

Global Equities

Q2 2024 review



Liontrust India Fund



Ewan Thompson
Fund Manager



Thomas Smith
Fund Manager



Ruth Chambers
Fund Manager

Over the quarter, the Liontrust India Fund returned 9.1%, versus the MSCI India Index return of 10.1% and the 10.6% average return in the IA India sector (both of which are comparator benchmarks)*.

Market review

The second quarter saw Indian markets continue their push higher, further extending the emphatic bull market that began in March 2020 after an initial Covid-driven global sell-off. Since that point, the MSCI India Index has returned 229%, outperforming both developed and emerging markets by significant margins, while also comfortably beating returns from the S&P 500 and even the tech-fuelled Nasdaq. Over the quarter, MSCI India further added to this outperformance with a return of 10.1% against the MSCI All-Country World Index return of 2.8%.

Clearly, the quarter was dominated by the run-up to and results of the general election, which concluded in the first week of June. The key concern for the market going into the election was the probability of an historic third term for incumbent prime minister Narendra Modi, who – along with his BJP Party – has led a reform-heavy and market-friendly two terms of single-party government. Therefore, the election was essentially an issue of whether there would be policy continuity in India or a sharp turn towards the unknown with the rival I.N.D.I.A. led by the Congress Party. In the end, the result was indeed a third term for Modi, with the BJP coming in as the largest party and with alliance partners (forming the NDA grouping) a clear majority to form a government. However, there was an element of surprise in the result with the margin of victory being much smaller than anticipated by exit polls, which had suggested a Modi landslide.

Despite some initial volatility, the market subsequently pushed higher, buoyed by the realisation that policy direction would largely be unchanged and by the appointment of cabinet positions that kept key ministries under the control of the BJP and in most cases with no change in personnel at all. There is some expectation that policy will need to shift at the margin to favour rural voters, whose incomes have lagged in the economic recovery of recent years, especially given key state elections are on the horizon in which the BJP will look to sure up this core

section of their vote. There will also be a need to keep coalition partners in Andhra Pradesh and Bihar happy, leading to increased fiscal spending in these target areas.

A key event to watch will be the first full budget of the administration later in July, where the spending priorities of the government will be set out. Inflation has continued to fall, safely into the central bank's comfort zone and creating increasing room for interest rate cuts. However, timing of cuts will remain dependent on the US Federal Reserve.

Given the policy continuity expected of and delivered by the election, the market focus in the quarter was on sectors benefitting from ongoing capital investment by both the government and private companies – namely industrials, materials and consumer discretionary. At the opposite end of the spectrum, underperforming sectors included more defensive segments of the market such as healthcare, IT services and consumer staples. Economic policy in recent years has been targeted at the build out of both physical and digital infrastructure in order to modernise the Indian economy and boost the manufacturing sector in order to gain share of the global supply chain.

Portfolio performance and trade activity

The Fund's top performing positions largely came from those sectors – mentioned above – experiencing strength associated with the election result. Companies such as **Titagargh Rail Systems** (a manufacturer of railway wagons), **Thermax** (boilers and turbines) and **Blue Star** (air conditioning) performing particularly well in the industrials sector. Other key performers included **JSW Energy** – a private power generation company – and **PB Fintech**, a platform offering price comparison services in the insurance sector. Finally, private sector banks improved their performance, which has lagged in recent months, thanks to attractive valuations and foreign investor buying, boosting portfolio holdings in **ICICI Bank** and **Axis Bank**. While the Fund marginally underperformed its benchmark in Q2, over the first half of 2024 it has outperformed both market and peer group. The Fund is first quartile year to date as well as over one and three years.

Changes in the portfolio during the quarter included additions in the industrials sector, with the purchase of the above-mentioned **Titagargh Rail Systems** as well as engineering and electrical manufacturing player **Siemens** and road-builder **IRB Infrastructure**. A position was also initiated in cement producer **Ultratech**, where we expect prices to improve due to both ongoing demand and the ongoing rationalisation of the industry around dominant players such as Ultratech. The Fund also moved to increase position sizes in the private bank sector, in particular adding to significant underperformer **HDFC Bank** and also **Axis Bank**. These additions were largely funded from reducing weightings to stocks in the healthcare and IT sectors, including taking profits in **Sun Pharma**.

Outlook

We believe the outlook for domestic Indian growth is exceptional. Foreign investors have not been a driving force in the considerable strength of the Indian stock market in recent years, which is encouraging for the market outlook now that the uncertainty of the election is out of the way. India remains by a clear margin the fastest growing major global economy, translating into a pronounced earnings growth premium relative to peers. We believe that the scale and pace of India's growth trajectory has the capacity to be transformative on a global level over the next decade and beyond and remains significantly under allocated as a proportion of global investor portfolios.

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust India C Acc GBP	37.7%	12.2%	7.5%	55.8%	-21.9%
MSCI India	35.1%	9.0%	8.3%	39.8%	-14.6%
IA India/Indian Subcontinent	31.8%	11.6%	4.3%	40.2%	-14.8%
Quartile	1	2	1	1	4

*Source: FE Analytics, as at 30.06.24, 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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