Liontrust Multi-Asset

A guide to MANAGING VOLATILITY

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Contents

Welcome

Welcome to this guide on how to invest in volatile markets. Volatility is a much discussed subject in investment circles but can be challenging to define.

Some people use it interchangeably with risk, for example, but, the term refers to how much and how quickly an asset class – say stocks and shares – moves up and down within a certain time frame. The more and the faster it moves, the more volatile that investment is considered to be.

There can be several factors behind volatility, particularly in today's 24-hour news cycle, ranging from broad economic or political developments to narrower factors only affecting certain parts of the market. In the following pages, we cover some of the key lessons for coping with volatile markets, from the benefits of diversification to why patient investing (what we at Liontrust call winning by not losing) has been key to long-term wealth generation.

It is natural to be concerned when you see fluctuations in the value of your investments but the danger is that people are panicked into selling on the back of short-term market movements and risk missing out on substantial returns. It is vital to remember that some volatility is a normal part of any investment experience; many more experienced investors see it as an opportunity and most acknowledge it is actually necessary for markets to function properly.

When it comes to long-term investing, the key message is not to panic and stay the course; there will be some bumps along the road to your ultimate investment goals.

This was evident in early 2020 when equity markets fell sharply, but then staged a strong recovery as the year progressed. Those who stayed invested will have benefited, while those who sold out may have seen large losses.

Everyone's situation is different and speaking to a financial adviser before making any decisions is a good move if you have concerns about volatility or questions about the most appropriate investment options for your particular circumstances.

Diversification can smooth the bumpy road

From year to year, it is difficult to predict which asset classes will be the best performers. Most investment specialists agree about the benefits of spreading your money across different investments. This diversification can reduce volatility, smooth out highs and lows in returns and help avoid unnecessary risk.

Selecting the right mix

One of the major aims of diversification is to construct a portfolio of investments that don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This difference in potential returns could offer some protection against all assets falling in value at the same time. Selecting the right mix can help to even out the damage inflicted by downturns, recessions or just routine fluctuations in specific markets.

Market bumps are normal

Markets are unpredictable and it will always be difficult to foresee what will happen in the future. It may be wise not to take a short-term outlook, and avoid overreacting to immediate stock market moves. Taking a multi-asset approach could help to smooth out your returns. A well-constructed investment portfolio, designed around your time frame and keeping your portfolio diversified could be a prudent way to weather market uncertainty.

Asset allocation is king

Asset allocation refers to the decision of how much capital to invest and where, such as for example in stocks vs. bonds, in US vs. European stocks, how much to keep in cash and everything in between. Having the right balance - the optimal asset allocation - is what keeps you diversified in the market. Diversifying your investment portfolio across a range of asset classes, geographies and fund managers could help to reduce your overall risk.

Risky versus safe assets

If you need to protect yourself from the possibility of a short-term decline in the value of your portfolio, you are likely to follow the conventional wisdom of putting some of your capital into bonds rather than stocks. Over time, this might well cost you money. Over the long run, stocks have historically outperformed bonds (as can be seen on page 8). However, investing some of your money in bonds is likely to reduce the short-term ups and downs of your investment portfolio, which may allow you to sleep better at night.

Past performance is not a guide to future returns. You may get back less than you originally invested. Go to page 18 for the Key Risks.

The importance of diversification

The chart below shows why it is so important to make sure your investments are diversified. As you can see, over time no single asset class or region is a consistent top performer.

