Liontrust Multi-Asset

LIONTRUST MULTI-ASSET FUNDS AND PORTFOLIOS

QUARTER IN REVIEW

1 April to 30 June 2022

- Suitability
- Value for Money
- Transparency

LIONTRUST
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ECONOMIC AND MARKET REVIEW AND OUTLOOK

Recession fears dominate in worst first half for equities in half a century

- S&P 500 index down over 20% in the first six months of 2002, in worst start to a year since 1970.
- Beyond geopolitics and outbreaks of Covid, the key questions this year and beyond are when we will see peak hawkishness from central banks and how successfully they can engineer a soft landing while also curbing inflation.
- These banks are living up their name and playing a central role in markets, with rate hiking activity dominating sentiment. The US Federal Reserve pushed through a 0.75% hike in June, the largest since 1994, and the same is expected in July.
- Other central banks continue to follow suit, with five rises from the Bank of England since December and the European Central Bank hiking for the first time since 2011 in July.
- Economic growth appears to be moderating but an inflection point in inflation is yet to follow.
- We continue to believe inflation should start to fall in the second half of the year as rolling base effects from Covid shutdowns work through the system, although – to state the obvious – the higher it climbs, the longer it could take to fall.
- Work from the World Bank has compared the current state of the global economy with the stagflation-blighted 1970s.
- Concerns are rising around slowing growth but we feel a technical, 'small R' recession (two consecutive quarters of negative growth) is more likely than a 'real' recession, where a protracted slowdown emerges.

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Our view of investment markets

- With stocks having derated so far, pricing in aggressive policy tightening by central banks, we see a buying opportunity in markets but will take a patient approach as we move towards our target asset allocation.
- UK equities remain cheap and even the S&P 500, long the poster child of overpriced tech giants, is trading slightly below its 10-year average after recent selling, at around 16 times forward earnings.
- We may already be more than halfway through any bear market decline (which tends to last nine to 12 months). While the average peak to trough of 30-40% suggests more room to fall for the S&P 500, for example, most bear periods also include sharp short-term reversals.
- Given the role of central banks and their focus on – hopefully softening – inflation figures to direct policy, the summer months and beyond are likely to be volatile.
- Our view is that post-corrections, markets should move beyond indiscriminate selling and focus more on what the earnings cycle is actually telling us.
- This is typically an environment where active managers can prove their worth in assessing how inflation is affecting companies around the world and which are best placed to thrive.
- Yields continue to rise (and capital values fall) as interest rates climb, putting pressure on government bonds.
- Fixed income has not only correlated with equities in the short term (negating the impact of diversification), its performance is worse, particularly in the UK.
- The best antidote for short-term volatility is a diversified portfolio and a resolute focus on long-term outcomes.

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Tactical Asset Allocation

- This table shows how confident we are about markets and asset classes, with five the most and one the least. We have moved our overall target Tactical Asset Allocation (TAA) score down from four to three but would say we are actually more at 3.5, reflecting the fact navigating higher inflation and slowing growth calls for slightly more defensive positioning.
- We feel risks to the downside are more prevalent than in previous quarters, so the lower ranking is warranted.
- In our most recent review, our ranking for European equities and European smaller companies has also fallen from four to three.
- We stress this remains a positive score but Europe is the region most at risk from the war in Ukraine, with all the geopolitical fallout and sanctions that may bring.

	1	2	3	4	5	Direction of travel
Overall			•			↓
Cash		•				↑
UK gilts		•				↑
Global government bonds		•				↑
Investment grade corporate bonds		•				↓
Index-linked bonds			•			↑
High yield			•			↓
Emerging market debt			•			↑
Convertibles			•			↓
Equity overall				•		↓
US equity			•			↑
US small caps			•			↓
UK equity				•		↑
UK small caps				•		↑
European equity			•			↓
European small caps			•			↓
Japanese equity			•			↓
Japanese small caps			•			↓
Emerging markets equity				•		↓
Asian equity				•		↓
Property			•			↑
Commodities			•			↑
Hedge funds			•			↓
Absolute return			•			↓

Source: Liontrust, 11 May 2022. Not all the asset classes are used in all the MA portfolios and funds

Current positioning

- While our overall TAA score has fallen to three, equities remain a four and we see most markets as attractively priced, particularly after indiscriminate selling over recent months.
- The obvious risks lie in tightening monetary policy and slowing growth but there is a sense share prices, via corrections, have already factored in worsening prospects for 2022.
- That said, we expect returns to be lower than seen in the recovery since the sharp Covid shock back in March/April 2020.
- Amid an ongoing value rotation, growth stocks, particularly in the US, have fallen into a bear market, which offers the opportunity to top up growth and quality holdings.
- We have seen the US as prohibitively expensive for much of the last decade and while still not attractive, it is less unattractive after corrections.
- Elsewhere, we continue to favour markets such as the UK, which is still cheap despite a strong run this year.
- For now, we retain a lower duration position in our fixed income allocation as central banks prevaricate over the timing and extent of rate rises and tapering.

WSS/MPS rebalance and underlying fund changes

Given the current backdrop, it seems sensible to suggest the drivers of investment performance and risk could be very different over the next decade compared to the last 10 years. We have therefore reviewed our funds and portfolios in the context of higher inflation uncertainty and elevated volatility in equity and bonds markets. Over the coming weeks, we will rebalance the WSS and MPS portfolios through our annual strategic asset allocation (SAA) update, shifts to TAA and changes to fund holdings, both in terms of the active/passive split and underlying managers.

- Taking SAA first, we completed our annual review during Q2 and began the usual gradual shift towards the new allocation. It is important to reiterate that moves are not tactical but rather how the data dictate we can best achieve our volatility targets. Changes within equities reflect an increased return profile in developed versus emerging markets. This has meant a fall in allocations to UK, European and emerging market equities (including small caps within the first two) and an increase in the US (including small caps), Japan and Asia. Elsewhere, developed market government bond exposure fell again and high yield declined, while inflation-linked and emerging markets debt increased.

- Following our most recent quarterly review, as stated, we have moved our TAA overall score down from four to three. We have reduced the magnitude of our active bets, cutting back equity exposure and tactically increasing cash to give us scope to re-enter markets when valuations are attractive.
- We have trimmed the tracking error and moved closer to the SAA (which is effectively our default asset allocation with no tactical calls) by lowering the equity overweight to neutral. We have also cut risk further by lowering exposure to equity beta-like assets such as convertibles, moving that money into our alternatives allocation via a position in the **Liontrust Diversified Real Assets Fund (DRAF)**. We believe real assets should provide a differentiated return and income profile and, importantly given the backdrop, an element of inflation hedging.
- We have also increased cash from around 2% to 3-4%, offering both more protection against volatility and some dry powder to invest at opportunistic moments.
- More broadly, we are also using this rebalance to alter the blend of active and passive funds across the portfolios, focusing on areas where we feel we can add the most value through selecting active managers. For UK and European equities, for example, we are moving to an overall 70%/30% split between active and passive funds, compared to 40% active/60% passive in the US.
- Somewhat counterintuitively, overall passive exposure across the portfolios has increased (by an average of 1.9% for the Growth portfolios) as a result, but this means we are applying a consistent approach to active/passive splits across our full Multi-Asset range.

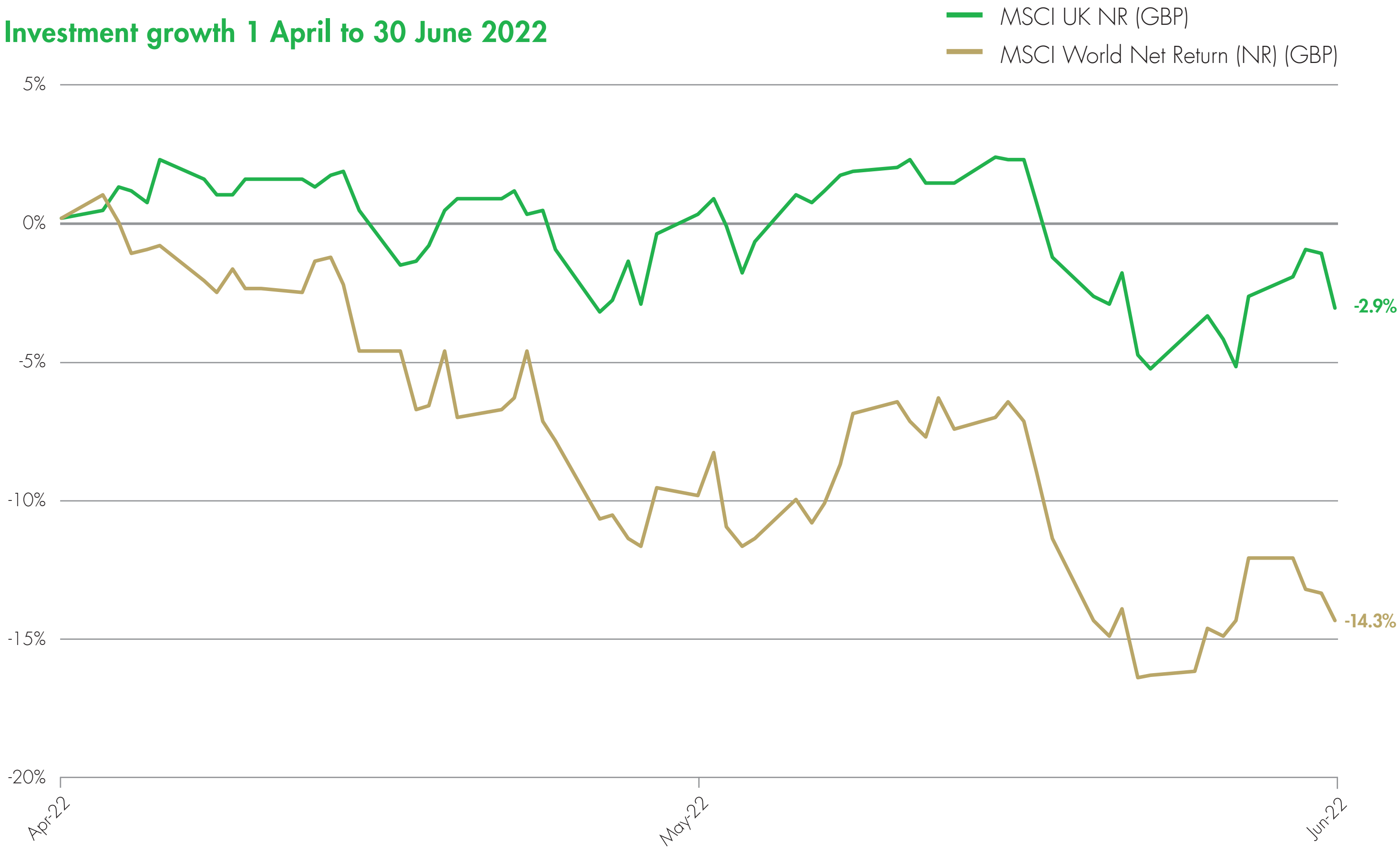
- While passive exposures have modestly increased, we also remain selective in our active managers and, again, have taken this rebalance as an opportunity to make changes.
- In the Income portfolios, we are replacing **Redwheel Enhanced Income** with **JOHCM UK Dynamic**. While the deep-value RWC fund has performed well in the recent rotation, this comes after several years of weaker returns. We have concluded that the team's concentrated strategy, investing in deeply discounted companies, carries too much risk of either mistakes or falling into value traps in declining industries. In contrast, JOHCM UK Dynamic is more diversified, with strict sector limits around portfolio construction, investing in around 50 companies versus RWC's 25 to 30. While the sector framework and identification of a catalyst for change result in a 'value-lite' style, this mindset leads to a more diversified portfolio, which is arguably more open to opportunities in recovering and/or undervalued companies.
- In the Growth portfolios, we are replacing **Man GLG Continental Europe** with **BlackRock European Dynamic** and **AXA Framlington US Growth** with **AB American Growth**.
- These two European funds are similar so this move is more a case of rationalisation, bringing our Multi-Asset Portfolios and Funds closer together, as opposed to concerns with the strategy. In essence, both pursue a high-quality approach but BlackRock European Dynamic is backed by a larger team and has a more flexible strategy, with a high-quality backbone but capacity to rotate into value when the opportunity exists.
- Our move to AB American Growth is another example of rationalisation as the AXA Framlington fund has performed well. Again, both look to uncover persistent growth opportunities but AB American Growth tends to be a little more concentrated and adopts a purer growth style, which we believe is viable given the US market composition – although it should be blended with a more core or value-biased proposition.

