Royal London Multi Asset Strategies Fund

Quarterly Report 30 June 2022

Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q2 2022	**-3.85**	**-3.86**
Year-to-date	-4.98	-4.99
Rolling 12 months	-3.45	-3.52
3 years p.a.	-0.26	-0.24
Since Inception p.a.	0.90	0.92

Fund data

	Fund
Fund size	£208.4m
Launch date	23.11.2018

Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: RLAM, based on the M share classes. Performance for the fund is calculated on a mid basis with income re-invested. All performance figures stated gross of fees and tax unless otherwise stated.

Reported yields reflect RLAM's current perception of market conventions around timing of bond cash flows. Heightened uncertainty due to the COVID 19 crisis may impact these timings for bonds with callable feature.

Investment approach

- The Royal London Multi Asset Strategies Fund (MAST) is designed for investors looking to generate growth, over five-year rolling periods, through a diversified multi asset portfolio, while limiting losses during periods of financial market turbulence. MAST combines two complementary return drivers, each with its own separate in-built risk controls:
  1. Multi Asset Core portfolio strategies, which offer diversified exposure across a range of asset classes to capture upside during positive market trends; and
  2. Tactical asset allocation (TAA) strategies designed to generate additional return irrespective of market direction.
- Our TAA approach can reduce exposure to growth-sensitive assets as economic and market conditions deteriorate, and therefore works well alongside the Multi Asset Core portfolio, which we expect to add more value in bull markets. The combined approach is designed to generate consistent returns, over five-year rolling periods, while also being able to take advantage of opportunities as they arise.

Market performance

- Inflation has been the headline macroeconomic market influence over the quarter. Sharp increases in energy and commodity prices, following the invasion of Ukraine, have added to supply chain pressures seen as the global economy continued to emerge from its Covid-induced slowdown of 2020 and recovery began in 2021.
- High inflation will continue to be a focus with the cost-of-living squeeze that households are facing. Other inflationary factors are also at play, such as supply chain disruption from Covid lockdowns in China, tight labour markets and potentially high wage inflation.
- Central banks have responded to rising inflation by tightening monetary policy and indicating that there is more interest rate increase to come. The US Federal Reserve (Fed) has led the way, increasing rates by 1.25% over the quarter – its clear trajectory has led markets to price in a further 2% of hikes in 2022. The European Central Bank (ECB) was less aggressive but confirmed that it will end its bond buying programme in July and signalled that a 25bps hike in July and another 50bps in September will both be possible. The Bank of England (BoE) has increased rates by 25bps at every meeting since December 2021 and this continued through the quarter, with the fifth consecutive increase in June taking the UK base rate to 1.25%.
- Global Covid case numbers increased towards the end of the quarter. President Xi reiterated that China's zero tolerance approach was the most "economic and effective" policy. ONS data showed rates of infection in the UK nations have risen to around 4% (people testing positive for Covid) in the week ending 24 June but death rates remain low in a vaccinated population.
- Equities struggled as interest rate expectations rose and investors factored in the possibility of a Fed-induced recession in the next six to 12 months. As a result, the first half of 2022 was the worst start to a year for US equities since 1970. For the second quarter the FTSE-All Share and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned -5.0% and -15.5% to sterling investors, respectively. Energy again led the MSCI World sector returns (+2.6%), with consumer staples, healthcare and utilities the only other sectors

with positive returns (+1.2%, +0.3% and +0.1%, respectively). Consumer discretionary (-17.7%), technology (-15.5%) and materials (-13.25%) were the weakest sectors.

- Bond market returns were hit hard in the period, as rising interest rates drove government bond yields higher globally (prices move inversely to yields): the UK's benchmark 10-year gilt yield rose by 62bps to 2.23%; the 10-year US treasury yield rose by 67bps to 3.01%; and the 10-year German bund yield rose by 78bps to 1.34%. Longer-dated bonds performed worst in the period due to their greater sensitivity to interest rates (known as duration risk). In the UK, for example, gilt markets returned -7.42% on an all-maturities basis (FTSE Actuaries), whereas gilts with 5 years to maturity or less provided negative returns of just -0.76%.
- Currency swings were notable in the quarter, following the volatility of the first quarter. The sharp rise in US interest rate expectations meant that the US dollar was the strongest global currency: it appreciated significantly against the Swiss franc, euro and sterling, and rose over 11% against the yen. These movements will impact global trade and overseas earnings over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in dollars. Commodities fell 5.7% over the quarter, in dollar terms, on fears of recession and renewed Covid restrictions in China. This was driven by base metals, with copper futures falling 21.9%. Oil prices continued to rise, however, with price of brent crude oil rising by 6.4% to nearly $112 a barrel.

Fund commentary

- The second quarter saw MAST return -3.99% (net of fees) in a backdrop where global equities and gilts saw much larger falls. On a rolling 12-month basis, the fund posted returns of -5.25%.
- MAST aims to capture upside in positive market trends, while limiting downside during periods of market turbulence like this through diversification, active positioning, and volatility management.
- MAST's resilience over this period is due to three factors, a broadly diversified core portfolio, a positive tactical asset allocation contribution and, crucially, on-going risk management actions to reduce equity exposure that started ahead of the invasion of Ukraine earlier on this year.