Spreading your investments across a range of asset classes and regions could help smooth the impact of ups and downs in the market. One investment may perform badly in any particular year but this negative performance could be offset by the positive performance of another investment.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Europe ex-UK equities	15.9	32.7	25.4	1.2	25.7	18.7	29.3	15.0	18.6	26.7
North America equities	6.6	32.6	25.1	1.0	24.4	14.7	28.4	1.4	14.8	13.9
Japan equities	5.8	27.3	15.8	1.0	20.0	14.1	26.2	0.3	13.5	12.1
UK equities	5.1	25.2	13.8	0.6	19.1	11.0	18.3	-2.5	11.9	10.2
Global bonds	1.7	22.1	13.3	0.4	18.3	9.7	18.1	-4.5	9.8	9.4
Global high yield	1.5	18.6	13.1	0.3	15.0	9.1	16.7	-6.1	7.9	9.4
UK government bonds	1.0	16.7	10.6	-2.2	14.6	7.5	6.3	-7.1	6.9	8.9
UK corporate bonds	1.0	15.7	7.2	-2.2	13.9	5.6	2.8	-7.6	5.5	6.2
IA 20-60	0.7	12.5	6.7	-3.6	12.3	5.1	2.6	-8.2	4.8	5.3
Developed Asia equities*	0.5	12.3	4.9	-5.1	12.1	3.5	0.1	-9.7	4.6	5.1
Global infrastructure	0.5	11.2	2.0	-7.5	11.0	1.5	-1.6	-10.0	4.1	3.8
Emerging market equities	-2.1	10.9	1.8	-8.6	7.5	0.2	-1.6	-12.6	3.8	2.5
Cash	-2.4	10.6	1.1	-9.3	5.9	-4.9	-2.0	-13.8	3.6	2.0
Short duration gilts	-4.1	3.5	0.7	-9.5	5.3	-6.7	-2.4	-14.9	1.9	1.9
Global property	-10.0	2.6	0.3	-9.9	1.1	-9.8	-3.3	-19.3	1.3	1.7
Commodities	-25.3	0.4	-0.3	-12.8	0.7	-11.0	-5.4	-27.1	-8.6	-4.3

Source: Morningstar, Liontrust. Calendar year, 10 years sterling, net returns to 31 December 2024. **Past performance is not a guide to future returns.** You may get back less than you originally invested. Go to page 18 for the Key Risks.

Keeping invested for the long-term

Basing investment decisions on what has happened over a few days, rather than over longer time periods, rarely makes sense for investors.

Choosing the right level of risk

Selecting the right level of risk for you is essential. Too much risk for your circumstances could lead to sleepless nights and you could lose money you cannot afford to. Too little risk and you might not achieve your long-term goals. If you are investing and have a long-time horizon, you can make more money by carefully investing in a mix of assets like stocks and bonds, rather than restricting your investments to interest on savings.

Markets go up and down

There's no escaping volatility when investing: markets go up and down. But if you're still worried, you should lower your expectations for future returns by buying safer – but lower growth - options. The history of asset class returns shows that in developed markets, stocks typically outperform their government bond counterparts over the long-term but they do experience frequent large drops in value.

Investing for the long-term

How much you allocate to higher risk assets like stocks versus lower risk assets like bonds will depend on factors such as your investment objectives and your ability to tolerate risk. Long-term investors are usually comfortable investing a higher percentage of their money in stocks because the risks may provide greater rewards in the long-term.

The benefits of compounding

Time is your greatest friend as an investor. Compounding simply refers to the benefit you get by reinvesting any returns you receive from your investment rather than taking any profit. For compounding to work its magic requires the reinvestment of investment returns and time. A bigger pot of money each year means the interest or returns you can potentially receive is greater.

> Compound interest is the eighth wonder of the world.
> He who understands it, earns it ... he who doesn't ... pays it. ”

Believed to have been said by Albert Einstein

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THREE INVESTING TIPS FOR THE LONG-TERM

1

Volatility is inherent in investing. If you're investing for the long-term, daily movements in the market shouldn't be your main concern.

2

Choosing the right level of risk for your long-term goals is essential.

3

When you make investments over a long period of time, **the benefit of compounding potentially helps to grow your investment.**