PERFORMANCE OF INVESTMENT MARKETS AND ASSET CLASSES

UK market continues to outperform as equities suffer

Equities continued to struggle in a volatile quarter, particularly anything with a growth bias as longer duration companies are more vulnerable to higher interest rates. Against this backdrop, the old economy-focused UK market, with high exposure to financials and a skew to energy and mining stocks, outperformed global equities.

Investment growth 1 April to 30 June 2022



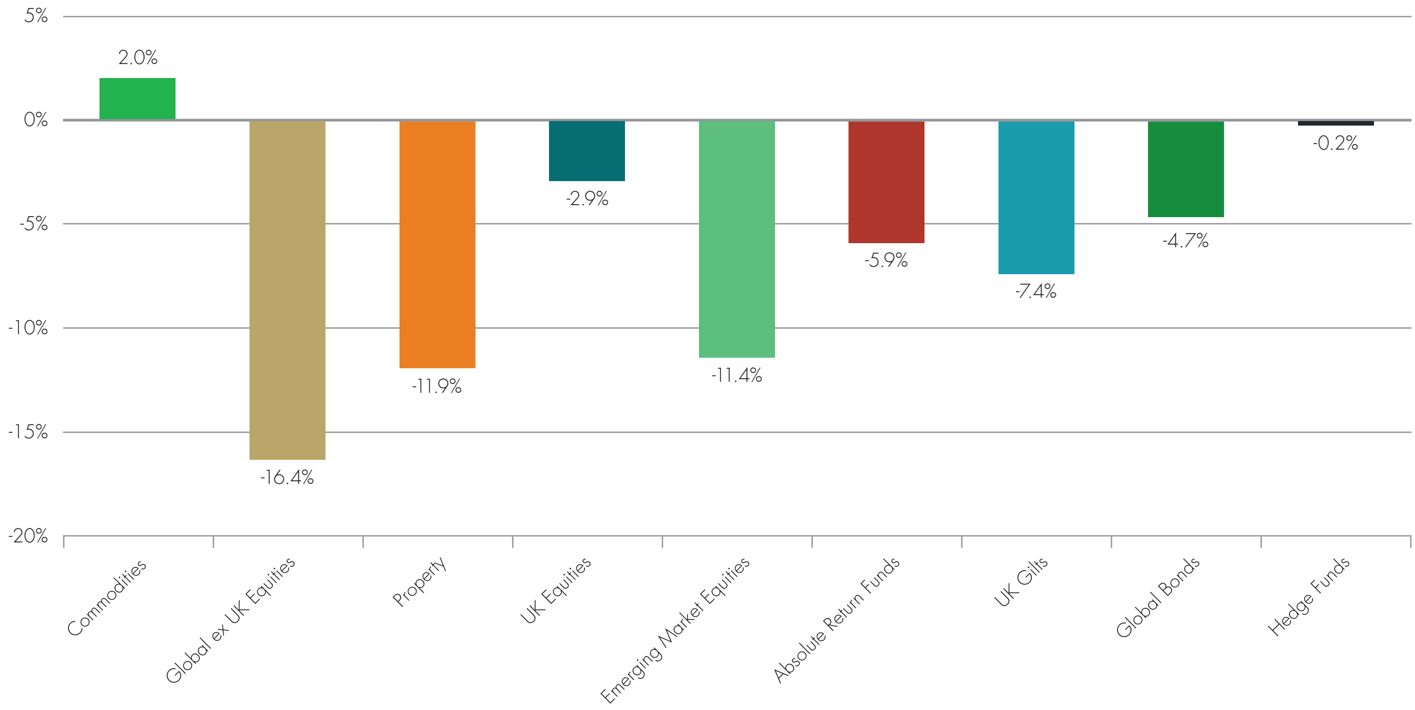
Source: Morningstar, 01.04.22 to 30.06.22. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.**

Performance of asset classes

Another challenging quarter for assets as diversification breaks down

While not matching its returns over the first quarter, commodities was still the only asset class in positive territory over Q2, as the oil price continued to rise and areas like gold spiked as a store of value. Elsewhere, UK equities had a stronger period on a relative basis as a value and energy-heavy market but everything else was further in the red. Fixed income would usually be expected to offset equity sell-offs to some extent but we are in a period of extreme market stress in which assets have correlated, with bonds struggling in the face of inflation and rate rises.

Asset class returns Q2 2022 (in local currency terms)



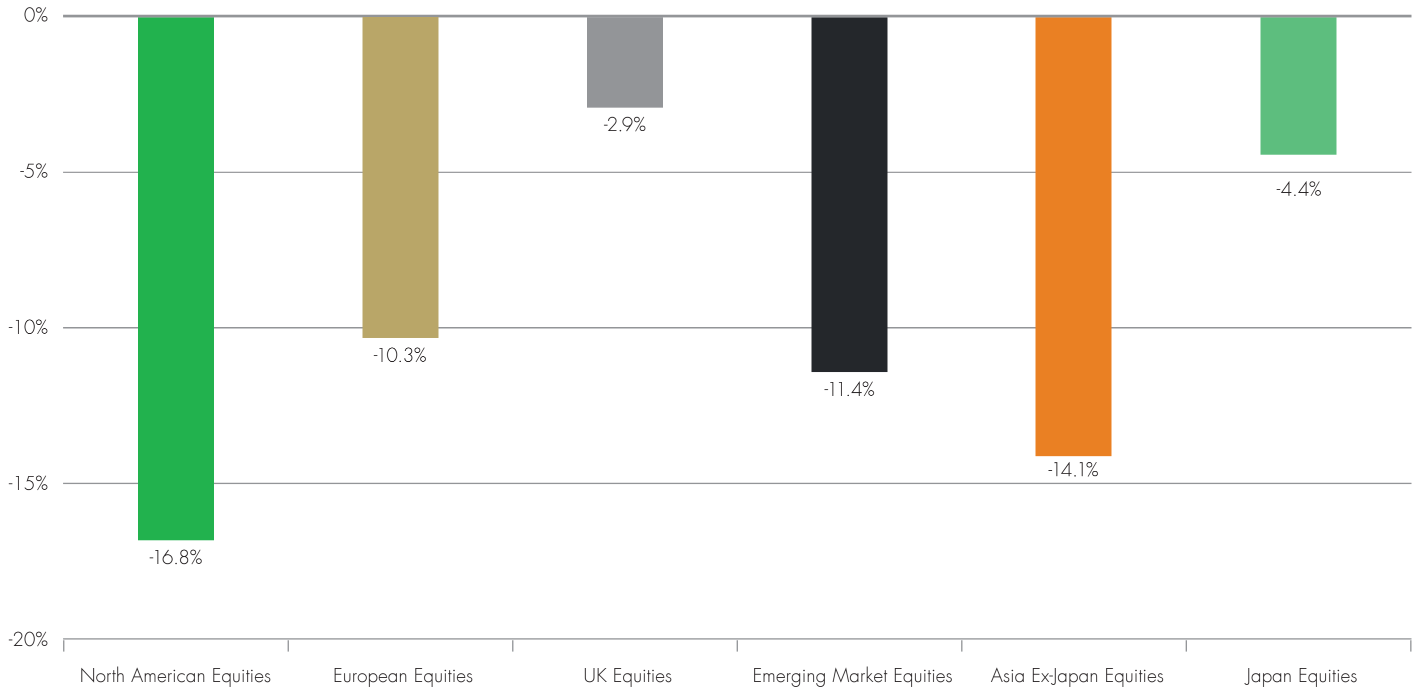
Source: Morningstar, 30.06.22.
Note: The Hedge Fund performance is to 31.05.22.

