ROYAL LONDON MULTI ASSET STRATEGIES FUND

Quarterly Report 30 September 2021

For professional clients only, not suitable for retail investors

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Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q3 2021	**0.80**	**0.73**
Year-to-date	6.11	6.22
Rolling 12 months	10.22	10.33
Since Inception p.a.	2.67	2.70

Fund data

	Fund
Fund size	£205.4m
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

- Virus risk continues to a background issue globally but, over the period, the global picture became more varied, with cases rising in the US and UK but China seemingly more contained. With vaccine programmes continuing to be successful in containing Covid deaths, governments were reluctant to maintain or tighten social distancing restrictions, particularly in the US and UK, given the importance of sustaining economic recovery and employment.
- Global economic data was mixed in the third quarter, with inflation still causing concern globally, driven by wages and commodity costs. In September, the US Federal Reserve (Fed) made substantial changes to its economic forecasts, moderating its growth outlook and increasing its inflation expectations while still suggesting inflation is a temporary problem resulting from demand surging in the global reopening post lockdowns. In September, the Fed, BoE, and ECB all highlighted their intension to taper their asset purchasing regimes gradually.
- The Bank of England said Consumer Price Index (CPI) inflation could reach 4% over the winter months, largely due to rising energy and goods prices, although it expects inflation will then fall back towards its 2% target in the medium term. BoE commentary was also more pessimistic on near-term growth prospects. The Monetary Policy Committee (MPC) voted unanimously in September to keep rates steady but voted 7-2 to continue with their existing asset purchase programme implying we are getting closer to monetary policy tightening given the economy recovering.
- The MSCI World Index posted positive returns of 2.62% in the third quarter. Japan was the strongest regional market following the resignation of Prime Minister Suga, returning 7.43% to investors in sterling terms. The US was next strongest (2.94%), followed by the UK (2.11%), and Europe (0.95%). Emerging market equities lagged dramatically over the period, returning -5.71% to investors in sterling terms; slowing growth, problems in the real estate sector and government interventions in China weighed on valuations.
- For the period as a whole, the MSCI World Growth Index returned 3.38% versus 1.85% for the MSCI World Value Index. Financials led sector returns (4.79%) followed by energy (4.21%) and information technology (4.03%). Materials was the worst performing sector (-2.39%), while consumer discretionary, consumer staples and industrials sectors also lagged the broader market.

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- The third quarter was a story of two halves for global government bond markets: global yields initially edged lower before rebounding in September following relatively high inflation numbers and central bank commentary around tapering potentially starting. Yields rose most significantly in the UK – the 10-year UK gilt yield spiked in September to finish up by 31bps for the quarter. In comparison, US and core European market yields were broadly unchanged over the quarter. The relative spike in gilt yields was driven by concerns surrounding inflation related to supply chains difficulties resulting ~~from~~ supply chain constraints being experienced globally which may have been exacerbated by Brexit issues.
- 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 4bps tighter at 0.87%, while the sterling high yield spread ended 19bps tighter for the quarter with a spread of 3.53%. The Merrill Lynch Sterling Non-Gilt index delivered total returns of -0.96% for the quarter, while its sister Sterling High Yield Index returned 1.03% for the quarter, outperforming gilts which returned -0.84% on an all-maturities basis.
- The US dollar was one of the strongest currencies globally in the third quarter, as more risk sensitive currencies weakened in relative terms – the US dollar spot price rose by 1.94% over the period. The euro weakened by 2.39% versus the dollar, while the sterling spot price fell by 2.53%.
- Commodities extended their rally, led by energy, towards the end of the quarter with heightened demand as the global economy opens up strongly. Brent crude oil prices rose by 4.5% to more than $78 a barrel in the quarter. In metals, copper futures fell in value by 4.5% to $419 (after a strong rally earlier in the year), while the gold spot price fell by 0.8% to $1,755/oz.

Fund commentary

- A strong third quarter saw MAST post gross returns of +0.73% (income share-class) to investors. On a rolling 12-month basis, the fund posted returns of +10.33%, as markets have recovered from March 2020 lows.
- MAST aims to capture upside in positive market trends, while limiting downside during periods of market turbulence through diversification, active positioning and volatility management. 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, in the crisis, and is now above its pre-pandemic "watermark", 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, we expect risk assets to continue their recovery, led by more cyclical assets. However, uncertainty regarding inflation, interest rates and geopolitical risks remain; hawkish turns in policy or extensions to lockdowns could be challenging for risk assets and sentiment. 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. In the first of 2021, our allocation to equities reached as high as 37% before we took profits into the normally seasonally weaker summer months, given the strong bounce in equities that we had seen over the previous 12 months. However, we added to back to the equity allocation in the third quarter, as our base case is for a strong economic recovery into 2022, supported by ongoing monetary, and fiscal stimulus and the continued rollout of vaccines across the globe, making global economic reopening sustainable. At the end of the third quarter we held a 37% allocation to equities.