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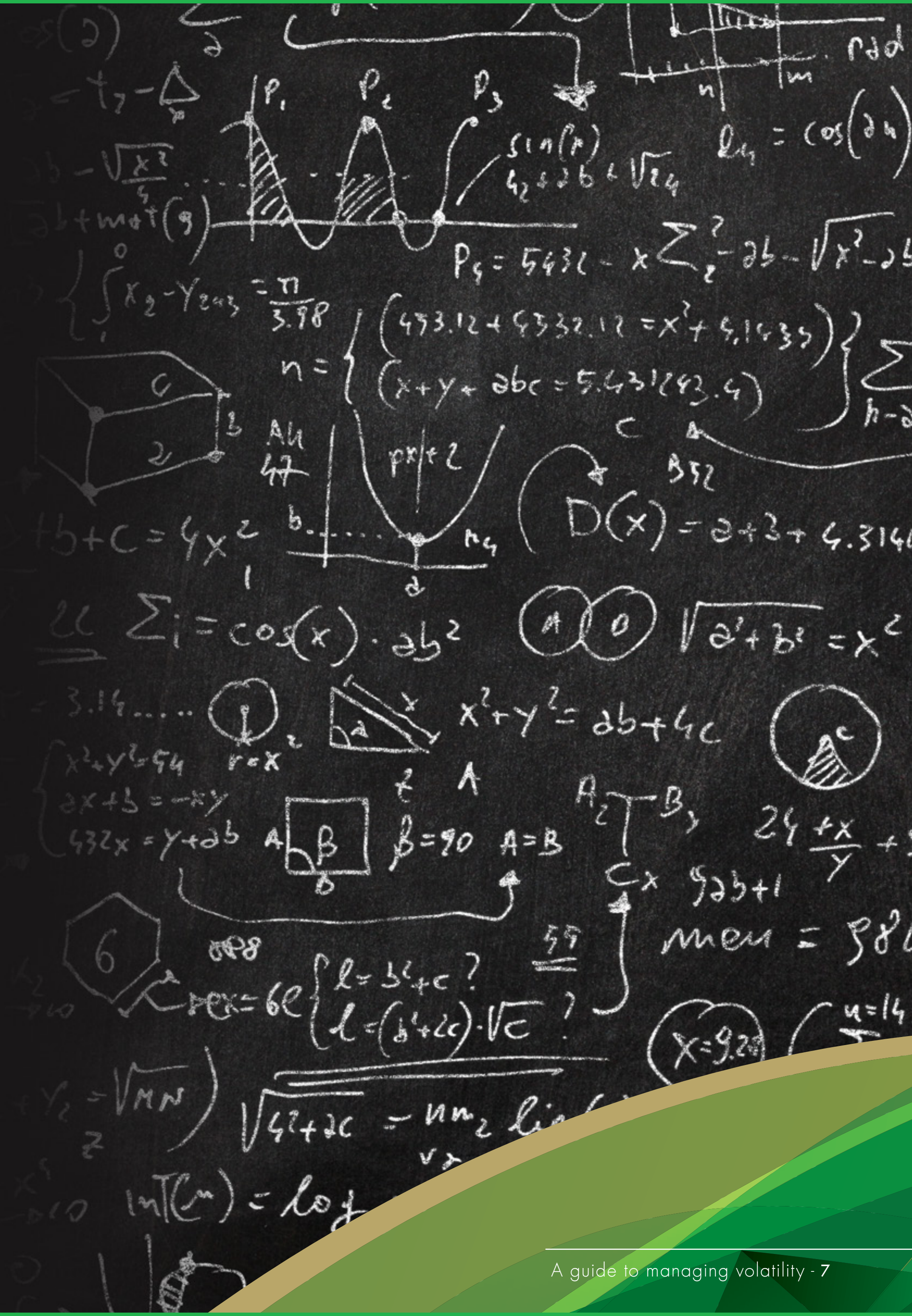
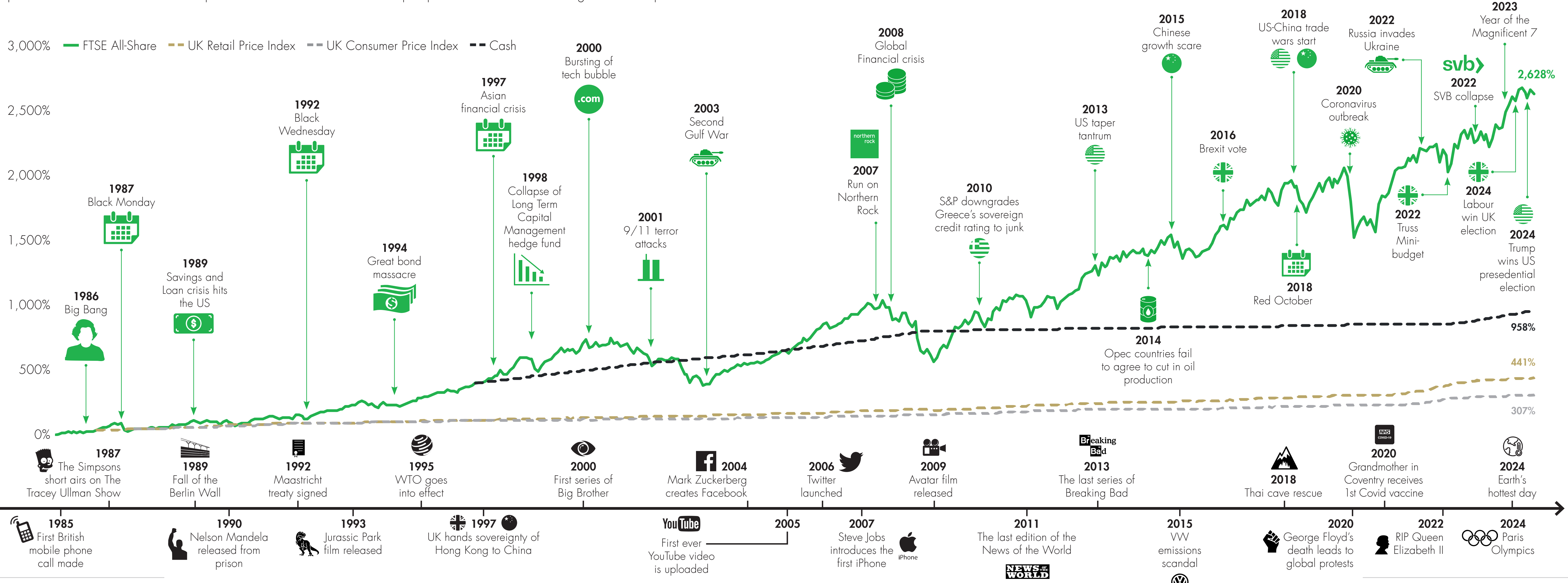