Performance of global stock markets

UK and Japan relative highlights in a difficult quarter for equities

In a tough period for equities overall, the UK stood out due to its skew towards value and energy. US equities were the worst performer, with the S&P 500 registering its weakest first half of a year since 1970, while Japanese markets held up better, buoyed by signs of a Chinese recovery and the Bank of Japan remaining a steadfast dove on interest rates.

Equity returns Q2 2022



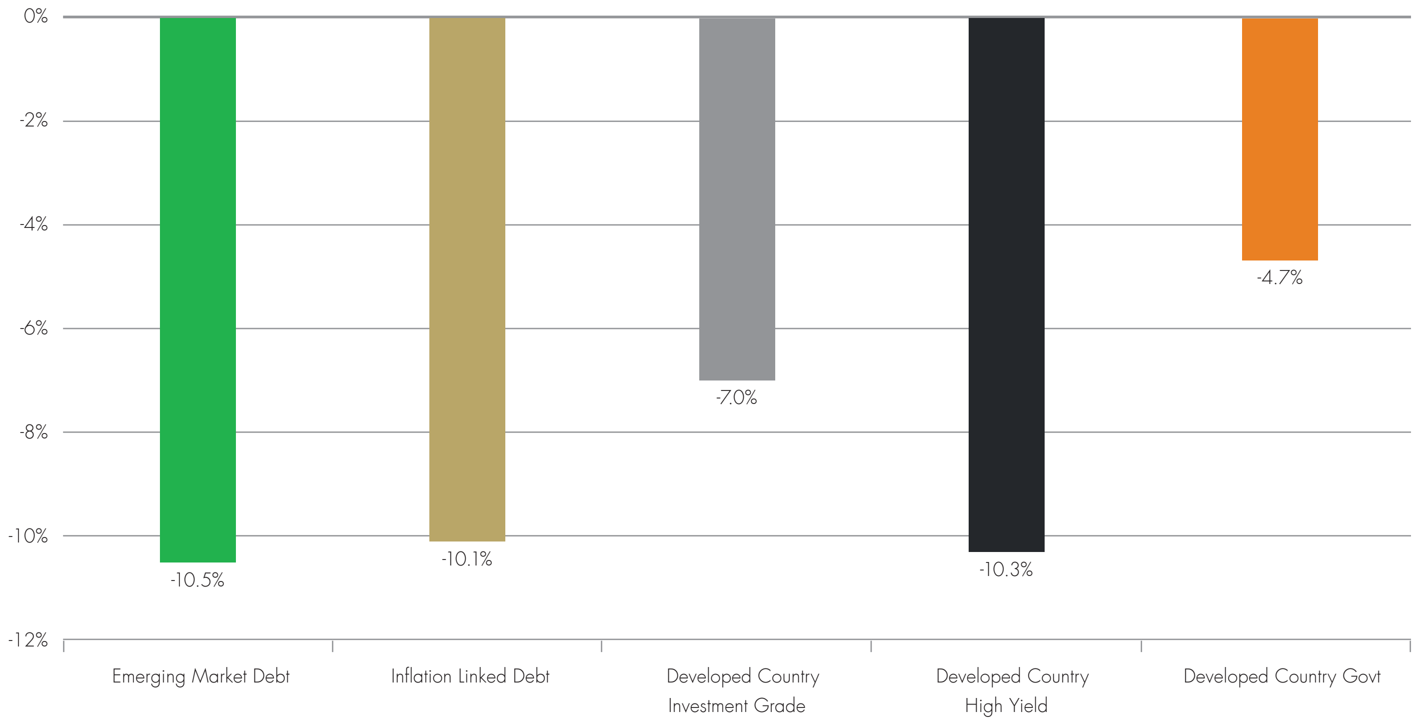
Source: Morningstar, 30.06.22.

Performance of bond markets

Rising yields spell difficult period for fixed income

Yields continue to rise (and capital values fall) as interest rates climb, with emerging market debt hit hard by the Russia situation. Even inflation-linked debt, which has held up well over recent quarters, is now struggling alongside the rest of the spectrum.

Bond returns Q2 2022



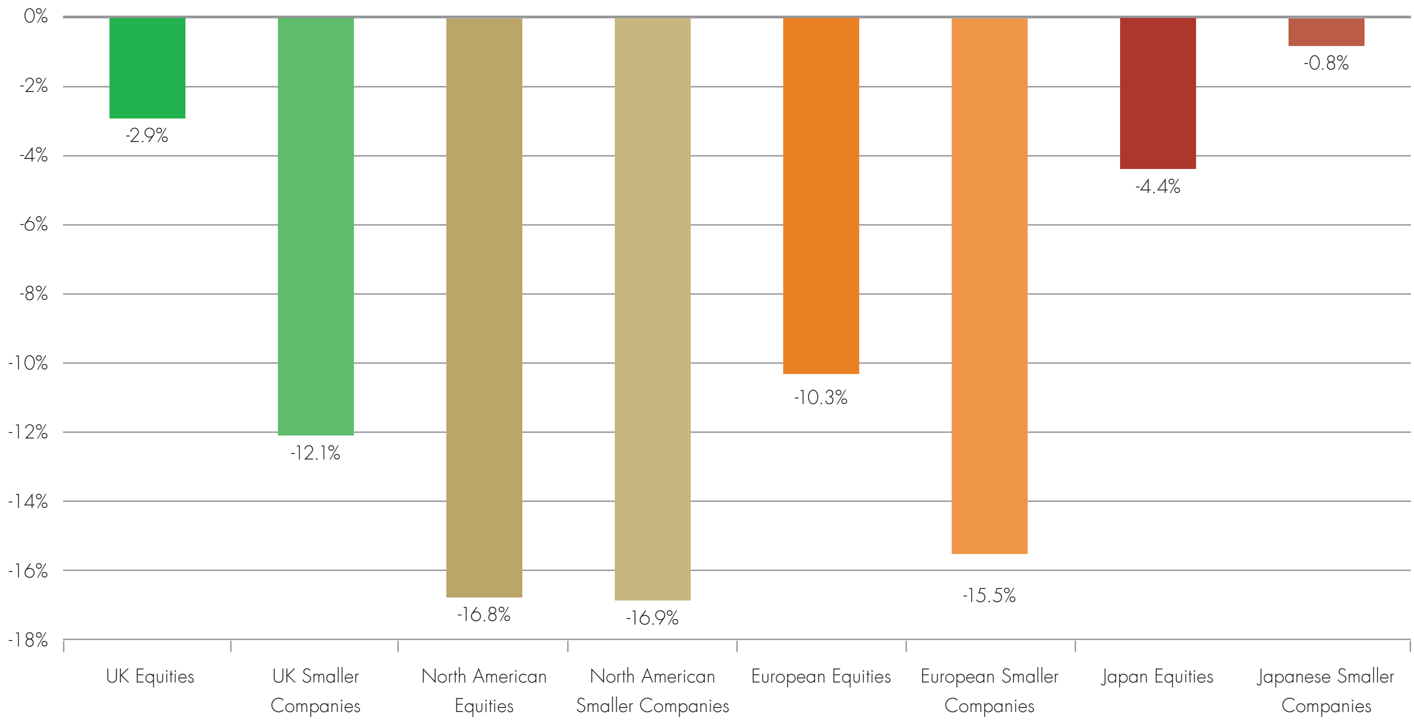
Source: Morningstar, 30.06.22.

Large versus small-cap equities

Large caps broadly outstrip small but declines across the board

With equities down across the board, large caps broadly continued to outperform small amid the value rotation and a positive backdrop for energy. The gulf remains widest in the UK but, overall, small caps are struggling as recession fears increase and concerns about domestic spending rise.

Equity returns Q2 2022



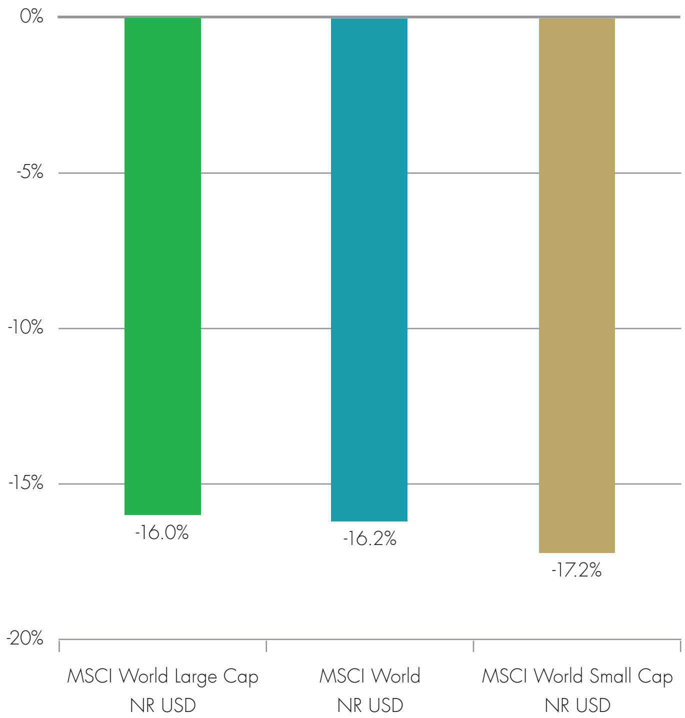
Source: Morningstar, 30.06.22.

