ROYAL LONDON MULTI ASSET STRATEGIES FUND

Quarterly Report 31 March 2021

For professional clients only, not suitable for retail investors

CONTENTS

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Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q1 2021	**2.63**	**2.77**
Year-to-date	2.63	2.77
Rolling 12 months	12.17	12.32
Since Inception p.a	1.80	1.85

Fund data

	Fund
Fund size	£196.0m
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. The fund returns in the table above are gross of standard management fees. 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 MSCI World Index posted growth of 3.91% through the quarter, gathering strength through February and March. Regional performance was mixed, which reflects the different conditions being experienced by markets under their unique pandemic-driven circumstances.-All leading markets posted positive returns in the period, except for Japan where returns to Sterling were marginally negative.
- UK stocks recovered after lagging last year; while a successful vaccination programme laid foundations for opening the economy, Rishi Sunak's Budget in March and continuing loose monetary policy were constructive for growth prospects and UK equities. Given significant exposure to financials, energy and mining, UK equities also benefited from a global rotation away from growth stocks and into value stocks; The MSCI World Value Index rose by 8.57% in the period, financials were up 16.8% while energy rose 10.4%.
- Successful vaccine distribution, especially in the UK and US, increased optimism of a sustainable global re-opening. This recovery hope triggered a sell-off in US treasuries and caused global bond yields to rise (but nevertheless remain at relatively low levels). The 10-year gilt yield rose by 0.49% in February, the biggest increase of all leading markets in the month, finishing 0.65% higher for the quarter. US 10-year treasury yields rose by 0.83% in the quarter, the largest quarterly rise since 2016. 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 3bps tighter at 0.96%. This is remarkable considering that the average spread was as wide as 2.25% at the peak of the market sell-off in March last year. The Markit iBoxx Sterling Non-Gilt All Maturities index delivered total returns of -4.11% for the quarter, significantly outperforming gilts through the period.
- The $1.9trillion of additional stimulus secured by President Biden's American Rescue Package was at the top end of analysts' expectations. While the package underpinned the outlook for a long-term recovery, it also stoked concern for potential future inflation. Dovish monetary policy throughout the period added to concerns, as most central banks remained relaxed on inflationary pressures, preferring to focus on growth: the Bank of England's (BoE) Monetary Policy Committee (MPC) signalled in January that no rate rises would be come for the next six months; and the Federal Reserve (the Fed) Chair Powell repeatedly played down concerns around yield rises. The European Central Bank (ECB) is the main exception, opting

to increase the speed of its bond buying programme. Potential for inflationary pressure has hit long-dated bonds the worst: the Merrill Lynch UK Gilts 15+ Years Index returned -12.4% over the period compared to -6.86% for its sister 10-15 years index.

- High yield bonds have continued to provide strong returns relative to investment grade, especially the shorter duration assets. The asset class has been supported by loose fiscal and monetary policy, which have made the default on debt less likely. Because of this, we still think that high yield credit spreads continue to overcompensate for their risks.
- Sterling remained among the stronger major currencies over the quarter, rising 1.1% against the US dollar, as the trade deal with the EU began to reduce Brexit uncertainties. It strengthened more significantly against the euro and against the yen. This strength tempered the returns for sterling investors in global equities.
- Commodities rallied to thirteen-year highs, leading cross-asset returns. Oil prices continued to recover strongly, reaching their highest levels since October 2018 in March following a surprise decision by OPEC+ to keep supply cuts fully in place at current levels. The price of Brent crude oil rose by +22.7% to almost $63 a barrel. Copper continued to strengthen as economic activity strengthened in China, rising +13.4% over the quarter. Gold fell -9.6% to $1,713/oz.

Fund commentary

- A strong first quarter saw MAST return +2.77% (income share-class) to investors. On a rolling 12-month basis the fund posted returns of +12.32%, as markets recovered from lows last March. 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. Global stocks have recovered from significant losses in March last year when the pandemic struck. However, as volatility remained unusually high and the outlook uncertain, the fund retained a more cautious stance. We added back steadily to our stock exposure in the fourth quarter last year following positive vaccine trial data and US election results in early November. We continued to do so through the first quarter, as the outlook for a sustained recovery grew stronger, especially in the UK and the US where vaccination programmes were particularly successful.
- 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 water mark in about a year or so. The recent drawdown from its high water mark is larger than those in the simulation and could take proportionately longer to heal. However, the fund has recouped over two-thirds of the declines suffered last March, helped by a recovery in markets and positive tactical asset allocation, particularly in regional equity, sector 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.
- In the scenario of a sustained economic recovery, we would expect a further drop in volatility and a further increase in our positive tactical positioning, allowing us to capture more of the upside. 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 three months of 2020up to 33.5% at year-end as markets were buoyed by vaccine efficacy rates and approvals for use medical agencies. We continued to add to the fund's equity allocation in the first three months of this year, as successful vaccination programmes and loose monetary and fiscal policy reinforced positive sentiment for a sustained recovery. We made greater use of the fund's tactical equity allocation in February due to increased market volatility, reaching a quarter high tactical allocation of 12% and subsequently a peak total allocation to equity of 39%. However, as markets settled in March and we began to expect more stability in the recovery of risk assets, we shifted to a more positive strategic position in equities; our equity allocation at quarter-end was 37%, of which 28% was strategic and 9% tactical.