The history of long-term investing

Over the years, there have been many events that have had large impacts on financial markets, including the financial crisis in 2008 and the more recent coronavirus crash in 2020. However, as can be seen from the chart below, the long-term trend for market performance has continued to remain positive.

If you are investing for the long-term, while you will experience market dips and volatility from time to time, history has shown us that these events won't stop the long-term positive performance of markets. It's important to remember there are no guarantees though, and past performance is not a reliable guide to future performance.

Source: Liontrust, as at 31.12.24. FTSE All-Share, 31.12.85 to 31.12.24. UK Retail Price Index, 31.01.87 to 31.12.24 (FTSE All-Share, 31.12.85 to 31.01.87). UK Consumer Price Index, 31.01.88 to 31.12.24 (FTSE All-Share, 31.12.85 to 31.01.88). Cash = SONIA Lending Rate GBP, 31.01.97 to 31.12.24 (FTSE All-Share, 31.12.85 to 31.01.97). All use of company logos, images or trademarks in this document are for reference purposes only. **Past performance is not a guide to future returns.** Please go to page 18 for the Key Risks.



Analysis shows financial markets recover quickly after crises

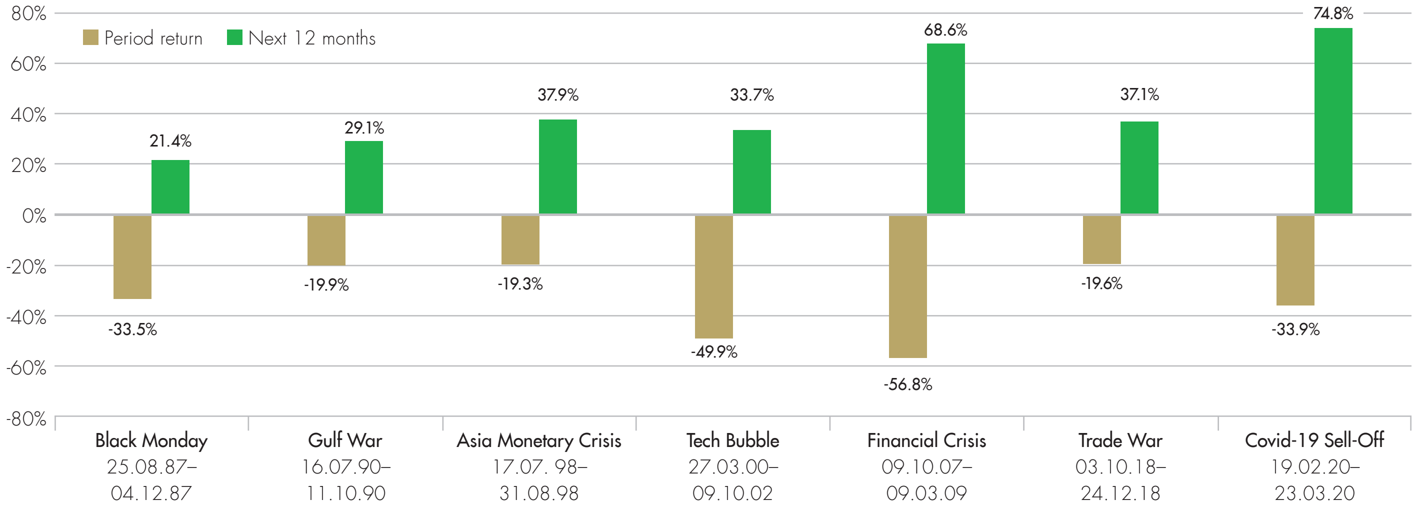
It might seem logical that buying financial assets when their prices are low rather than high is the optimal approach – but the temptation to sell investments when crises hit and markets panic is strong.

