Royal London Multi Asset Strategies Fund

Quarterly Report 30 September 2022

Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q3 2022	**-1.78**	**-1.75**
Year-to-date	-6.67	-6.65
Rolling 12 months	-5.93	-5.90
3 years p.a.	-1.25	-1.21
Since Inception p.a.	0.37	0.40

Fund data

	Fund
Fund size	£206.5m
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. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces your return.

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

- The key themes of central banks trying to contain high inflation and the cost-of-living squeeze that households are facing will continue to be a focus. However, the pressures are by no means confined to energy. Others inflationary factors are also at play, such as supply chain disruption from COVID lockdowns in China, tight labour markets and sharp rises in many agricultural products feeding through into food prices.
- The MSCI World Index returned 2.2% to sterling investors in the third quarter. Energy stocks led advances over the quarter, while communication services and real estate detracted. Weaker sterling offset losses in global equities which struggled on rising interest rate expectations and recession fears.
- The UK gilt market was the worst performing major government bond market over the quarter, delivering a return of -12.85% as the benchmark 10-year gilt yield rose by 186 basis points (bps) from 2.23% to 4.09%. However, all major government bond markets were impacted as the ongoing interest rate rises and hawkish commentary from central banks drove bond yields higher globally (prices move inversely to yields): the 10-year US treasury yield rose by 82bps to 3.83%; and the 10-year German bund yield rose by 77bps to 2.11%. Longer-dated bonds performed worst in the period due to their greater sensitivity to interest rates (duration risk). In the UK, for example, gilts with five years to maturity or less provided negative returns of just -4.93%, whereas the 15 years or more to maturity segment returned -18.77%.
- Currency movements had a notable impact in the quarter, following the volatility in the first half of the year. The Fed's more aggressive approach to raising interest rates compared to other central banks has pushed the dollar higher. It was again the strongest major currency: it appreciated by over 6% against the yen and euro, and over 8% against sterling. On a translational basis, sterling's weakness benefits sterling investors in overseas assets as it boosts the returns over the quarter. However, these movements will impact global trade over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in dollars. The price of Brent

crude oil fell by 16.9%, but remains over $90 a barrel, and copper futures fell another 8.0% in dollar terms on fears of a slowdown in China and recession in the US, UK and Europe.

Fund commentary

- The third quarter saw MAST return -1.92% (M Acc share class, net of fees) in a backdrop where global equities returned 2.2% in sterling terms and Gilts returned -12.85%. On a rolling 12-month basis, the fund posted returns of -6.44%.
- 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 have maintained a reduced exposure to the asset this year as volatility has remained high. The fund began the third quarter with an aggregate 23% equity exposure. As policy tightening, recession fears and panic around the unveiling of the UK government fiscal plans sent volatility higher, we further reduced our equity exposure, to end the quarter at 16.5%.
- Whilst 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 ensure volatility, and the potential for loss, are controlled while being attuned to the potential for a rapid market recovery.

