ROYAL LONDON MULTI ASSET STRATEGIES FUND

Quarterly Report 30 June 2021

For professional clients only, not suitable for retail investors

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Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q2 2021	**2.57**	**2.61**
Year-to-date	5.26	5.46
Rolling 12 months	11.32	11.52
Since Inception p.a.	2.62	2.68

Fund data

	Fund
Fund size	£203.0m
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

- The quarter began with further progress being made in reducing the spread of Covid-19, with the number of new cases falling and vaccine rollout programmes accelerating in most parts of the world, particularly in the US and Europe. A sharp rise in deaths in India and the importation of the 'Delta' variant from the country into the UK raised concerns about the potential for further waves and lockdowns. However, evidence that the vaccine has significantly reduced the link between case numbers and deaths grew during the period, supporting market confidence regarding the reopening of economies.
- Global economic data remained strong in the second quarter but concerns about inflation were strengthened by a particularly strong US CPI figure (a measure of US inflation) of 4.2% which sent jitters through global equity markets. The US Federal Reserve reassured markets that inflation would be transitory, and that they were not yet 'talking about talking about tapering'. However, the Federal Open Market Committee (FOMC) forecasts showed base rates forecast to be around 0.6% at the start of 2023, pricing in two 25bps rate rises during 2022. In comparison, March forecasts had predicted no rate rises over the same period. Meanwhile, in May, the Bank of England (BoE) began to taper its quantitative easing programme by slowing the pace of bond purchases – this had been expected by markets and had little impact on prices.
- The MSCI World Index posted healthy returns of 7.88% through the second quarter of 2021. Performance was strong throughout, although May was markedly more volatile. Regionally, Japan was the only market to post negative returns in sterling terms (-0.33%) while the US (8.9%) continued to lead major equity market returns, followed by Europe ex. UK (8.16%), the UK (5.81%), and Emerging Markets (5.08%).
- Growth returned as the main driver of performance in the quarter; the MSCI World Growth Index returned 10.94% for the quarter versus 4.9% for the MSCI World Value Index. The outperformance of growth was driven by the Information Technology sector, which grew by 10.6% in the quarter, leading global sector returns. Energy (9.6%) and Health Care (9.5%) were the next best performing sectors, while financials, the second strongest sector in the first quarter, was the sixth best of 11 MSCI sectors in the second quarter, providing returns of 6.42% to investors.
- Global government bonds were mixed in the quarter. The US led global markets with the 10-year US treasury yield falling by 27 basis points (bps) over the quarter to 1.47% (bond prices rise when yields fall), indicating easing concern about inflation and interest rates increases. The UK also performed well with the 10-year UK gilt yield falling by 13bps to 0.72%. Europe

was the laggard of major global markets; in Germany the 10-year bund was up by 9bps to -0.21% reflecting the slower EU vaccination programme leaving the European economy opening more slowly than the US and UK.

- The average sterling investment grade spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) ended the quarter 5bps tighter at 0.91%, while the sterling high yield spread ended 7bps tighter for the quarter with a spread of 1.5%. The Merrill Lynch Sterling Non-Gilt index delivered total returns of 1.71% for the quarter, while its sister Sterling High Yield Index returned 1.75% for the quarter, marginally outperforming gilts which returned 1.70% on an all maturities basis.
- The Brazilian real was the strongest currency in the quarter gaining 11.8% against the (US) dollar in the quarter, however major currencies were largely sedentary in comparison. The euro strengthened by 0.83% versus the dollar, while sterling saw no significant movement. The Australian dollar was the period's weakest currency, losing 1.61% against the USD for the quarter.
- Commodities extended their rally, leading cross-asset returns. Oil prices continued to recover strongly and were up 50% year-to-date, reaching their highest levels since October 2018 as the reopening trade sustained. The price of Brent crude oil rose by +18.2% to more than $76 a barrel in the quarter, while copper and gold also gained value; copper was up +7.2% for the quarter, and gold prices grew by 3.5% to $1,791/oz.

Fund commentary

- A strong second quarter saw MAST return +2.61% (income share-class) to investors. On a rolling 12-month basis, the fund posted returns of +11.32%, as markets recovered from March 2020 lows. The fund's recovery reflects the downside risk control measures that remained in place given the choppy nature of the rebound in 2020.
- MAST aims to capture upside in positive market trends, while limiting downside during periods of market turbulence through diversification, active positioning and volatility management After the strong performance of stocks in second half of 2020, we felt markets were likely to experience periods of greater volatility in the quarter, generated by the strong economic recovery which would lead to questions regarding the tapering of fiscal and monetary policy support to the global economy.
- In our back-testing of the strategy, we modelled what would have happened in various historical crises and found MAST usually returned to its high watermark in about a year or so; the fund has recovered from last year's declines and now remains just 2% away from its high water mark, helped by a recovery in markets and positive tactical asset allocation, particularly in regional equity and credit strategies. We remain confident in MAST's ability to deliver against its objective of returning an annualised return of 4% in excess of SONIA gross of fees over the next five years.
- As economies reopen further this year, we expect risk assets to continue their recovery, led by more cyclical assets. However, uncertainty regarding inflation, new virus variants and geopolitical risks remain, and hawkish turns in policy or extensions to lockdown could be challenging for risk assets given current valuations. However, MAST's disciplined approach to risk management should act to limit further losses should new strains of the virus or significant problems with vaccination programmes, for example, cause market volatility in the short term.