Global large cap vs small cap and value vs growth

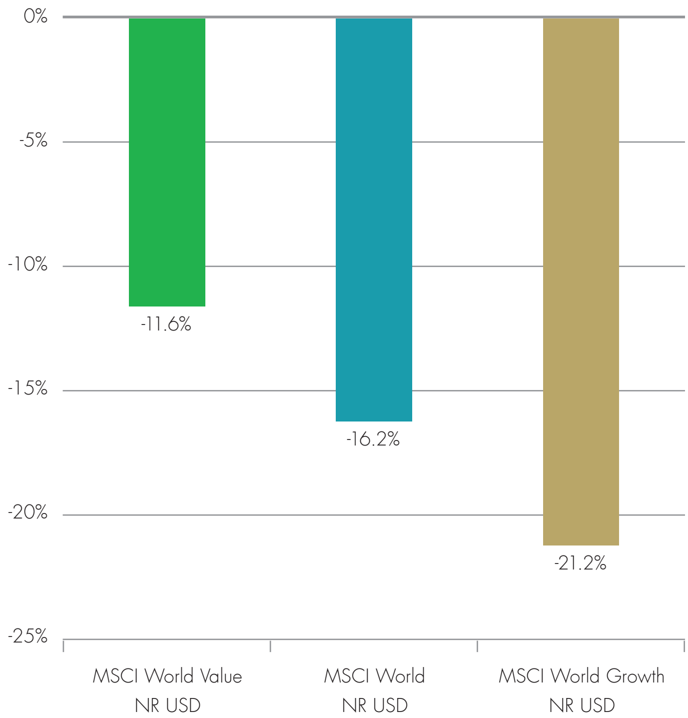
Large-cap and value continue outperformance

Large caps broadly outperformed small over the quarter from a global perspective, but the difference was fairly small as equities suffered in the round. Value maintains a far larger gap versus growth as the rotation towards the former continues to play out across markets.

Global large cap versus small cap returns Q2 2022



Global growth versus value returns Q2 2022



Source: Morningstar, 30.06.22. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.**

VIEWS FROM OUR FUND MANAGERS

In this section, we highlight a selection of comments from fund managers we have interviewed over the quarter, revealing different views on the key questions of the moment. Not all the managers included are held in our funds and portfolios, and we have kept comments anonymous so people feel comfortable expressing open and honest opinions.

Inflation and recession fears dominate but 'glimmers of hope' in Asia

Against a challenging backdrop, one multi-asset income manager we saw over the quarter noted glimmers of hope, particularly in Asia: 'Clearly the global cycle dominates economic activity in the region but we are starting to see a nascent cycle emerge, especially in China,' the manager said.

Draconian lockdowns are starting to ease and the Purchasing Managers' Index (PMI) in China is moving up, despite currently remaining below 50, which indicates a non-expansionary environment. 'While we are positive on the cyclical factors, the key issue is whether Asia can outperform when the rest of the world is hurting,' added the manager.

Key issues dictating that outperformance include geopolitics and we spoke to an emerging markets manager grappling with the question of what sanctions on Russia could mean. This manager is not surprised by company-level sanctions but believes trying to isolate energy, with the EU relying far too much on Russia for this, is more questionable: what does the West achieve by negatively impacting the European population?

Additionally, this team did not predict central banks freezing billions of Russian reserves overnight and questions what this means for the world.

A further factor influencing emerging market performance has been regulatory uncertainty on Chinese technology companies and another manager we saw said that while we are reaching peak noise on this, they are not expecting any of the proposals from Chinese officials to be reversed.

At the stock level, this manager has sold a stake in Alibaba as a result, for example, halving the position in 2020 and exiting the following year.

'The Chinese government likes data companies, which should be more resilient – Tencent has a more diverse earnings stream and overseas investing has been successful for them,' they added. 'Nevertheless, we are finding more best-in-class leaders in Taiwan, South Korea and Australia.'

Staying in this region but changing asset class, we heard from an emerging markets debt (EMD) manager, who said this area has been cheap and is looking even cheaper after recent events. EMD spreads started widening in 2021, with many central banks in emerging economies taking on tightening pain, and it is currently possible to get a 7% yield, rising to double digits in high yield. This manager said they are not (currently) worried about default rates given record profits and EMD investors are getting paid purely for the uncertainty in the region.

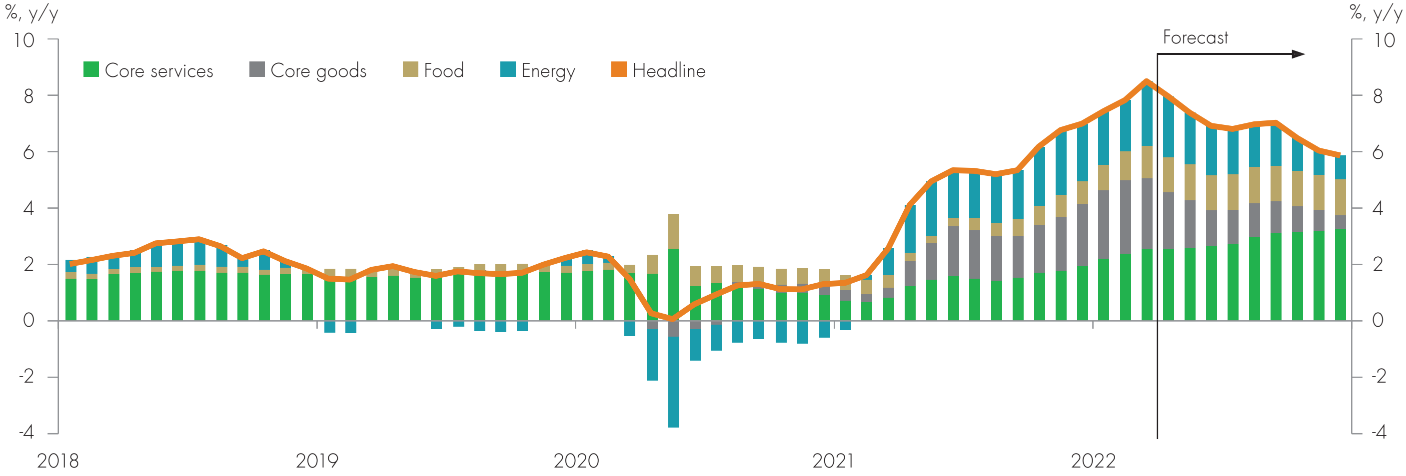
Moving closer to home, we spoke to a quality growth UK manager to discuss how investors can deal with the rising cost of living; while they said there is no perfect hedge against inflation, this team continues to believe equities are not a bad option and can do a decent job over the long term, albeit with short-term drawdowns as we have seen recently.

'The delta of the inflation surge has been difficult to handle, which is making companies cautious and reluctant to raise guidance as they do not know what will happen next,' the manager said. 'Typically, our companies are seeing wage inflation of 2-4% but software developers are getting 5%. In this environment, it is helpful to have higher margins and the average gross margin of our portfolio is over 50%. Other features that should help defend margins are loyal customers, high repeat revenue, and low capital intensity and debt levels.'

To end on a more sobering note, a strategist we saw present over the quarter feels the big picture suggests we are in a synchronised downturn around the world. 'If we take the pillars of growth, namely consumption, investment, trade and government spending, it is hard to see economies exporting their way out of the slowdown', they said.

'Government fiscal stimulus will probably not be forthcoming as it could compound the inflation problem,' the strategist added. 'Finance costs have shifted much higher so the continued expansion of investment seems optimistic, but then we are left with consumption, which is already under pressure with household spending having to rise. Overall, we could be looking at quite a pronounced slowdown.'

Breaking down inflation: the Fed's race against time



Source: Bureau of Economic Analysis, Haver Analytics, Deutsche Bank, FRB San Francisco, May 2022. CPI: Consumer Price Index

At a recent conference we attended, the prevailing view was that the Federal Reserve is in a race against time on inflation, and this could either be resolved or the whole economy exposed in a year. The conundrum is that the Fed thinks it can get interest rates up to 3-3.5% and inflation will come down from 9% but needs to do this quickly while also building up dry powder for any potential recession. US debt is too high to 'do a Volcker' – in the early 1980s, Fed chair Paul Volcker hiked rates from 11.2% to the highest ever level of 20% by June 1981, often in 2% increments and at unscheduled meetings – as interest payments would take up 20% of the Fed budget.

Looking further out, this group has one eye on the 2024 US presidential election, which could potentially be one of extremes, as well as how the country proves able to deal with more fundamental shifts. The period from 2024 to 2030 will see the US losing its crown as the world's largest economy and, in 2026, India is set to overtake China as the most populous country.

To be clear, we question these more bearish views and believe the idea of a 'global' slowdown only goes so far: in reality, the three largest economic blocs – the US, eurozone and China – face very different challenges in nature and scope, which will have implications for both any downturn and subsequent recovery.

As stated earlier, we also believe a technical, 'small R' recession (two consecutive quarters of negative growth) is more likely than a 'real' recession, where a protracted slowdown emerges – but, as always, are keen to take in as broad a range of views as possible.

LIONTRUST MULTI-ASSET PERFORMANCE

MPS Growth

Another difficult three months for markets saw most of our holdings in negative territory, with concerns around potential recession in a rising interest rate environment and ongoing war in Ukraine weighing on sentiment.

Fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period; lack of bond exposure was therefore a relative positive for our higher-risk models.

As highlighted earlier, we retain a lower duration position in our bond allocation as central banks prevaricate over the timing and extent of rate rises and tapering, and AXA US Short Duration High Yield was among our better performers in Q2.

With the value rotation continuing, our equity holdings skewed towards that end of the market were the top performers over the period but even these struggled amid widespread volatility. Man GLG Japan CoreAlpha was the strongest holding, followed by familiar value-oriented names such as Fidelity Special Situations, JPM US Equity Income, Schroder Asian Income and Schroder Income.