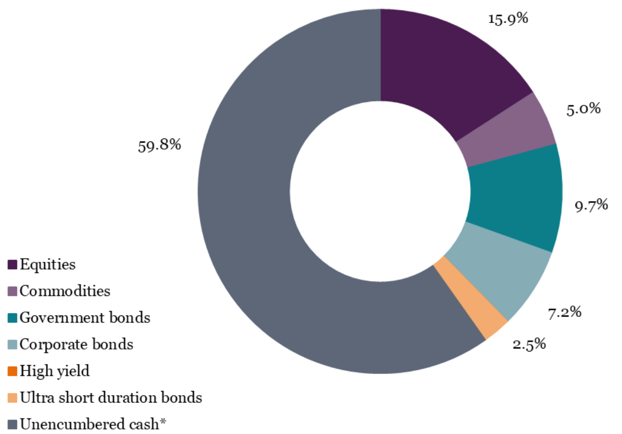
Tactical asset allocation strategies

- 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 increased our underweight position in stocks, given the lacklustre macro-outlook, maintaining our preference for more defensive stocks, whilst remaining underweight growth sectors. This proved to be beneficial as stocks slumped over the month of September.
- We remained positive on UK, given its sectoral composition, and the improving relative earnings picture. We also maintained our positive exposure to Japan, which benefitted from a weaker currency. We remained underweight the US and emerging markets, which proved beneficial as US stocks led the broader market sell-off, experiencing their worst September in over 50 years.
- With inflation high and central banks tightening policy, we remained underweight bonds, expecting yields to rise. This proved to be beneficial as bonds continued to fall as markets reacted to the unveiling of the UK governments fiscal plans and commentary from central banks added to expectations that central banks will need to continue raising interest rates.

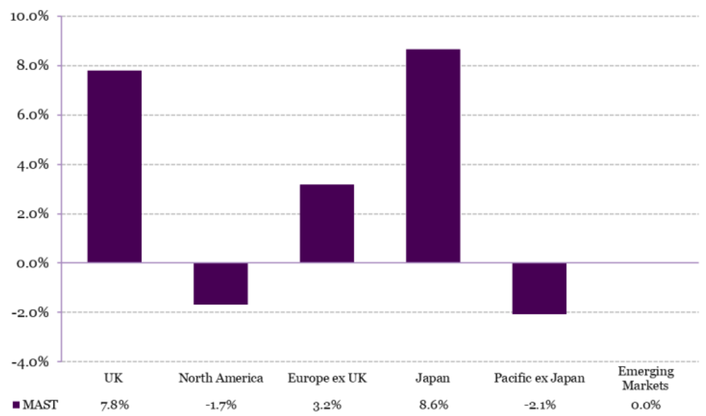
Market outlook

- The Investment Clock has been in Stagflation (weak growth with high inflation) for the last year but it's likely to move to Reflation as inflation peaks (assuming no further inflationary shocks to the world economy). After sharp falls in stocks and bonds, we see opportunities to begin to think about adding having benefited from being underweight. We would not be surprised by second phase of the bear market driven by earnings downgrades given weak global growth. The trough in the markets is usually marked by unemployment rates peaking, which could still be some time away.

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	33.4
RL Short Duration Gilts Fund	UK Fixed Income	11.8
UK Treasury 0.125% 2023	UK Fixed Income	7.4
RL Japan Equity Tilt Fund	Overseas Equities	6.0
Invesco Bloomberg Commodity UCITS ETF	Commodities	6.0
RL US Equity Tilt Fund	Overseas Equities	6.0
RL Emerging Markets ESG Leaders Equity Tracker	Overseas Equities	5.9
RL Europe ex UK Equity Tilt Fund	Overseas Equities	5.8
RL UK Government Bond Fund	UK Fixed Income	5.8
RL Asia Pacific ex Japan Equity Tilt Fund	Overseas Equities	5.8
Total		**93.9**

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

Additional information

- As we highlighted in our Annual Report, RLAM has ambitious targets for the next few years, notably in international growth as well as investment in infrastructure and people. This investment is to make sure that we continue to provide clients with the service they need and positioning us to for future regulation changes and market development.
- As part of that ambition, we are pleased to announce that we are moving to a new investment platform and have selected the industry leading 'Aladdin' platform. This decision has followed months of analysis and pre-implementation planning with the vendor BlackRock. Aladdin will help us improve our service offerings to our clients, as well as delivering operational efficiencies.

- As you would expect, implementation is an extended task, and the project is expected to complete in 2024, but we believe it is important to be transparent about such projects with our clients. Throughout the implementation, the project and management of your client portfolios will be closely monitored by our Board and Risk functions to ensure that this transition is achieved smoothly, and we will keep you updated on our progress. This is an important part of our long-term strategic goal to ensure that we continue to meet your needs today and into the future.

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