Financial markets tend to recover quickly after crises, however. Analysis in the chart below illustrates the extent to which the S&P 500 Index of US equities bounced back in the 12 months after major scares.

For example, the Index recovered a significant portion of the drawdowns it incurred after Black Monday in 1987 and the Tech Bubble bursting between 2000-02. It also more than recovered its losses after the 1990 Gulf War, the 1998 Asia Monetary Crisis, the 2007-09 Global Financial Crisis, the 2018 Trade War and the Covid-19 sell-off in 2020.

The contexts of crises must be considered in their own rights, and it must be remembered that past performance is no guide to the future. But essentially, the analysis shows that while geopolitical events have shaken markets, the impacts dissipate over time, and relatively quickly in some cases.

The data shows the merits of investors holding their nerve with regards to their investments and even adding to them when market falls mean prices are significantly cheaper. Some of the best investors have enhanced their returns by taking a contrarian approach.



Source: Bloomberg S&P 500 price returns, as at February 2023. **Past performance is not a guide to future returns**

The case for staying the course

At times of volatility, it can be very tempting to try to time investments into and out of markets. In reality, however, selling high and buying low is not easy to execute.

This is especially the case as markets can fall or recover more rapidly than expected. In contrast, remaining invested over the long term throughout market cycles can be far more rewarding; in other words, focus on time in the market rather than timing the market.

The benefit of a patient long-term disciplined approach to investing is illustrated in the chart below that shows the returns of the FTSE All-Share index since 1986. If you had invested £10,000 in the market 38 years ago, the compound return would have given you £277,516 in July 2024. If you had missed the 10 best days of returns over those 38 years, your money would have been reduced by £135,819. Missing the 60 best days would have reduced the investment returns by £255,205 to just £22,311.

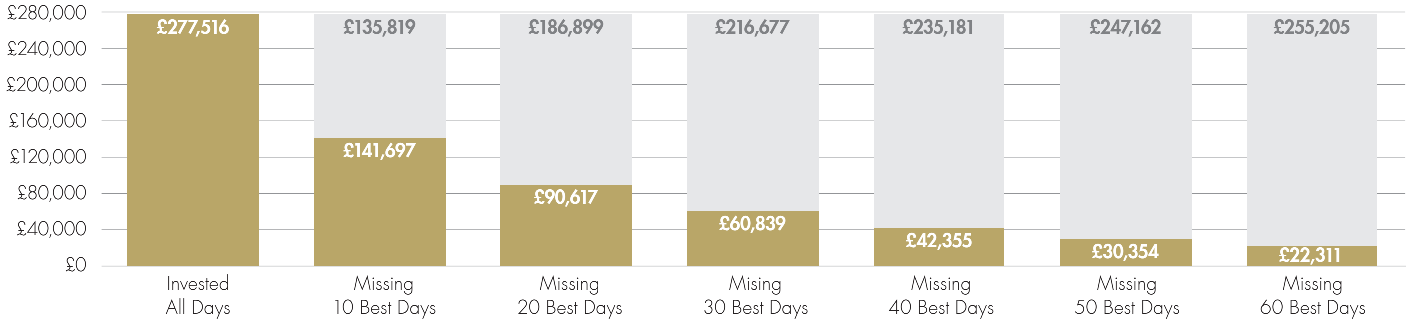
The challenge is exacerbated by the fact that the best days often come during the periods of maximum pain so timing them is extremely difficult. For example, the best day of returns since 1986 was on 24 November 2008 during the Global Financial Crisis (GFC) and came just two months after Lehman Brothers went bust. The second best day was 24 March 2020, which was the day after the UK went into lockdown during Covid.

The seventh best day of performance over the past 38 years was 21 October 1987, which was two days after the Black Monday crash. Three of the other four best days of performance also followed soon after the collapse of Lehman Brothers in September 2008. What these strongest days for returns have in common is that very few investors would have had the bravery or conviction to invest at those times.

This is why the Liontrust Multi-Asset team believes in a long-term robust and repeatable investment process which remains invested during the difficult times and takes away some of the excesses through holding a diversified portfolio of different asset classes, including bonds.