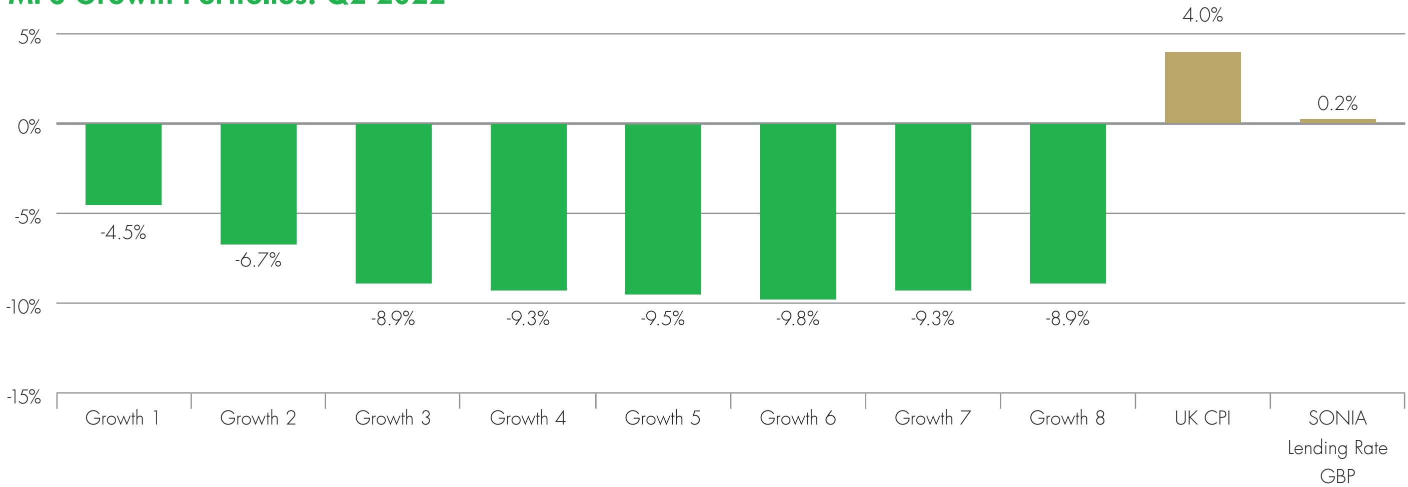
While our long-term call to be overweight value was positive on a relative basis, it was more than offset by weaker returns from growth, quality and particularly small-cap positions, with Artemis US Smaller Companies, Baring Europe Select and Janus UK Smaller Companies among the worst performers over the quarter. As ever, fears of imminent recession are having a greater impact on domestically focused small caps.

We added the Liontrust Diversified Real Assets Fund to the portfolio in Q1 and it has continued to feature among the better performers, providing the uncorrelated returns and inflation protection we were seeking.

Another relative positive was the emerging markets exposure, which had a better quarter than several other markets as Chinese equities rallied on the back of authorities lifting the strict Covid lockdown in Shanghai. This helped short-term relative performance for higher-risk models, which have considerable exposure to the region.

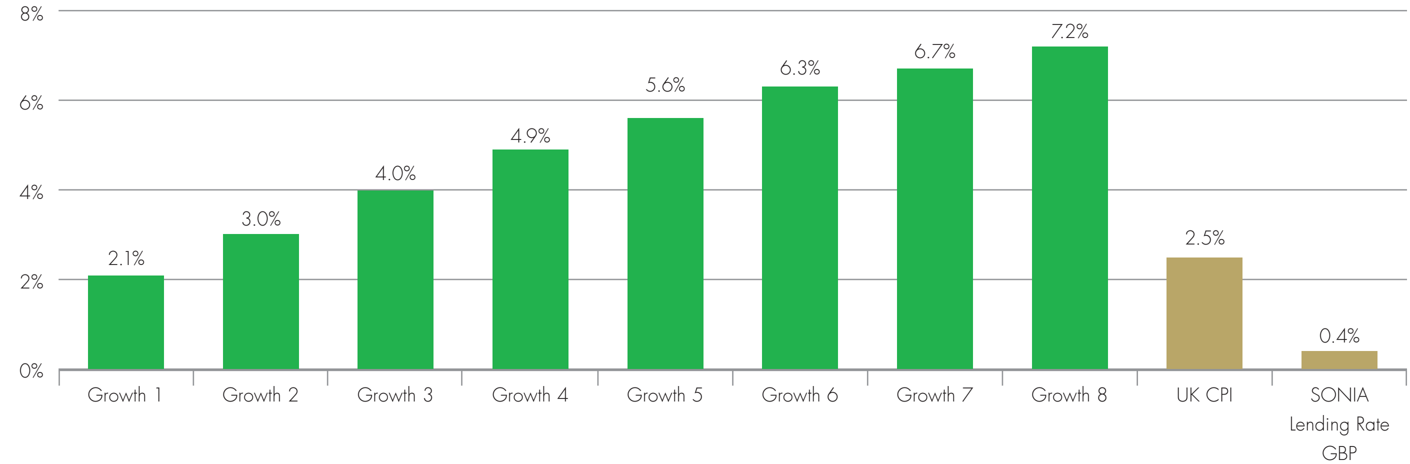
While the Chinese index has climbed almost 19% since falling to a trough in April, the outlook for the world's second-largest economy remains subdued and commentators are questioning whether the rebound is a mean-reversion to pre-lockdown levels rather than a sustainable rally. For now, however, funds including Artemis SmartGARP Global Emerging Markets Equity and passive exposure via Fidelity Index Emerging Markets were among our better performers.

MPS Growth Portfolios: Q2 2022



Source: Morningstar, Liontrust, 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Note: CPI = Consumer Price Index (Bank of England current CPI target is 2%). CPI and SONIA are used to reflect returns from inflation and cash, and are not formal performance comparators for the portfolios.

MPS Growth Portfolios: Annualised returns since inception



Source: Morningstar, Liontrust. The above graph is based on data from 31.05.14 to 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Note: CPI = Consumer Price Index (Bank of England current CPI target is 2%). CPI and SONIA are used to reflect returns from inflation and cash, and are not formal performance comparators for the portfolios. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

MPS Income

Another difficult quarter for markets saw all our holdings in negative territory, with concerns around potential recession in a rising interest rate environment and ongoing war in Ukraine weighing on sentiment.

Fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period.

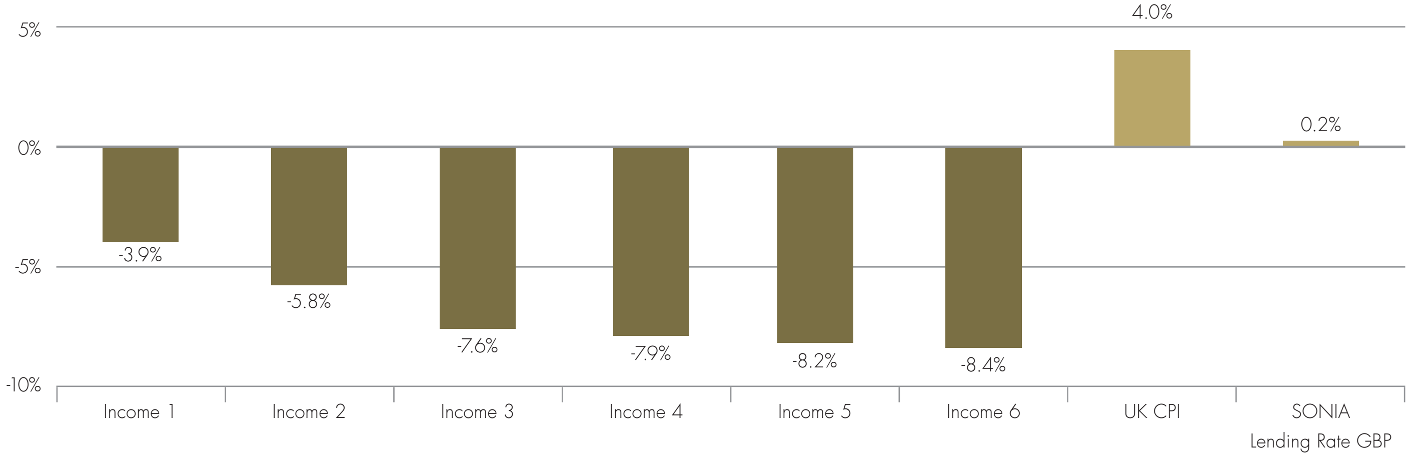
As highlighted earlier, we retain a lower duration position in our fixed income allocation as central banks prevaricate over the timing and extent of rate rises and tapering, and AXA US Short Duration High Yield was among our better-performers in Q2.

With the value rotation continuing, our equity holdings skewed towards that end of the market were the top performers over the period but even these were unable to climb into positive territory amid widespread volatility, including Redwheel Enhanced Income, Man GLG Japan CoreAlpha, JPM US Equity Income and Schroder Asian Income.

While our long-term call to be overweight value is positive on a relative basis, however, it has been more than offset by weaker returns from our growth, quality and particularly small-cap positions, with Artemis US Smaller Companies, Baring Europe Select and Janus UK Smaller Companies among the worst performers over the quarter. As ever, fears of imminent recession are having a greater impact on domestically focused small caps.

We added the Liontrust Diversified Real Assets Fund to the portfolio in Q1 and it has continued to feature among the better performers, providing the uncorrelated returns and inflation protection we were seeking.

MPS Income Portfolios: Q2 2022



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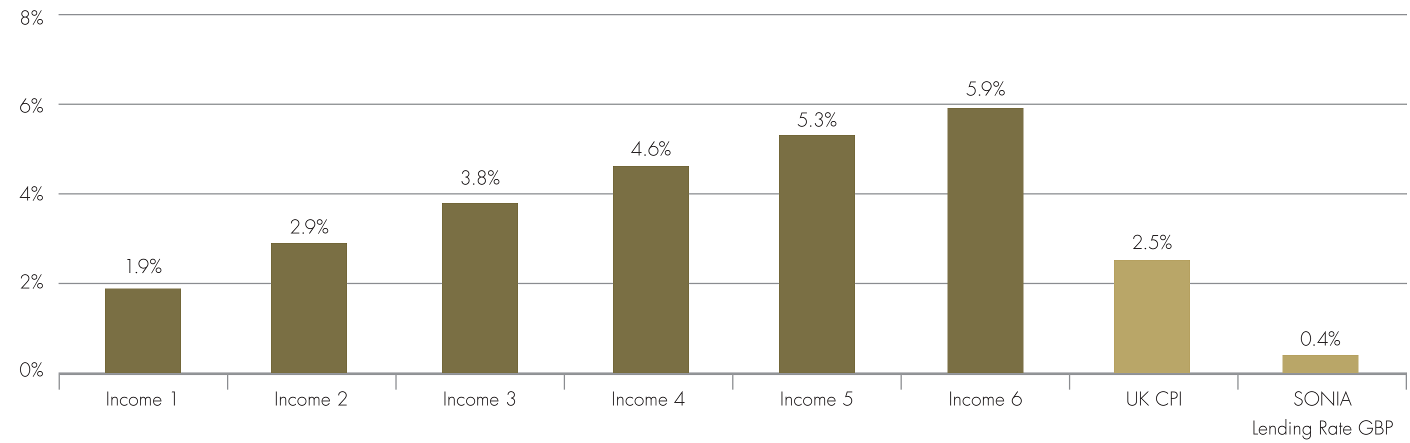
MPS Income Portfolios: Annualised returns since inception



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MPS Dynamic Beta

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Fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period; lack of bond exposure was therefore a relative positive for our higher-risk models.

As highlighted earlier, we retain a lower duration position in our fixed income allocation as central banks prevaricate over the timing and extent of rate rises and tapering, and AXA US Short Duration High Yield was among our better-performers in Q2.

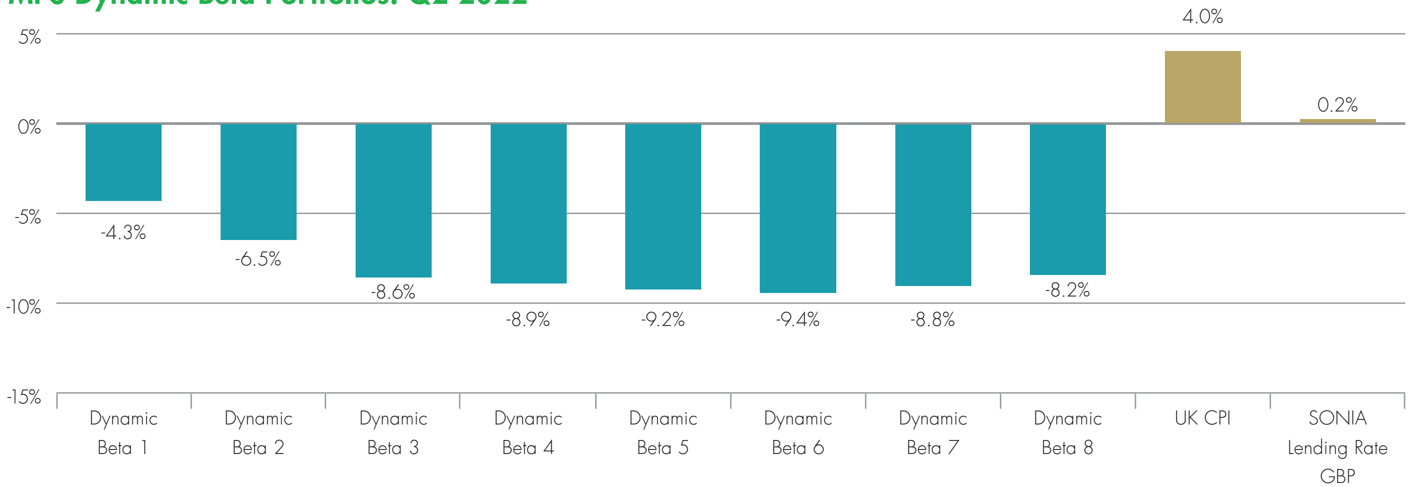
With the value rotation continuing, our UK exposure via Fidelity Index UK remains among the stronger performers, as the market has benefited from its higher weighting to sectors such as financials and energy. This was more than offset by our small-cap positions, however, with Artemis US Smaller Companies, Baring Europe Select and Janus UK Smaller Companies among the worst performers over the quarter. As ever, fears of imminent recession are having a greater impact on domestically focused small caps.

We added the Liontrust Diversified Real Assets Fund to the portfolio in Q1 and it has continued to feature among the stronger performers, providing the uncorrelated returns and inflation protection we were seeking.

Another relative positive was emerging market exposure, which had a better quarter than several other markets as Chinese equities rallied on the back of authorities lifting the strict Covid lockdown in Shanghai. Again, this helped short-term relative performance for higher-risk models, which have considerable exposure to the region.

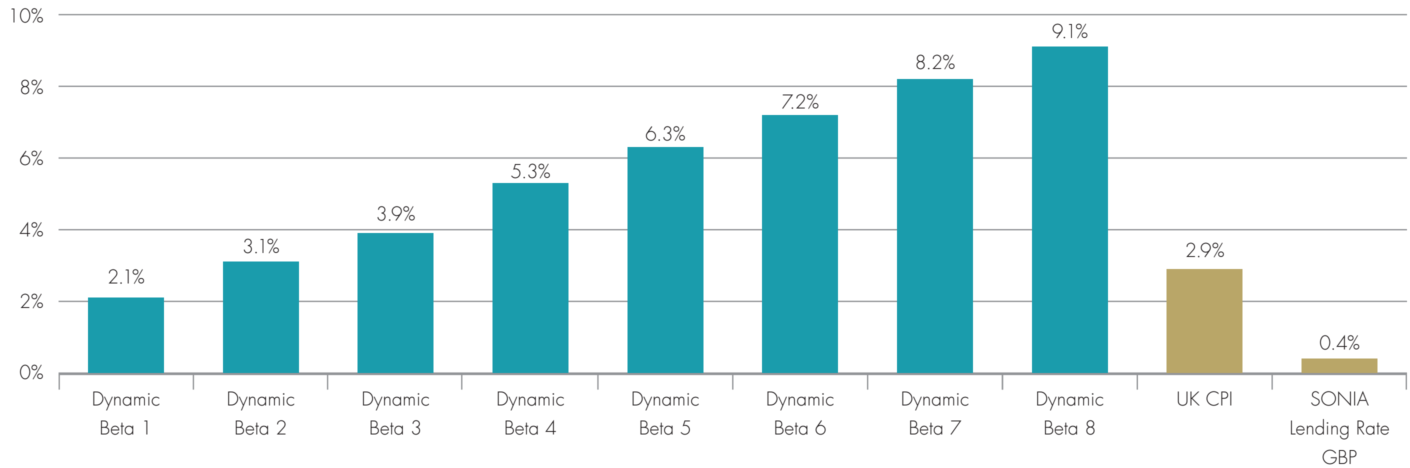
While the Chinese index has climbed almost 19% since falling to a trough in April, the outlook for the world's second-largest economy remains subdued and commentators are questioning whether the rebound is a mean-reversion to pre-lockdown levels rather than a sustainable rally. For now, however, exposure via Fidelity Index Emerging Markets was among our better contributors.

MPS Dynamic Beta Portfolios: Q2 2022



Source: Morningstar, Liontrust, 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Note: CPI = Consumer Price Index (Bank of England current CPI target is 2%). CPI and SONIA are used to reflect returns from inflation and cash, and are not formal performance comparators for the portfolios.

MPS Dynamic Beta Portfolios: Annualised returns since inception



Source: Morningstar, Liontrust. The above graph is based on data from 30.09.15 to 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Note: CPI = Consumer Price Index (Bank of England current CPI target is 2%). CPI and SONIA are used to reflect returns from inflation and cash, and are not formal performance comparators for the portfolios. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

MA Active

Another difficult three months for markets saw most of our holdings in negative territory, with concerns around potential recession in a rising interest rate environment and ongoing war in Ukraine weighing on sentiment.

As we highlighted earlier, fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period; lack of bond exposure was therefore a relative positive for our higher-risk models.

The current SAA on our MA funds maintains a large weighting to UK gilts for the Reserve and Moderate offerings and although this weighting has fallen significantly (bringing overall duration down), it continues to have an outsized impact on overall performance.

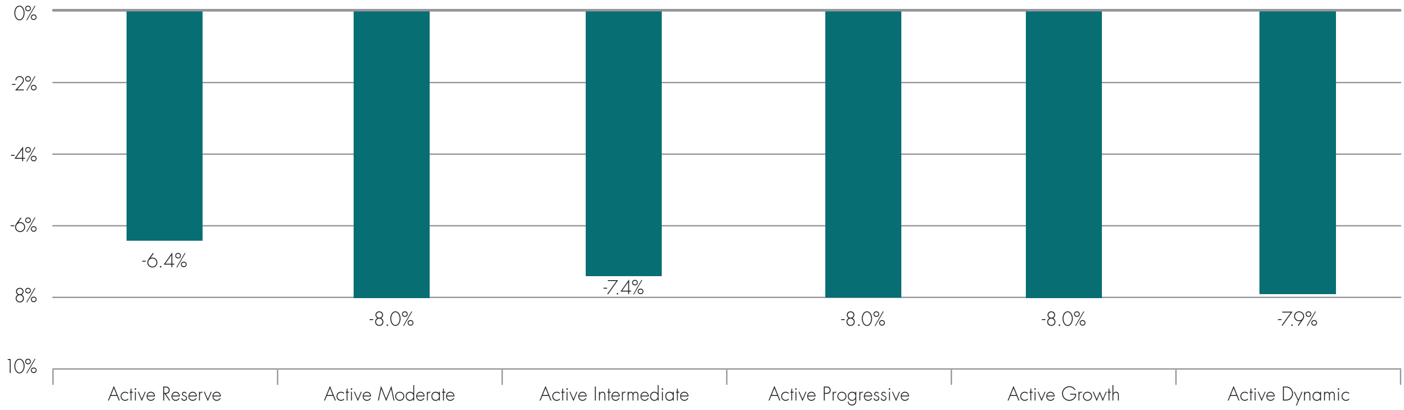
With the value rotation continuing, our equity holdings skewed towards that end of the market were the top performers over the period but even these struggled amid widespread volatility. Stronger contributors included Artemis Income, Man GLG Japan CoreAlpha, Liontrust European Dynamic, Evenlode Income, JOHCM UK Dynamic and Ossiam Shiller Barclays CAPE US Sector Value, an ETF based on Shiller's CAPE (cyclically adjusted PE) metric and skewed towards the four most undervalued sectors on a monthly basis.

While our value skew was positive on a relative basis, it was more than offset by weaker performance from growth, quality and small-cap positions, with holdings such as Baring Europe Select among our hardest-hit holdings over the quarter. As ever, fears of recession are having a greater impact on domestically focused small caps.

Another relative positive was emerging markets exposure, which had a better quarter than several other markets as Chinese equities rallied on the back of authorities lifting the strict Covid lockdown in Shanghai. This helped relative performance for higher-risk models, which have considerable exposure to the region.