Multi Asset Core strategies

- Multi Asset Core strategies aim to benefit from positive market trends, while reducing exposure to risk assets during market turbulence.
- We started to reduce equity exposure just before the invasion of Ukraine in February this year and continued to cut exposures as volatility rose. The fund began the quarter with an aggregate 30% equity exposure. As policy tightening led to increased recession fears, volatility rose, and we reduced equity exposure in the fund to a low of 19.5%. As market volatility begun to normalise the fund increased its equity exposure from these lows. This saw the fund's overall equity exposure return to 26% as at the end of the quarter.
- Recession risk remains and markets continue to exhibit high levels of volatility, we continue to monitor events and market behaviour on a daily basis. This helps us keep volatility, and the potential for loss, under control while being attuned to the potential for a rapid market recovery.

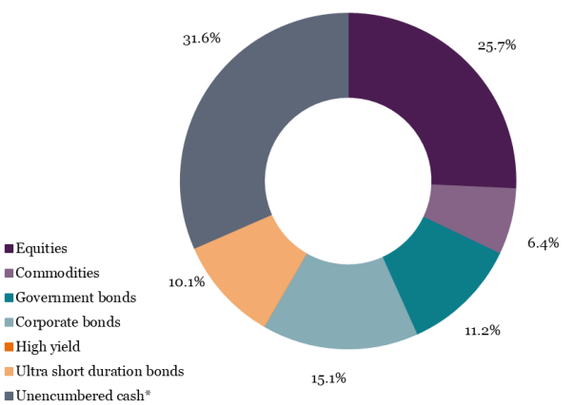
Tactical asset allocation strategies

- Tactical asset allocation strategies build on the core portfolio and operate within a separate risk budget. We take an active approach to tactical asset allocation with a view to adding value irrespective of market direction and continue to see opportunities in relative value trades within and between the broad range of asset classes at our disposal.
- We retained lower exposure to equities over the quarter, owing to the unfavourable macro environment. We then increased equity positions later in the quarter as markets continued to dip and we judged investor sentiment to be at overly bearish levels. Within equities we favoured defensive stocks over growth stocks.
- We remained positive on UK, given its sectoral composition and improving relative earnings picture. We maintained exposure to Japan, which benefitted from a weaker currency. We reduced positions in US equities which have struggled this year given higher exposure to expensive growth stocks (tech).
- We had a reduced position in bonds over the quarter but added over June, taking profits, as weaker economic data pointed to rising recessionary risk.
- We retained a positive stance in-commodities at the start of the quarter before, taking some profits-towards the end of the quarter as growth expectations began to weaken and commodity prices began to react.

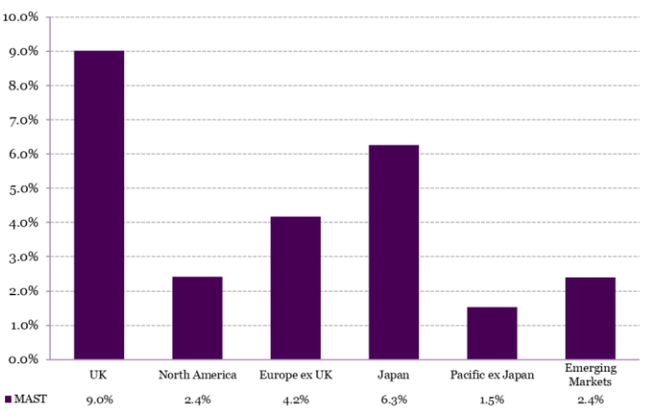
Market outlook

- The Investment Clock has been in Stagflation for the last nine months, a stage of the cycle that is bad for both stocks and bonds with softer growth but inflation high. At some point, possibly quite soon if recent commodity price weakness persists, we may move into-the next stage of the cycle: bond-friendly Reflation if inflation expectations weaken. Stocks could see a second phase of their bear market driven by earnings downgrades, owing to recessions risks rising, with a long-term trough likely only when unemployment rates are close to peaking, which could still be a year or more away. Broad diversification, active tactical asset allocation and disciplined downside risk management will be key to navigate the bumpy road ahead.
- Please see our Investment Clock blog for our latest views.

Asset split



Regional equity split



Source: RLAM. 'Other' region includes global fixed income exposures, which are sterling hedged and commodity exposures. Figures calculated on a 'look through' basis, reflecting underlying assets, not fund component weights.
We take a holistic approach to fixed income management and fund weights relative to their respective benchmarks may not reflect tactical exposures. Figures calculated on a 'look through' basis, reflecting underlying assets, not fund component weights.
**Includes allocation to RL Short Term Money Market Fund R (Acc) and cash at margin account and excluding cash backing for Futures*

Ten largest holdings

	Asset type	Weighting (%)
RL Short-Term Money Market Fund	UK Fixed Income	17.1
RL Short Duration Gilts Fund	UK Fixed Income	11.1
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	11.0
RL Short Term Fixed Income Enhanced Fund	UK Fixed Income	11.0
Invesco Bloomberg Commodity UCITS ETF	Commodities	5.9
RL Emerging Markets ESG Leaders Equity Tracker	Overseas Equities	5.5
RL UK Government Bond Fund	UK Fixed Income	5.5
RL UK Core Equity Tilt Fund	UK Equities	5.4
RL Asia Pacific ex Japan Equity Tilt Fund	Overseas Equities	5.4
RL Japan Equity Tilt Fund	Overseas Equities	5.4
Total		**83.2**

Source: RLAM. Information as at 30 June 2022 and correct at that date, unless otherwise stated. Figures exclude derivatives where held, subject to rounding.

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