Multi Asset Core strategies

- Multi Asset Core strategies aim to benefit from positive market trends, while reducing exposure to risk assets during market turbulence in order to reduce downside risk
- We reduced equity exposure from a starting position of around 50% to a low of 7.5% in March last year in the crisis. The bulk of this reduction reflected risk management in the core portfolio as volatility surged. Exposure to equities fluctuated through 2020, reaching 27% in September, before falling back to 20% for the start of October amid a surge in Covid-19 infection rates globally. Exposure rose again through the final quarter of 2020 up to 33.5% at year-end as markets were buoyed by vaccine efficacy rates and approvals for use by medical agencies. We continued to add to equities in the first quarter when the fund's equity allocation hit 39% at its high point before settling at 37% at quarter end. In normal times, seasonality is observable with weaker markets typically in the summer months; given the strong bounce in equities over the last year, we have been taking profits into the summer but still maintain a constructive view; at the end of the second quarter we held a 32% allocation to the asset class.

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.

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- We maintain a constructive view on equities but are vigilant due to the potential for choppy summer markets when volumes are typically lower. Our strongest conviction position was in US stocks in the second quarter, while we also favoured the UK and Europe, as the global economic reopening continued owing to successful vaccine rollouts. We took small relative sector tilt positions, starting the quarter in favour of value-oriented sectors and with a bias towards Energy and Financials. As the quarter developed (and concerns about interest rates receded), we added to our Technology exposure. We retained a negative tilt in Consumer Discretionary, Consumer Staples and Utilities. We unwound our tilt to Japanese stocks which lagged global markets in the quarter and maintained a negative stance on emerging markets which also lagged.
- We maintained our allocation to high yield bonds in the period and still hold significant exposure, as we expect the asset class to be resilient over the medium term, given strong global growth and improving cash flows for companies. As the recovery in the real economy started to come through, particularly in industrial production in China, we remained constructive on commodities.
- We shrank currency positions as volatility rose in 2020, given uncertainty surrounding global growth prospects. Over the last quarter we remained relatively lightly positioned in currencies due to low interest rate dispersion. We moved in favour of the US dollar due to strong economic data and remain in favour of sterling. We also moved in favour of the euro after trimming exposure in the first quarter.
- US sector positions: during the crisis we were helped by our positive position in technology relative to hard hit industrials, materials and financials. As vaccines were approved, making a 2021 global economic recovery more likely, we tilted in favour of financials and energy which had lagged but should do well in a global recovery. We extended this tilt during the quarter as the robust economic bounce we are seeing globally is positive for these sectors. We tempered exposure to consumer discretionary and staples in the second quarter and began to build back exposure to technology into quarter-end, retaining a constructive view on the resilience of technology sector growth prospects.

Market outlook

- As economies reopen further this year, we expect risk assets to continue their recovery, led by more cyclical assets. However, uncertainty regarding inflation, new virus variants and geopolitical risks remain, and hawkish turns in policy or extensions to lockdown could be challenging for risk assets in the shorter term, given current valuations. Our tactical tilt towards equites and commodities added value over the period. We have taken some profits in equities but remain in favour of global high yield bonds rather than negative real yielding government bonds.
- Please see our www.InvestmentClock.co.uk site for current views.

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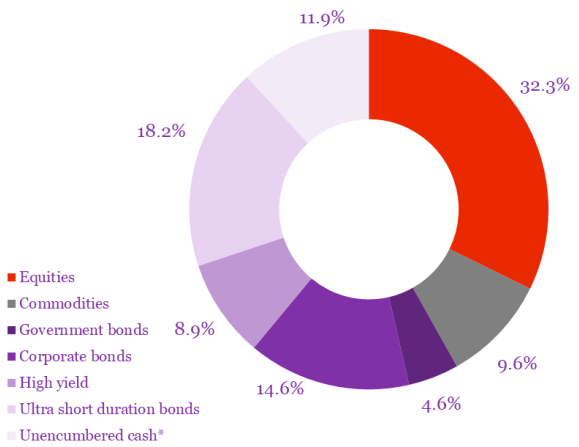
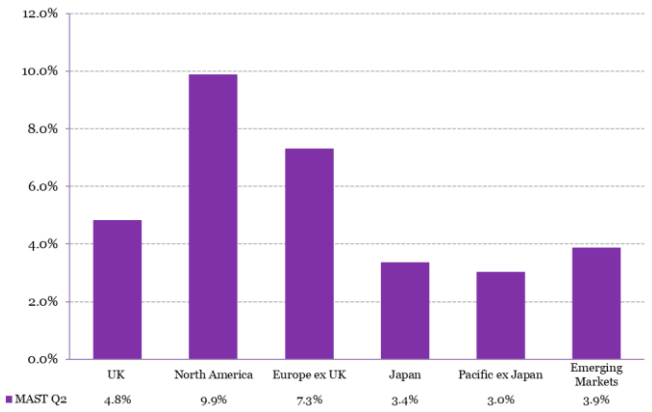
Asset split



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 Enhanced Cash Plus	UK Fixed Income	18.2
UK Treasury 3.75% 2021	UK Fixed Income	13.4
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	9.7
RL Short Duration Gilts Fund	UK Fixed Income	9.6
RL Short-Term Money Market Fund	UK Fixed Income	6.3
Commodities EFT	Commodities	5.9
RL Short Duration Global High Yield Bond Fund	UK Fixed Income	5.9
RL UK Government Bond Fund	UK Fixed Income	4.9
RL Global High Yield Bond Fund	UK Fixed Income	3.0
ISH DIVERS CMDTY SWAP ETF	ETF	2.7
Total		**79.6**

Source: RLAM. Information as at 30 June 2021 and correct at that date, unless otherwise stated. Figures exclude derivatives where held, subject to rounding.

ROYAL LONDON
ASSET MANAGEMENT

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