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.

ROYAL LONDON MULTI ASSET STRATEGIES FUND

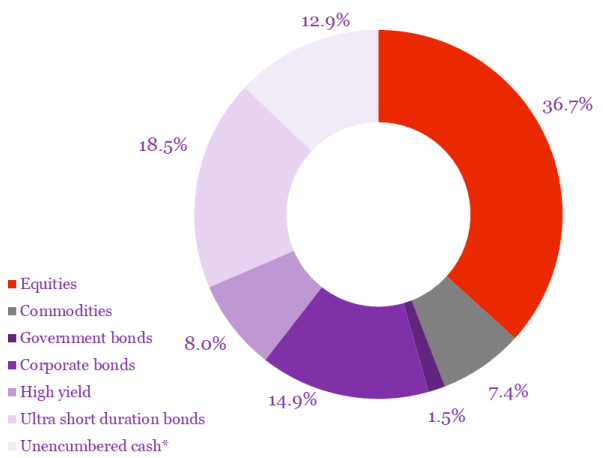
- We are constructive on equities but remain vigilant around corrections being possible in the short term and could seek to add further on significant weakness. Regionally, our strongest conviction position was in Japanese stocks. Although Japan lagged global markets in the quarter, we believe momentum is shifting positively in Japan and maintained the position into the end of the first quarter. We added tactically to our US exposure in the quarter as a defensive position but also added exposure to more cyclical European markets as we anticipated a positive reaction in growth expectations from improved vaccine distribution. The UK had been a very poor performer through 2020 given its larger exposure to the resource and energy sectors, the pandemic, and trade deal negotiations with the EU in 2020. We started to add to UK equities in the second half of last year, as there were scenarios in which the UK could outperform in a global recovery following the December trade deal with the EU. Furthermore, a large proportion of value-oriented stocks on UK indices made it an attractive market given the ongoing global recovery and resultant market rotation. As these scenarios began to play out positively in the first quarter and to the benefit of UK markets, our UK exposure remained broadly unchanged. We reduced exposure to emerging markets that was built in the previous quarter, as we anticipate the impact of policy tightening from China, the first country to exit a state of lockdown.
- We tempered our tactical allocation to high yield bonds in the quarter but still hold significant exposure, as we expected 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 which reached decade highs in the quarter.
- 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 favoured sterling, which was bolstered by the agreement of a trade deal with the EU at the end of last year. We also remain constructive on the Singaporean dollar but trimmed our long view on the euro.
- US sector positions: during the crisis we were helped by our positive position in technology relative to hard-hit industrials, materials and financials. We adjusted our sector positioning through the fourth quarter last year as vaccines being approved made 2021 global economic recovery more likely, most notably becoming more constructive on financials and energy which had been badly hit through the year. We tilted again in favour of the financial and energy sectors in the first quarter, as the robust economic recovery we are seeing globally is positive for these sectors. We tempered exposure to consumer discretionary and technology sectors which outperformed last year.

Market outlook

- A year on from the March 2020 low, vaccine optimism, fresh fiscal stimulus in the US and the prospect of a re-opening of the world economy into 2022 saw stocks move to record levels. Meanwhile, fear of eventual monetary tightening resulting from strong growth leading to interest rates rising from very low levels currently triggered a sharp sell-off in government bonds with US treasuries experiencing their greatest quarterly rise in yield since 2016 (yields still remain low, however). Commodities rallied to thirteen-year highs, leading cross-asset returns, as oil continued its rebound. Value stocks were a big beneficiary of the re-opening trade as leadership rotated away from the highly valued technology shares which performed so strongly last year as more people worked and shopped online. We remain optimistic as we expect strong cyclical recovery to continue. A service sector catch-up may push yields higher but do less for the profits of the quoted sector, however, and we are mindful of the impact of rising yields.
- Please see our www.InvestmentClock.co.uk site for current views.

ROYAL LONDON MULTI ASSET STRATEGIES FUND

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	18.5
UK Treasury 3.75% 2021	UK Fixed Income	14.0
RL Short Duration Gilts Fund	UK Fixed Income	10.0
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	10.0
RL Short-Term Money Market Fund	UK Fixed Income	6.5
RL Short Duration Global High Yield Bond Fund	UK Fixed Income	6.0
RL UK Government Bond Fund	UK Fixed Income	4.9
RL Asia Pacific Ex Japan Tracker	Overseas Equities	2.5
RL Emerging Markets Equity Tracker	Overseas Equities	2.5
RL Ethical Bond Fund	UK Fixed Income	2.5
Total		**77.4**

Source: RLAM. Information as at 31 March 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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