Missing out on the best days

Value of £10,000 invested in the FTSE All Share: January 1986 – July 2024



When were the 10 best days in the market?

+9.2%	+8.9%	+8.5%	+7.7%	+7.5%	+5.9%	+5.7%	+5.3%	+5.2%	+5.2%
24 Nov 08	24 Mar 20	19 Sep 08	29 Oct 08	13 Oct 08	10 Apr 92	21 Oct 87	08 Dec 08	13 Mar 03	10 May 10

Source: Morningstar, 1 January 1986 to 31 July 2024. **Past performance is not a guide to future returns**

Avoid locking in your losses

Many investors can feel overwhelmed when markets have large swings. Particularly during downturns, it's natural to think about selling your investment portfolio to protect yourself from further losses, this is also known as crystallising your losses. However, reacting emotionally to sudden changes in the market can often have adverse effects: investors could be locking in permanent losses when there is the potential for markets to bounce back.

Volatility is normal

Stock markets move up and down frequently, as the price of the individual stocks that make up a stock market increases and decreases with demand and supply. These movements can be daunting, but it might be reassuring to remember that in a lot of cases this volatility in markets is normal.

What influences market changes

There are many factors that influence price changes, such as company updates, regulation changes or even consumer sentiment. And these can be positive or negative. When multiple companies move in the same direction, the stock market as a whole can experience an upward or downward shift.

Investing for the long-term

Although stock markets move up and down daily or over the course of a year, or several years, they have historically trended upwards over longer periods of time. For investors who have a long-term investment horizon, selling your investments on a short-term view, regardless of price, can result in losing out if the market bounces back.

Behavioural biases

Reacting instinctively to situations is a human characteristic established over millions of years of evolution, when making a wrong move could have proved fatal, developing into our instinctive fear of loss. This means investors can often focus on the possibility of a short-term loss rather than the potential for a long-term investment gain.

Time invested in the market vs. timing the market

Rather than selling investments during a downturn, it might be useful to think about the phrase 'it's time in the market rather than timing the market'. Evidence suggests that trying to pick the right time to buy and sell is almost impossible and selling at the wrong time may lead to missing out on a market recovery.

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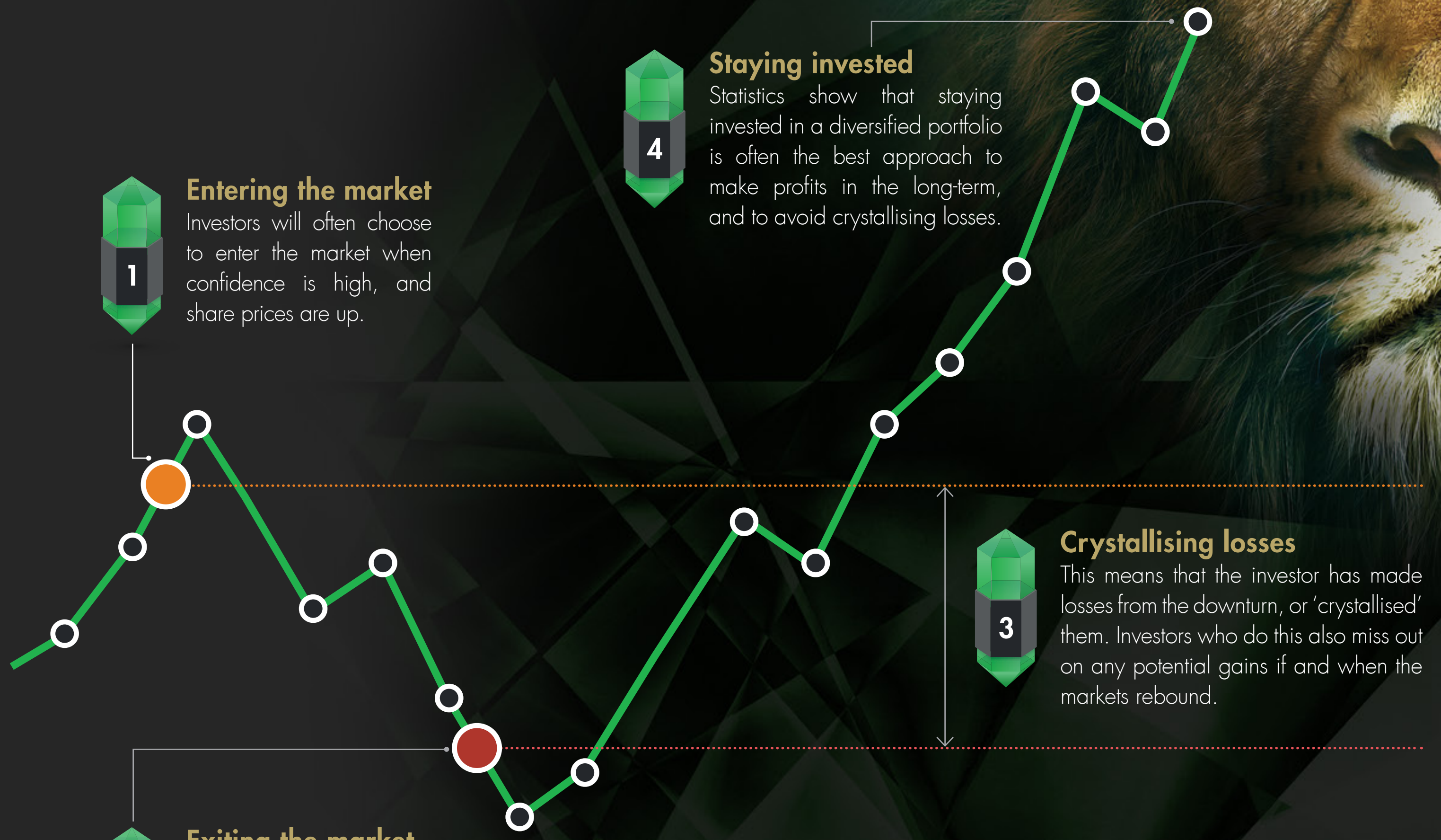
If in doubt...

