



Liontrust Diversified Real Assets Fund – August 2023 review

- Core infrastructure holdings weigh on performance, with renewable, social and global holdings all negative
- Core property turns slightly negative after specialist REITs performed well in July
- Volatility reflects a higher interest rate environment that may be close to peaking

Over the month to 31 August 2023, the Diversified Real Assets Fund (the 'Fund') returned -0.57%, (Class A accumulation share class, net of fees).¹

Our core infrastructure holdings detracted the most from the performance of the Fund over the month, while diversifiers and core property exposures also weighed. Returns from cyclical real assets were flat.

Renewable, social and global holdings within core infrastructure all delivered negative returns overall, with Cordiant Digital Infrastructure the poorest performer among individual holdings. There were some positives though in social infrastructure, with HICL Infrastructure and BBGI Global Infrastructure both notable contributors.

Our core property exposure, which includes specialist real estate investment trusts, turned slightly negative in August after delivering the best return of our four key investment pillars in July. Assura was the most notable detractor from performance, although Tritax Big Box and Supermarket Income were positives.

Within our diversifiers, gold and inflation-linked gilts weighed slightly while infrastructure bonds contributed marginally.

Outlook

After a challenging backdrop for real assets over the last 12 months, we remain confident about its long-term return prospects as well its role as a diversifier versus traditional equities and bonds.

This is due not least to the consistently strong fundamental performance of most of our holdings despite the volatility in share prices. The share price volatility for the most part reflects a higher interest rate environment that may be close to peaking, as evidenced by inflation levelling off and even falling. This makes us confident that most of the pain may be behind us in terms of interest rates.

The current double-digit discounts to net asset value on offer have therefore presented us with an opportunity to top up our exposure to social infrastructure, renewables and specialist REIT sectors because we believe they present a very attractive investment opportunity over the medium and long terms.

Equally, investors should not disregard the increasing risks of a recession and the defensive, government-backed and contractual cashflows from real assets that have demonstrated outperformance in past recessions relative to other risk assets such as equities.

This is even more pertinent as some parts of the equity universe are trading at historically expensive valuations and are pricing in very optimistic scenarios. For most clients, owning defensive real assets alongside their traditional equities can provide a good source of diversification, especially in an economic and earnings slowdown scenario.

(1) Source: Financial Express, as at 31 August 2023

For more insights and views from Liontrust visit: <https://www.liontrust.co.uk/insights/ourinsights>

For a comprehensive list of common financial words and terms, see our glossary at: <https://www.liontrust.co.uk/glossary>

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The Fund invests at least 80% of its net asset value in a diversified portfolio of real assets (including investments in infrastructure, renewables, commodities, inflation linked assets and specialist property).

■ The Fund will gain exposure to these real assets through investment in real estate investment trusts (REITs), investment trusts, equities, debt instruments (bonds), collective investment schemes and exchange traded instruments.

■ The Fund is currently categorised 4 primarily for its balanced exposure to higher and lower risk assets.

■ The SRRI may not fully take into account the following risks:

– that a company may fail thus reducing its value within the Fund;

– overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

– Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

– the creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

■ This Fund may have a concentrated portfolio, i.e. hold a limited number of investments or have significant sector or factor exposures. If one of these investments or sectors / factors fall in value this can have a greater impact on the Fund's value than if it held a larger number of investments across a more diversified portfolio.

■ The Fund may, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.

■ The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

■ The Fund may have both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund.

■ Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties

(e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

■ Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

■ ESG Risk: there may be limitations to the availability, completeness or accuracy of ESG information from third-party providers, or inconsistencies in the consideration of ESG factors across different third party data providers, given the evolving nature of ESG.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

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