LIONTRUST

Liontrust Diversified Real Assets Fund – September 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 30 September 2023, the Diversified Real Assets Fund (*the 'Fund'*) returned -2.4%, (Class A accumulation share class, net of fees).[1]

Core property contributed positively to performance in September, but this was outweighed by the negative returns from core infrastructure, diversifiers and core infrastructure.

Our core property holdings include speciality real estate investment trusts (REITs), which were significantly impacted by the aggressive rate hikes expedited by central banks from 2022 onwards to combat rising inflation. However, REITs began a turnaround in July, when they made the strongest contribution to the positive performance of the Fund. In September, REITs that contributed the most to performance included Tritax Big Box, Supermarket Income, LXI and Tritax EuroBox. Assura and Primary Health Properties did weigh slightly, however.

Other positive performers included property debt within cyclical real assets, mainly through Real Estate Credit Investments, and gold and infrastructure bonds within our diversifier holdings, although inflation-linked bonds did weigh here.

Core infrastructure, especially social infrastructure, detracted the most from performance of the Fund in September, with Cordiant Digital Infrastructure, GCP Infrastructure Investment and HICL Infrastructure the poorest performers of any holdings within the Fund.

All the holdings in renewable infrastructure were negative, especially VH Global Sustainable Energy Opportunities, and Pantheon Infrastructure in global infrastructure equity was slightly negative. Within cyclical real assets, poor performers included American Tower and RWE AG.

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. This volatility for the most part reflects a higher interest rate environment that may be close to peaking, as evidenced by inflation levelling off or 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 presented us with an opportunity to maintain conviction or even top up our exposure to social infrastructure, renewables and specialist REIT sectors because we believe they present an 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 or high-risk credit.

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 some defensive real assets alongside their traditional equities and bonds can provide a good source of diversification, especially in an economic and earnings slowdown scenario.

(1) Source: Financial Express, as at 30 September 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.

Disclaimer
This document is issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

It should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell investments mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks and funds are provided for general information only to demonstrate our investment philosophy. The investment being promoted is for units in a fund, not directly in the underlying assets.

The document contains information and analysis that is believed to be accurate at the time of publication, but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty, whether express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified.

All the information provided should be treated as confidential, information may constitute material non-public information, the disclosure of which may be prohibited by law, and the legal responsibility for its use is borne solely by the recipient. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust.

This is a marketing communication. Before making an investment decision, you should familiarise yourself with the different types of specific risks associated with the investment portfolio of each of our Funds and Multi-Asset Model Portfolios. For Liontrust Funds, this information can be found in the final Prospectus and Key Investor Information Documents (KIIDs) and/or PRIIP/KID available on our website: www.liontrust.co.uk. Our Multi-Asset Model Portfolios are available exclusively through financial advisers. Financial advisers can find further information on the different types of specific risk associated with the Liontrust Multi-Asset Model Portfolios in the relevant brochure, also available on our website: www.liontrust.co.uk. If you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances.