For professional UK investors only

Liontrust GF High Yield Bond Fund

Q1 2023 review

Fund managers: Phil Milburn and Donald Phillips.

The Fund (C5 sterling accumulation class) returned 3.4%* in sterling terms in Q1 2023 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned 3.0% and the average return for the IA Sterling High Yield reference sector was 2.3%. The primary B5 US dollar share class returned 3.5%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned 3.3% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was 2.4%.

We also compare the Fund's performance to a leading Global High Yield ETF (seeking to outperform by 1.5% a year)[†]. The Fund's C5 sterling shares class return was ahead of that of the ETF in Q1 and has now outperformed by 1.4 percentage points since inception (June 2018).

The global high yield market returned of 3.3% in US dollar terms in Q1 2023. US high yield market returned 3.7% while the European market returned 3.3%. Both markets performed well despite the market volatility around the collapse of SVB and the Credit Suisse/UBS merger in March. These events raised concerns around the banking sector, giving an indication as to whether the monetary policy actions in the US were working and therefore resulting in some companies failing to battle the higher interest rate environment.

Performance was also supported by the stall in primary market issuance, with issuers shelving deals until a more suitable market environment presents itself. The high yield market doesn't have a looming maturity wall to address as many issuers have refinanced and will only start to have more meaningful debt maturities to address from 2025 onwards. Corporate earnings were on the whole good and default rates are rising but from a very low level. The US and European high yield markets saw ratings decompression, where CCC bonds outperformed BB and B bonds in January and February, before it switched and better quality bonds outperformed CCC bonds in March.

When hedging via interest rate futures, we took the opportunity to hedge some of the natural, albeit low, level of duration that exists in high yield bonds, using. When yields moved higher, these were closed out.

Relative to index, the best performing sectors in the Fund in Q1 2023 were capital goods, telecommunications, healthcare and basic industry. Strong contributors to stock picking include Ardagh (a packaging company), VirginMedia, Profine (a PVC window frame manufacturer), and two healthcare names, Cheplapharm and Catalent. The Catalent bonds were marked seven points up on the back of rumours that it is an acquisition target for Danaher (an investment grade rated company).

Areas where our relative underweight position was a drag to performance were in more cyclical sectors, such as energy and leisure. This shouldn't come as a surprise as the Fund has a bias towards less cyclical defensive credits.

During the quarter the Fund participated in four new issues, one of which was Sealed Air. Sealed Air is a leading global provider of packaging solutions integrating high-performance materials, automation, equipment and services. The company is well diversified both geographically and with its customer base. Financial performance has been good and it has clearly demonstrated its ability to acquire and integrate businesses in order to expand successfully. The US dollar-denominated bonds are rated Ba2/BB+ and were priced attractively below par with a 6.875% coupon.

We participated in a euro perpetual new issue from Swiss bank Julius Baer. The bond was rated Baa3 with a 6.625% yield, which we believe was attractive for the structure given the defensiveness of the underlying business. The aftermath of the complete write-down of Credit Suisse AT1 led to the underperformance of this bond, which was one of the drags in the quarter, alongside Barclays AT1. Elsewhere, although the real estate sector has been less dramatic than last year, stock selection was mixed in the quarter. The Fund had a positive contribution from Castellum and Peach, with both companies raising equity, though CPI Property continues to be a drag despite the fact its operational performance has been good.

We participated in a new issue from existing holding TransDigm, a manufacturer of engineered aerospace components for commercial airlines, aircraft maintenance facilities, original equipment manufacturers and various agencies of the US government. We particularly like the strong margins of the business and positive free cash flow generation. The new issue is higher up the capital structure; a US dollar-denominated bond rated Ba3/B+ with a 6.75% coupon.

Azelis is the most recent deal we participated in. It is a leading global distributor of specialty chemicals and food ingredients. Azelis operates in more than 50 countries and has a presence in more than 40 industry sectors. It has a resilient business, growth opportunities both organically and through M&A, as well as market leading positions in highly fragmented markets. Its financial performance has also been good. The bonds are euro-denominated, rated BB+ and came with a coupon of 5.75%.