Everyone's situation is different, so speaking to a financial adviser before making any decisions is a good first step. They may be able to tailor an appropriate long-term investment plan to meet your specific needs. They may also be able to advise you of an appropriate course of action if you are nervous about potential losses to your investments due to volatility in the markets.

Avoid crystallising your losses

Selling as the market nears its bottom is a form of 'behavioural bias' that can have a detrimental effect on your financial health.



1

Entering the market

Investors will often choose to enter the market when confidence is high, and share prices are up.

2

Exiting the market

Then when there is a downturn, some investors try to minimise their losses by selling and exiting the market when share prices are below what they paid for them.

3

Crystallising losses

This means that the investor has made losses from the downturn, or 'crystallised' them. Investors who do this also miss out on any potential gains if and when the markets rebound.

4

Staying invested

Statistics show that staying invested in a diversified portfolio is often the best approach to make profits in the long-term, and to avoid crystallising losses.

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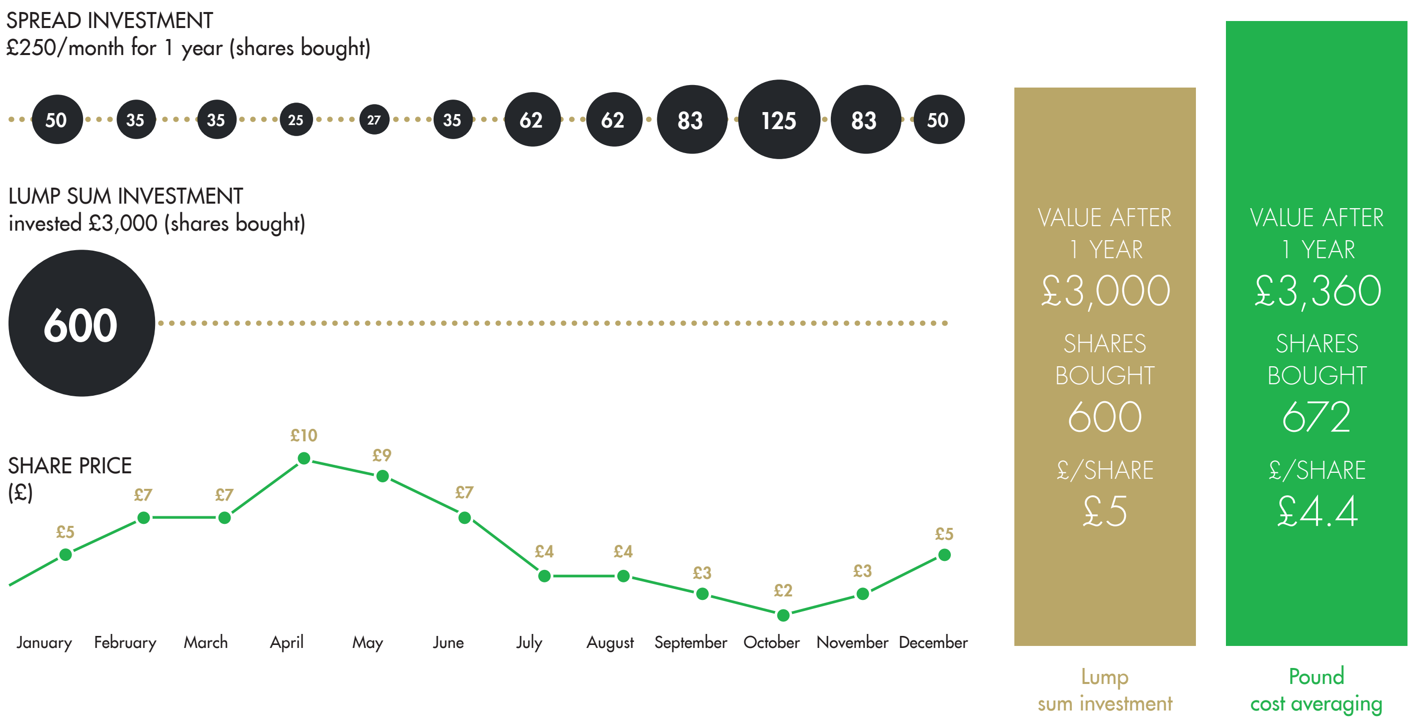
Benefits of pound cost averaging

