

# Global Fundamental

## Q1 2024 Review

### Liontrust India Fund



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Over the quarter, the Liontrust India Fund returned 8.9%, outperforming the MSCI India Index return of 7.0% and the 5.2% average return in the IA India sector (both of which are comparator benchmarks)\*.

The first quarter of 2024 saw Indian markets continue to climb higher, having enjoyed a very strong 2023. 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 bond yields have rebounded, this has put pressure on emerging market currencies, with almost all falling against the dollar through the quarter. Happily, India was the key exception to this rule, with the currency holding steady, underscoring the strong macro-economic health fostered by the Modi administration and central bank.

With elections round the corner in the second quarter, all eyes were on the Interim Budget released on 1 February. The budget, just months before the election, was an opportunity for the incumbent BJP government to set out its store for a potential third term. Consequently, the document underscored the robust trend in government capital expenditure, focusing in particular on infrastructure projects. At the margin, the slight trimming of investment growth rates also revealed the importance of macroeconomic stewardship, with fiscal deficit targets being met across the board and even revised down for the following year. The budget was well-received by markets, reassured by the fiscal probity and lack of populist pre-election measures. Bond yields therefore fell, and this fiscal restraint alongside rising FX reserves supported the currency against selling pressure due the stronger dollar. Going into the general election, it was a statement of confidence from the BJP and indeed the party is widely expected to win an historic third successive term.

Sector performance continued to be weighted towards strong performance from areas tied to the cyclical investment recovery seen in India in the post-Covid period. Industrial stocks and consumer discretionary led the

way, alongside commodity sectors, buoyed by higher underlying prices of oil and base metals. On the flip side, the weaker areas of the market were those linked to rural incomes such as consumer staples, which have seen weaker demand and also margin compression from higher input prices. The IT services sector has also seen underperformance as end demand in key markets such as the US and Europe remains cautious and IT budgets are cut back.

The Liontrust India Fund continued to perform well over the quarter, ahead of the benchmark and well ahead of peers in the IA India sector. The Fund is in the top quartile of peers for the quarter, as well as over one and three years. Key drivers of performance were holdings in the healthcare, industrials, consumer and real estate sectors. In the healthcare sector, hospital stocks **Max Hospitals** and **Medanta** recorded strong returns as utilisation rates continue to run at elevated levels and more complex case mix drives average revenue per bed higher. The Fund's exposure to industrial capex also paid dividends as growth activity remained at elevated levels throughout the quarter, with air-conditioning and refrigeration systems producer **Blue Star** rallying strongly, along with **Thermax**, a manufacturer of boilers and generators. In the otherwise weak consumer staples sector, the position in **Varun Beverages** stood out as it continued to expand its distribution channels and display product innovation, leading it to strongly outperform the wider sector.

A number of new positions were initiated during the quarter, including **Bajaj Auto**, manufacturer of two-wheeler vehicles, where we see a strong inflection point in volumes, with the segment having significantly lagged four-wheelers in recent years. The position was funded by taking profits in **Mahindra & Mahindra**, an auto producer focussing on four-wheeler vehicles, including tractors. On the infrastructure side, a position was added in **Adani Ports** and **SEZ**, the operator of the world-class Mundra port in North-West India, which is seeing a robust increase in volumes as India's manufacturing renaissance takes hold. The position in mega-cap **Reliance** was also taken from underweight to neutral given expectations of an ongoing re-rating as the company exits a heavy investment phase and sees rising cash flow generation and consequent decrease in leverage. This becomes the largest single holding in the portfolio. Profits were taken in the real estate sector, where performance has been exceptional and valuations have become somewhat elevated, although the medium-to-long-term outlook for the sector remains extremely positive. The position in **Prestige Estates** was therefore sold.

The outlook for India remains as positive as ever for this year as well as over the coming decade. In the short-term the most important catalyst for the market will be the general election, a huge undertaking across India throughout April and May. Modi and the BJP are expected to win by polls, but the size of the seat count will be critical for assessing the size of a mandate for a third term and there of course remains the possibility of profit taking in the short term should market expectations not be completely met. We would emphatically view any such sell-off as a clear long-term buying opportunity for what is the key stand-out global investment opportunity over the coming decade.

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

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust India C Acc GBP	37.9%	-3.0%	22.5%	77.2%	-37.8%
MSCI India	33.9%	-6.5%	23.5%	58.5%	-27.3%
IA India/Indian Subcontinent	30.9%	-4.1%	18.7%	55.4%	-26.7%
Quartile	1	2	1	1	4

\*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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