Outlook
The global high yield market benefitted from a strong rally at the beginning of the year before experiencing some volatility towards the end of the quarter. Risks such as the collapse of SVB and the Credit Suisse/UBS merger are typically more likely to emerge in an environment where rates are higher and funding conditions tighter. In the Credit Suisse situation where its AT1 debt was written off, investor sentiment of the sub-asset class has taken a turn. Concerns were raised around the language behind AT1 debt in general and how they would be treated if a bank got into trouble. Since the wobble, we have seen the retracement of AT1 debt and believe that investors are convinced that the recent volatility experienced is down to idiosyncratic elements rather than a banking crisis or the beginning of a domino effect of failing companies sparked by the Fed's monetary policy tightening cycle. These fears of broader contagion from the banking turmoil have been alleviated by governments and central banks.

In the Fund, we have around 3% AT1 exposure and are comfortable with the credits we have exposure to. Some have been marked down purely because of contagion, but we believe the bonds will perform well over time. As the sub-asset class has the potential to be volatile, we are limiting our overall exposure.

Primary issuance has been minimal during the last quarter, and the issuers that have come to market are predominantly using funds for general corporate purposes rather than to finance M&A activity; they have also typically been from higher rated credits. We have yet to see lower quality credits come to market, which is in part an indication of the market environment but also a reflection of investors' appetite for higher quality credits. The deals that have come to market have been oversubscribed, demonstrating that there is demand for new issues but at a price. This strong technical around lack of issuance in the asset class has also helped the positive performance of the asset class year-to-date.

With default rates still low, corporate fundamentals are generally looking resilient with no immediate debt maturity wall to address. We believe our bias towards better quality, less cyclical credits should be beneficial in this market environment. However, we are mindful of the potential mild recessionary period in the latter part of the year, and feel we have invested in credits that are well positioned to deal with such a headwind. The Fund is currently offering yield of almost 10% for sterling-based investors, which we view this as an attractive entry point for investors.

Discrete 12 month performance to last quarter end (%):**
Past Performance does not predict future returns

	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF High Yield Bond C5 Acc GBP	-6.4%	-1.7%	24.0%	-9.1%
ICE BofA Global High Yield Hedge GBP	-4.7%	-3.5%	23.3%	-9.3%
IA Sterling High Yield	-4.5%	-1.1%	23.5%	-10.0%

*Source: Financial Express, as at 31.03.23, total return (net of fees and interest reinvested).
**Source: Financial Express, C5 share class, total return, net of fees and interest reinvested. As at 31.03.23. The primary share class for this Fund is in US dollars (B5) but we are showing the C5 sterling-hedged class to compare against the IA Sterling High Yield sector. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio.

†While the managers of the Fund seek to outperform a leading Global High Yield ETF by 1.5% a year net of fees over rolling three years, this is not a formal objective. There can be no guarantees this will be achieved over the stated time period. The formal objective of the Fund can be found in the Prospectus.

Key Features of the Liontrust GF High Yield Bond Fund

Investment objective & policy[1]	The investment objective of the Fund is to maximise total returns over the long term through a combination of income and capital growth, through investment in the global fixed income market. The Fund invests at least 50% of its assets in high yield bonds (i.e. bonds classified as below investment grade) issued by companies worldwide which are denominated in US Dollar or non-US Dollar bonds that are hedged back into US Dollar. Although the focus is on high yield corporate bonds, the Fund may also invest in investment grade corporate bonds, government bonds, cash or assets that can be turned into cash quickly. The Fund invests in developed and emerging markets, with a maximum of 20% of its net assets invested in emerging markets. Where the Fund invests in non-US Dollar assets, the currency exposure of these investments will generally be hedged back to US Dollar. Up to 5% of the Fund's currency exposure may not be hedged (i.e. the Fund may be exposed to the risks of investing in another currency for up to 5% of its assets).The Fund may invest both directly, and through the use of derivatives. The use of derivatives may generate market leverage (i.e. where the Fund takes market exposure in excess of the value of its assets). The Fund has 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. The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRRI)[2]	4
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the ICE BofAML Global High Yield Hedge USD Index (the “Benchmark”) by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.
Sustainability profile	The Fund is a financial product subject to Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: 1. As specified in the KIID of the fund; 2. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

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

Key Risks:

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.

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.

Investment in the GF High Yield Bond Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. Bond markets may be subject to reduced liquidity. The Fund may invest in emerging markets/soft currencies and in financial derivative instruments, both of which may have the effect of increasing volatility. The Fund may invest in derivatives. The use of derivatives may create leverage or gearing. 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.

[23/242]