LIONTRUST
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Diversified Real Assets

October 2023 review

Liontrust Diversified Real Assets Fund

- All diversifiers deliver positive contribution; gold is strongest performer
- core infrastructure, core property and cyclical real assets weigh
- Double-digit discounts offer an opportunity to top up exposure to social infrastructure, renewables and specialist REIT sectors

Over the month to 31 October 2023, the Diversified Real Assets Fund (the 'Fund') returned -2.7%, (Class A accumulation share class, net of fees).[1]

Diversifiers contributed positively to performance in October, but this was outweighed by the negative returns from core infrastructure, core property and cyclical real assets.

All the holdings within diversifiers were positives, including iShares Physical Gold, which was the strongest overall contributor, UK gilts, inflation-linked bonds, and National Grid and Transport for London infrastructure bonds.

Within core infrastructure, social and renewable assets were negatives, most significantly through JLEN Environmental Assets, GCP Infrastructure Investment and Cordiant Digital Infrastructure. Global infrastructure equity was a slight positive here through Pantheon Infrastructure.

Our core property holdings include speciality real estate investment trusts (REITs), all of which were negative contributors. Tritax EuroBox, Assura and LXI weighed the most here. REITs were significantly impacted by central banks' aggressive rate hikes from 2022 onwards to combat rising inflation. However, REITs did perform positively in July, when they made the strongest contribution to the positive performance of the Fund.

All the sub-sectors within cyclical real assets were negative too, including global infrastructure equity, global property equity and property debt. Prologis and Cellnex detracted the most. Positive cyclical real asset highlights included American Tower, Digital Realty Trust 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 and 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.

[1] Source: Financial Express, as at 31 October 2023

Past performance does not predict future

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 term.

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.

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

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.

For a comprehensive list of common financial words and terms, see our glossary at: https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

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