as South-East Asian markets such as Thailand.

The Liontrust Emerging Markets Fund had a very strong quarter, performing significantly ahead of the benchmark and the peer group. The Fund sits in the top quartile of peers over the quarter as well as over the past 12 months. The outperformance was primarily driven by strong stock selection across markets such as China, Indonesia, Brazil, Taiwan & the Philippines. India, however, was the single largest positive contribution over the quarter. **Finolex Industries**, a producer of PVC pipes for industrial and residential usage, enjoyed a robust quarter as demand remains strong across end uses, supported by ongoing strong infrastructure investment from the government. In the healthcare sector, **Max Hospitals** also recorded strong returns as utilisation rates continue to run at elevated levels and more complex case mix is driving average revenue per bed higher. In China, where markets initially struggled but gradually recovered thanks to ongoing policy actions to support the economy, the Fund's holding in **Trip.com** performed especially well, driven by an ongoing recovery in domestic travel following the emergence from draconian lockdowns in late 2022. The stock is also supported by a second leg of recovery in the form of international travel, where the company is dominant, as airline routes abroad slowly normalise.

In terms of changes over the quarter, the Fund increased the allocation to stocks in Korea, where growing attention on the extreme valuation discount of the market from the government has led to a so-called Value-Up programme, modelled to a degree on in a similar program seen in Japan. The programme aims to encourage companies with below-1x price-to-book valuations to take steps such as cancelling treasury shares, increasing dividend payout ratios and disentangling complex corporate ownership structures that are common in Korea. Positions were initiated in **Shinhan**, a bank where we see a notable capacity for increase in payout ratios to shareholders, and in **Samsung C&T**, the parent company of Samsung Electronics. To fund these purchases, profits were taken in **Samsonite**, where we felt the lion's share of Asian travel recovery had been priced in, and also in **Vale** in Brazil, where sluggish iron ore prices continued to weigh on the investment case.

The outlook for emerging markets remains bright, ranging from structural opportunities such as Taiwan technology and Indian domestic growth, to the emerging cyclical recovery in economic heavyweight China. The emerging market complex has remained remarkably strong given the rapid rise in interest rates in recent years, and although rate cuts have been pushed back, when they do come through this will be a significant boon to emerging markets and their currencies.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust Emerging Markets C Acc GBP	12.9%	-10.5%	-12.3%	47.7%	-16.2%
MSCI Emerging Markets	5.9%	-4.9%	-7.1%	42.3%	-13.5%
IA Global Emerging Markets	6.0%	-4.4%	-8.7%	46.8%	-15.4%
Quartile	1	4	3	2	3

*Source: FE Analytics, as at 31.03.24, 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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