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 remained positive on stocks given strong earnings revisions but held no strong sector biases, wary of potential seasonal volatility. We did slightly reduce our tilts towards value sectors early in the period, as markets entered a more stagflationary environment (growth is peaking but inflation is currently relatively high), but added back later in the period. At the end of the quarter we held a small positive bias to financials and energy, with tilts away from the consumer discretionary, consumer staples and technology sectors. Regionally we remained in favour of developed markets, where macro recovery momentum has been more impressive than emerging markets (which suffered from government interventions in certain sectors in China that weighed on valuations).
- We have maintained our preference for high yield bonds over government bonds (with negative real yields) in the period, especially those of shorter maturities which carry less credit risk. We also continued our positive position in commodities, which extended their rally;-energy led the rally in commodities, as sharply increasing demand linked to the reopening of the global economy placed extra stress on limited supply.
- In currencies, we remained in favour of the US dollar at the end of the third quarter and this remains our greatest conviction currency position. We remained in favour of both Singaporean and Canadian dollars, as well as the Norwegian krone; we had no sterling, euro or Swedish krona bias but maintained a negative tilt away from the Swiss franc, Australian dollar, and the yen.

Market outlook

- Equity market volatility could be evident as we enter the fourth quarter, as October has tended to be the month in which volatility peaks. With fiscal and monetary policy uncertainty and geopolitical issues present, we would not be surprised by sentiment becoming negative in markets, especially given equities are not far from all-time highs and valuations are relatively full. However, we still favour stocks on the basis that the dominant factor is robust global growth while inflation is widely deemed to be a temporary problem. We remain more confident in companies enjoying strong cashflows and therefore favour global high yield bonds (which are less volatile than stocks but offer a superior real return compared to developed market government bonds); we see the potential for further losses in government bonds which give negative real yields, owing to central bank quantitative easing policies, and which will not react well to interest rates rising as economies normalise. With global recovery remaining strong, we retain our preference for commodities as demand is strong. In the absence of major shocks (such as any vaccine resistant covid variant), and as long as central banks are correct that current inflation rates are transitory, we remain constructive on prospects for equities over the medium to longer term.
- Join us online for the 2021 RLAM Investment Series (our annual client conference) between 1st and 5th November. A range of our fund managers and other in-house specialists will address the macroeconomic environment and prospects for different asset classes, and the issues they are considering in positioning their funds. There will also be sessions on responsible and sustainable investing, addressing the latest developments in these fast-changing areas and considering their possible evolution. For more details and to register, please visit rlam.co.uk.
- Please see our www.InvestmentClock.co.uk site for current views.

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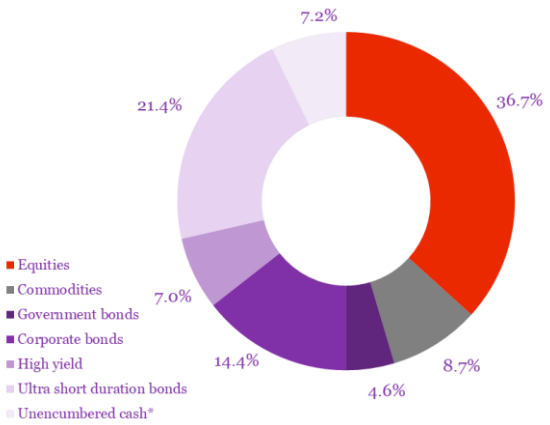
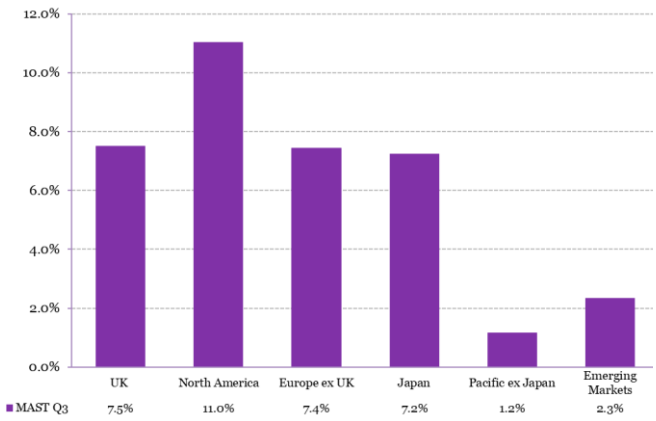
Asset split



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	21.4
UK Treasury 0.5% 2022	UK Fixed Income	13.4
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	9.6
RL Short Duration Gilts Fund	UK Fixed Income	9.5
RL Short Duration Global High Yield Bond Fund	UK Fixed Income	7.0
RL Short-Term Money Market Fund	UK Fixed Income	6.2
Commodities EFT	Commodities	4.9
RL UK Government Bond Fund	UK Fixed Income	4.7
ISHARES BLOOMBERG ETF	ETF	3.7
RL Asia Pacific Ex Japan Tracker	Overseas Equities	2.5
Total		**82.9**

Source: RLAM. Information as at 30 September 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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