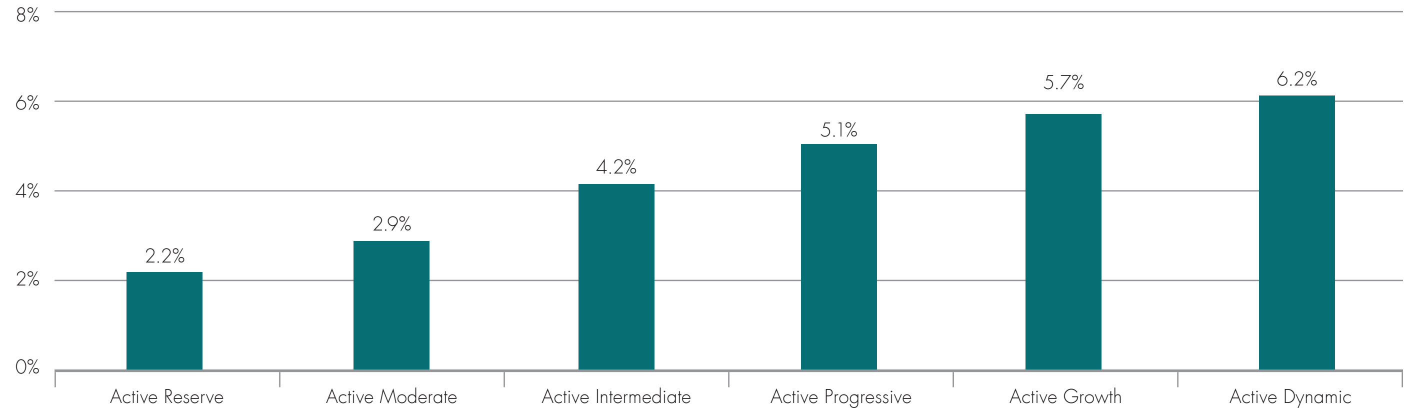
While the Chinese index has climbed almost 19% since falling to a trough in April, the outlook for the world's second-largest economy remains subdued and commentators are questioning whether the rebound is a mean-reversion to pre-lockdown levels rather than a sustainable rally. For now, however, funds including BlackRock Emerging Markets, Vontobel mtx Sustainable Emerging Market Leaders, Fidelity Asia Pacific Opportunities and Federated Hermes Asia ex-Japan Equity were among our better performers.

MA Active Portfolios: Q2 2022



Source: FE Analytics, as at 30.06.22. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance

MA Active Portfolios: Annualised returns since inception



Source: FE Analytics, as at 30.06.22. Performance is from 10.04.07 to provide a single inception point but some of the funds launched before that date. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

MA Blended

Another difficult three months for markets saw most of our holdings in negative territory, with concerns around potential recession in a rising interest rate environment and ongoing war in Ukraine weighing on sentiment.

As we highlighted earlier, fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period; lack of bond exposure was therefore a relative positive for our higher-risk models.

The current SAA for our MA funds maintains a large weighting to UK gilts for the Reserve, Moderate and Intermediate offerings and although this weighting has fallen significantly (bringing overall duration down), it continues to have an outsized impact on overall performance. Over the last year, in Blended Reserve (risk profile 2), UK gilts have declined from around 45% of our SAA to 35%, for example, and had dropped under 30% before a recent move out of credit and into government bonds.

With the value rotation continuing, our equity holdings skewed towards that end of the market were the top performers over the period but even these struggled amid widespread volatility. Stronger contributors included Man GLG Japan CoreAlpha, Liontrust European Dynamic, Evenlode Income, JOHCM UK Dynamic and Ossiam Shiller Barclays CAPE US Sector Value, an ETF based on Shiller's CAPE (cyclically adjusted PE) metric and skewed towards the four most undervalued sectors on a monthly basis.

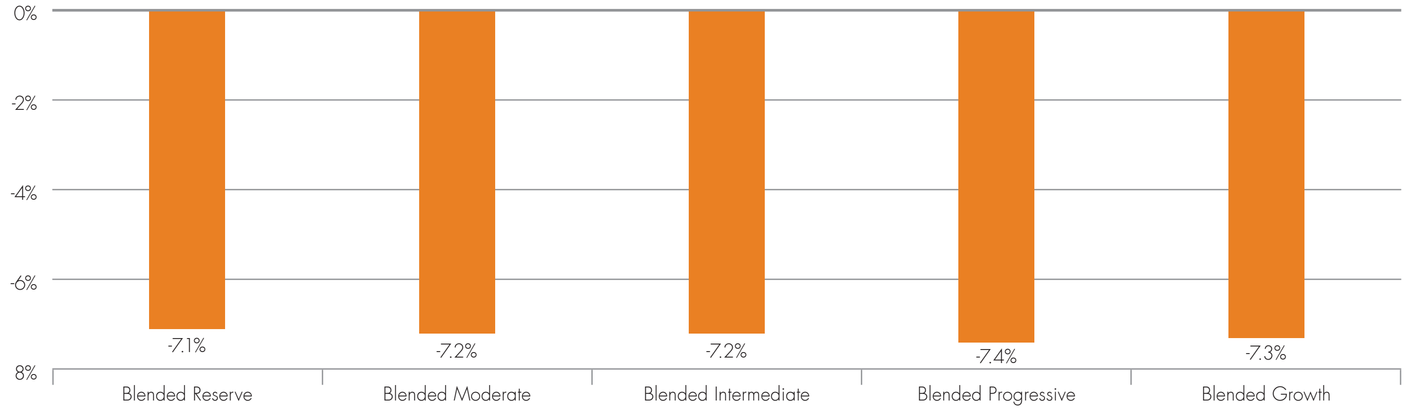
Given the environment, another solid US performer was the iShares Edge S&P 500 Min Vol ETF, which tracks the performance of an index composed of selected large-cap US companies that, in aggregate, have lower volatility characteristics relative to the broader market.

While our value skew was positive on a relative basis, it was more than offset by weaker performance from growth, quality and small-cap positions, with holdings such as Baring Europe Select among our hardest-hit over the quarter. As ever, fears of recession are having a greater impact on domestically focused small caps.

Another relative positive was our Asia and emerging markets exposure, which had a better quarter than several other markets as Chinese equities rallied on the back of authorities lifting the strict Covid lockdown in Shanghai. This helped relative performance on higher-risk models, which have considerable exposure to the region.

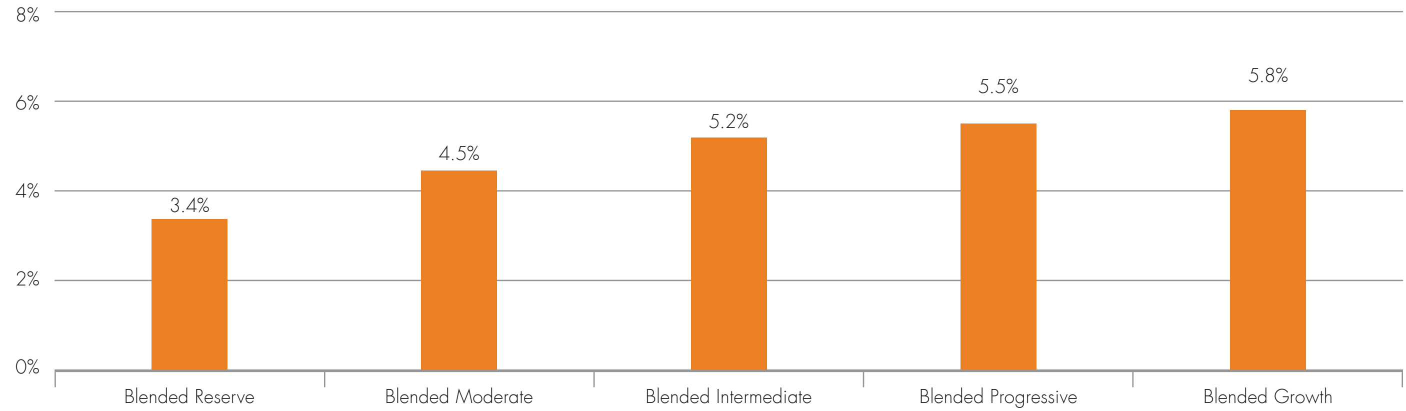
While the Chinese index has climbed almost 19% since falling to a trough in April, the outlook for the world's second-largest economy remains subdued and commentators are questioning whether the rebound is a mean-reversion to pre-lockdown levels rather than a sustainable rally. For now, however, funds including Vontobel mtx Sustainable Emerging Market Leaders, Fidelity Asia Pacific Opportunities and Federated Hermes Asia ex-Japan Equity, and passive exposure via iShares Emerging Markets Equity and L&G Pacifc Index, were among our better performers.

MA Blended Portfolios: Q2 2022



Source: FE Analytics, as at 30.06.22. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance

MA Blended Portfolios: Annualised returns since inception



Source: FE Analytics, as at 30.06.22. Performance is from 07.04.03 to provide a single inception point but some of the funds launched before that date. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

MA Passive

Another difficult three months for markets saw most of our holdings in negative territory, with concerns around potential recession in a rising interest rate environment and ongoing war in Ukraine weighing on sentiment.

As would be expected in falling markets, the MA Passive funds have continued to outperform our MA Active and MA Blended offerings over the quarter on a relative basis. Growth stocks, including the majority of small and mid-cap companies, have been indiscriminately punished in market sell-offs and as actively managed funds are naturally more skewed towards this end of the market, they have lagged passive offerings. That said, our Active and Blended portfolios, via underlying value-oriented actively managed funds, have had greater exposure to the ongoing value rotation than the MA Passive vehicles.

