Royal London Multi Asset Strategies Fund

Quarterly Report 31 March 2022

Performance

	Fund (%) (M Acc)	Fund (%) (M Inc)
Q1 2022	**-1.18**	**-1.18**
Year-to-date	-1.18	-1.18
Rolling 12 months	2.99	2.96
3 years p.a.	1.72	1.74
Since Inception p.a.	2.15	2.18

Fund data

	Fund
Fund size	£212.7m
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

- Market volatility spiked towards the end of February as news broke that Russia had invaded Ukraine.
- The potential for supply chain disruptions and the downstream impact of sanctions on oil and gas supplies pushed energy prices to new all-time highs, adding to the inflationary challenges facing central banks. Heightened geopolitical risks along with uncertainty about central bank policy tightening caused significant volatility in global financial markets. However, equity markets recovered some of their losses from mid-March as companies continued to deliver strong performances despite the increased uncertainty about the global economy.
- The MSCI All Countries World Index (ACWI) returned -2.4% to sterling investors in the first quarter, while the FTSE All Share Index returned 1.3%. Energy, materials and utilities sectors were strong during the quarter in contrast to consumer services and consumer discretionary.
- Over the first quarter, the benchmark 10-year gilt yield rose from 0.97% to 1.61%, leading gilts to return -7.17% on an all-maturities basis (FTSE Actuaries). Yields began moving upwards towards the end of December last year, as the BoE ended its QE programme, rose interest rates for the first time since 2017, and prepared markets for further rises to come. The Russian invasion of Ukraine drove a significant if temporary dip in yields in the period: 10-year gilt yields reached around 1.55% in late February but fell to around 1.20% following the onset of war. The flight to safety was temporary, however, as yields again trended higher from the first week of March. The same pattern is visible in the US and Germany, where yields rose throughout the period but temporarily dipped around the onset of war in Ukraine: in the US, the benchmark 10-year US treasury yield rose from 1.51% to 2.34% in the quarter, while the German 10-year bund yield rose from 0.14% to 0.55%.
- Currencies were volatile in the first quarter impacted by geopolitical tensions, interest rates and the rise in commodity prices. The US dollar played its traditional role as a safe haven, strengthening against other major currencies. Sterling was relatively weak, other than against the yen, which marginally enhanced the returns from global equities to sterling investors. Brent crude oil soared 38.7% to end the quarter over

$105 a barrel as the invasion of Ukraine raised supply concerns, while spot gold and front-month copper futures gained 6.3% and 6.7%, respectively.

Fund commentary

- The first quarter saw MAST return -1.18% in a backdrop where global equities returned -2.4% and Gilts returned -7.2%. On a rolling 12-month basis, the fund posted returns of +2.96%.
- MAST aims to capture upside in positive market trends, while limiting downside during periods of market turbulence as seen this quarter through diversification, active positioning and volatility management.
- MAST's resilience over this period is due to three factors: a broadly diversified core portfolio including commodities; a positive tactical asset allocation contribution; and, crucially, ongoing risk management actions to reduce equity exposure that started ahead of the invasion.

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 and continued to cut exposures as volatility rose. In total, the equity exposure in MAST dropped from a starting position of around 37% in mid-February to a low of 18%, with most of this reduction attributed to risk management.
- As market volatility began to normalise the fund increased its equity exposure from the lows. This saw the fund's overall equity exposure return to 30% as at the end of the quarter. The situation continues to remain highly uncertain, and we are monitoring events and market behaviour on a daily basis. We believe that this helps us keep volatility, and the potential for loss, under control while being attuned to the potential for a rapid market recovery should geopolitical tensions ease.

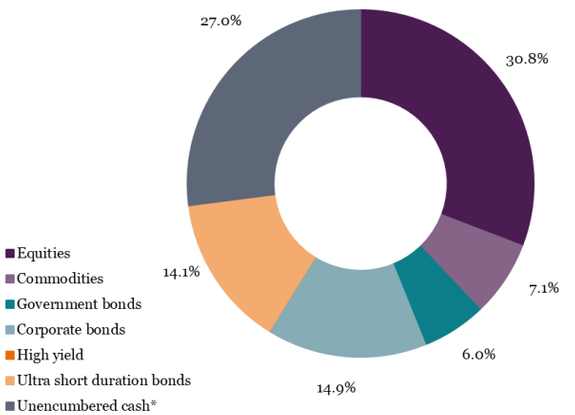
Tactical asset allocation strategies

- 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 started the period with a small overweight to stocks. We remained lightly positioned for most of the quarter owing to the unfavourable macro environment and rising level of geopolitical uncertainty. We then added to our exposure as markets dipped and we judged investor sentiment to be at overly bearish levels. We were overweight defensive stocks and underweight growth stocks.
- We remained tactically overweight the UK, given its more defensive sectoral composition and cheaper valuations. We also moved overweight Japan, which benefitted from a weaker currency and strong analyst earnings revisions. We maintained our underweight position in emerging markets, as rising Covid cases in China led to lockdowns in major cities.
- We maintained a significant underweight position in bonds. Over the first quarter, Europe, UK and the US all experienced a rise in yields at the key maturity points despite a temporary dip in the US and Germany around the onset of war in Ukraine.
- We were overweight commodities at the start of the year before taking profits given the strong performance. Commodities were the strongest asset class over the quarter, rising over 25% with spot prices in several commodities hitting record highs.

Market outlook

- Persistently high inflation and expectations of tighter policy have seen bond yields continue their sharp rise. We expect that yields will continue to rise and provide a challenging environment for both equities and bond markets going forwards. In this environment there would be significant benefits of broader diversification, for example the inclusion of real assets like commodities, which have performed well over 2021 and year to date.
- With the risk of global recession rising, the use of volatility control could also prove to be particularly relevant for investors concerned about downside risk.
- 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 Fixed Income Enhanced Fund	UK Fixed Income	13.9
RL Short-Term Money Market Fund	UK Fixed Income	13.0
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	9.8
RL Short Duration Gilts Fund	UK Fixed Income	9.7
Invesco Bloomberg Commodity UCITS ETF	Commodities	6.9
RL US Equity Tilt Fund	UK Fixed Income	5.2
RL Europe ex UK Equity Tilt Fund	Overseas Equities	5.1
RL Asia Pacific ex Japan Equity Tilt Fund	Overseas Equities	5.0
RL UK Core Equity Tilt Fund	UK Equities	5.0
RL Japan Equity Tilt Fund	Overseas Equities	4.9
Total		**78.7**

Source: RLAM. Information as at 31 March 2022 and correct at that date, unless otherwise stated. Figures exclude derivatives where held, subject to rounding.

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