Pound cost averaging (PCA) is an investment strategy with the goal of reducing the impact of volatility on large investments.

By dividing the total amount you are looking to invest into equal amounts, and investing at regular intervals, PCA aims to reduce the risk of incurring a substantial loss resulting from investing the entire 'lump sum' just before a fall in the market.

The technique is so-called because it has the potential of reducing the average cost of shares bought. PCA effectively leads to more shares being purchased when their price is low and fewer when the price is higher. As a result, PCA can lower the total average cost per share of the investment, potentially giving the investor a lower overall cost for the shares purchased over time. An example of this in practice can be seen below.

Please note that this strategy does not always guarantee better results, as in a steadily rising market your investment would have benefited more from being made as an initial entire 'lump sum'.



Source: Liontrust as at 31 December 2024. Data supplied for illustrative purposes only.

Five-point checklist

If you're worried that market movements might adversely affect your portfolio, here's a handy five-point investment checklist:

1. **Focus on your long-term goals**
   Although the market can move up and down over the course of a year, or several years, it has historically trended upwards over longer periods of time. If your investment horizon is longer than just a few years, remember that the market can recover losses over that period of time, although this is not guaranteed.

2. **Understand your tolerance to risk**
   If you know that you're likely to react to market declines, you may want to keep your portfolio in more conservative investments. It's much better to be a bit more conservative and hold on to your investments during market downturns than to buy riskier assets and sell during market crashes!

3. **Select the right mix**
   From year to year, it's difficult to predict which asset classes will be the best performers. Diversifying your portfolio using a range of different investments could help to ensure that they don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This differentiation in potential returns aims to reduce portfolio volatility, smooth out peaks and valleys in returns and help avoid unnecessary risk.

4. **Avoid locking in your losses**
   Selling as the market nears its bottom is a form of 'behavioural bias' that can have a negative effect on your financial health. Losses are locked in and opportunities for future gains are lost because investors often put money into the stock market as it rises and pull money out as it falls.

5. **Look at the bigger picture**
   Experts recommend remaining calm and looking at the bigger picture. Remember that most market downturns are normal. As an investor, it is risky to make decisions based on emotions, especially fear. History shows that the best strategy is to remain calm and maintain your long-term perspective. And if you're ever in doubt, speaking to a financial adviser before making a decision is a good first step.

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Important information

Key risks

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

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. 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;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

The issue of units/shares in the Liontrust Multi-Asset 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.

For the Liontrust Multi-Asset Model Portfolios, any performance shown represents model portfolios which are periodically restructured and/or rebalanced. Actual returns may vary from the model returns. There is no certainty the investment objectives of the portfolio will actually be achieved, and no warranty or representation is given to this effect, whether express or implied. The portfolios therefore should be considered as long-term investments.

Disclaimer

The Liontrust customer support team is here to answer your questions.

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Monday to Friday 9.00am–5.30pm; calls may be recorded. Calls are free from landlines and mobiles within the UK.

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