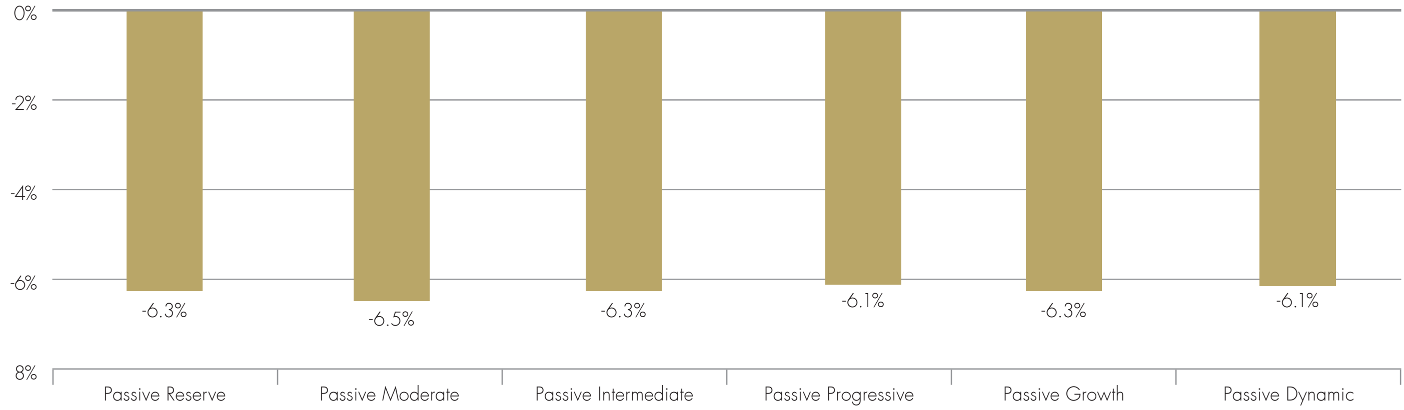
As we highlighted earlier, fixed income would usually be expected to provide defensive ballast during equity sell-offs but bonds have not only become correlated with shares in the short term, their performance has actually been worse, particularly in the UK. A rising rate environment is clearly difficult for this asset class, and our funds across the fixed income spectrum struggled over the period; lack of bond exposure was therefore a relative positive for our higher-risk models.

The current SAA for our MA funds maintains a large weighting to UK gilts in the Reserve, Moderate and Intermediate offerings, and although this weighting has fallen significantly, it continues to have an outsized impact on overall performance. Over the last year for Passive Reserve (risk profile 2), for example, UK gilts have declined from around 45% of our SAA to 35%, and had dropped under 30% before a recent move out of credit and into government bonds. Highlighting the impact of this, the duration of bond exposure across our Passive range has fallen by around two years.

In a tough period for equities, more value focused markets, or at least those with a higher weighting to energy such as the UK, outperformed on a relative basis, being less impacted by the broad and indiscriminate sell-off in growth companies.

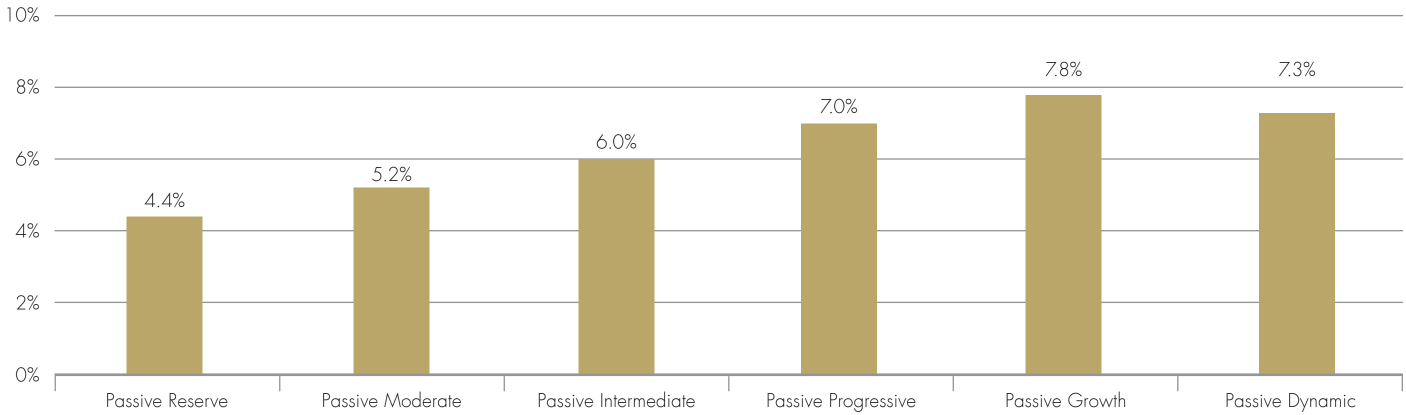
Another relative positive was our Asia and emerging markets exposure, which had a better quarter than several other markets as Chinese equities rallied on the back of authorities lifting the strict Covid lockdown in Shanghai. Again, this helped relative performance for higher-risk models, which have considerable exposure to the region. While the Chinese index has climbed almost 19% since falling to a trough in April, the outlook for the world's second-largest economy remains subdued and commentators are questioning whether the rebound is a mean-reversion to pre-lockdown levels rather than a sustainable rally. For now, however, exposure via our iShares, L&G and HSBC offerings was among our better contributors.

MA Passive Portfolios: Q2 2022



Source: FE Analytics, as at 30.06.22. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance

MA Passive Portfolios: Annualised returns since inception



Source: FE Analytics, as at 30.06.22. Performance is from 01.11.11 to provide a single inception point but some of the funds launched before that date. Primary share class, total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MPS Growth

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MPS Growth 1	1.9	2.5	0.4	6.3	-5.4
Liontrust MPS Growth 2	2.9	3.8	0.3	9.4	-8.1
Liontrust MPS Growth 3	3.8	5.0	0.0	12.5	-10.8
Liontrust MPS Growth 4	5.3	4.4	-1.5	17.2	-11.4
Liontrust MPS Growth 5	6.3	4.0	-2.7	20.9	-11.9
Liontrust MPS Growth 6	7.3	3.5	-3.7	24.4	-12.3
Liontrust MPS Growth 7	7.9	4.6	-4.3	25.9	-12.8
Liontrust MPS Growth 8	8.3	5.6	-4.5	27.4	-13.3

Source: Morningstar, Liontrust, 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.

Discrete performance for MPS Income

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MPS Income 1	1.7	2.0	-0.6	6.3	-4.2
Liontrust MPS Income 2	2.6	3.0	-1.1	9.7	-6.3
Liontrust MPS Income 3	3.4	4.0	-1.8	13.0	-8.3
Liontrust MPS Income 4	4.7	3.7	-2.7	17.3	-8.8
Liontrust MPS Income 5	5.6	3.5	-3.5	20.5	-9.3
Liontrust MPS Income 6	6.5	3.2	-4.3	23.8	-9.7

Source: Morningstar, Liontrust, 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.

Discrete performance for MPS Dynamic Beta

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MPS Dynamic Beta 1	1.4	2.5	0.3	5.7	-5.1
Liontrust MPS Dynamic Beta 2	2.2	3.6	0.3	8.7	-7.6
Liontrust MPS Dynamic Beta 3	2.8	4.9	0.1	11.6	-10.1
Liontrust MPS Dynamic Beta 4	4.0	5.1	-1.0	15.4	-10.5
Liontrust MPS Dynamic Beta 5	4.9	5.2	-1.8	18.4	-10.8
Liontrust MPS Dynamic Beta 6	5.7	5.4	-2.8	21.5	-11.2
Liontrust MPS Dynamic Beta 7	6.2	6.7	-2.2	22.5	-11.4
Liontrust MPS Dynamic Beta 8	6.7	7.7	-1.6	23.4	-11.7

Source: Morningstar, Liontrust, 30.06.22. Performance of portfolios are given gross of any deduction of fees with the exception of underlying assets. Deduction of fees will have the effect of reducing these returns. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MA Blended

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MA Blended Reserve Fund S Acc	2.8	3.1	2.8	4.5	-11.5
Liontrust MA Blended Moderate Fund S Acc	3.2	3.7	1.9	8.9	-9.5
Liontrust MA Blended Intermediate Fund S Acc	4.6	3.7	0.2	13.3	-8.2
Liontrust MA Blended Progressive Fund S Acc	6.3	3.5	-1.5	17.5	-7.6
Liontrust MA Blended Growth Fund S Acc	6.8	3.8	-2.5	23.4	-6.8

Source: FE Analytics as at 30.06.22. Total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MA Active

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MA Active Reserve Fund S Acc	-0.6	3.0	3.8	0.7	-9.7
Liontrust MA Active Moderate Income Fund S Acc	-0.2	3.8	3.8	6.5	-13.4
Liontrust MA Active Intermediate Income Fund S Acc	1.8	4.1	2.0	13.9	-10.0
Liontrust MA Active Progressive Fund S Acc	5.9	3.6	0.1	18.9	-10.0
Liontrust MA Active Growth Fund S Acc	7.4	3.3	-1.4	24.8	-9.5
Liontrust MA Active Dynamic Fund S Acc	4.8	3.3	1.5	26.5	-10.7

Source: FE Analytics as at 30.06.22. Total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MA Passive

	Year 1 01/07/2017 to 30/06/2018	Year 2 01/07/2018 to 30/06/2019	Year 3 01/07/2019 to 30/06/2020	Year 4 01/07/2020 to 30/06/2021	Year 5 01/07/2021 to 30/06/2022
Liontrust MA Passive Reserve Fund S Acc	4.2	5.2	5.5	4.1	-8.7
Liontrust MA Passive Moderate Fund S Acc	4.5	5.6	3.4	7.1	-7.6
Liontrust MA Passive Intermediate Fund S Acc	6.0	5.2	2.0	10.8	-5.9
Liontrust MA Passive Progressive Fund S Acc	7.8	5.5	-0.3	15.2	-4.3
Liontrust MA Passive Growth Fund S Acc	8.6	6.1	-2.1	21.0	-3.4
Liontrust MA Passive Dynamic Fund S Acc	7.5	6.5	-0.4	23.7	-4.2

Source: FE Analytics as at 30.06.22. Total return figures are calculated on a single pricing basis with net income (dividends) reinvested. Performance figures are shown in sterling. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested. Please refer to page 38 for more information.**

Key risks

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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. The portfolios therefore should be considered as a medium to long-term investment.

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