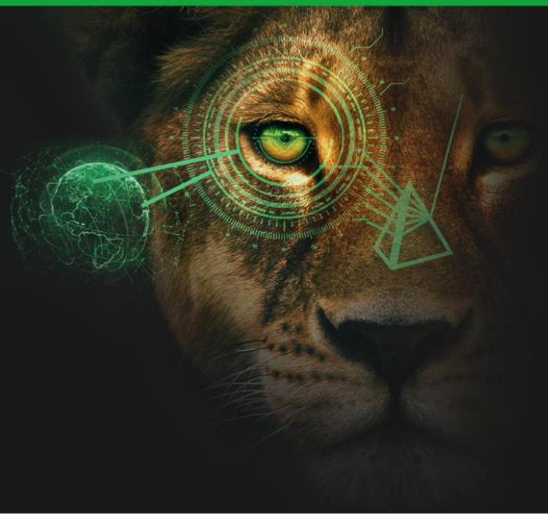

Global Fixed Income

November 2023 review

Liontrust Strategic Bond Fund

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The Liontrust Strategic Bond Fund returned 4.9%* in sterling terms during November. The average return from the IA Sterling Strategic Bond sector, the Fund's comparator benchmark, was 3.4%.

Market backdrop

There was a major rally in rates this month, particularly in US, with the US ten year yield dropping around 40 basis points (bps) versus the end of October. Indeed, as pointed out by Deutsche Bank, it was the best month for global bond returns since December 2008, and the best for US bonds since May 1985. The curve between 5 and 30 tenors was broadly flat; 2 year yields didn't rally quite as strongly.

Inflation data in the month was the main catalyst for the rally. US CPI came in a tenth better than expectations on most measures, including ex-food and -energy (which was 4% year-on-year (YoY). In Germany, November preliminary CPI YoY came in at 3.2% and showed deflation of -0.4% month-on-month (MoM) – much softer than expected. France showed similar data, as did Spain. It seems pretty clear that rate hikes and the overall macro environment is biting more in the Eurozone than in the US. Indeed, Q3 GDP in US was revised upwards during the month. The market didn't overly focus on this point, as on the same day, the PCE price index was softer than expected.

We're back to a scenario where market participants are discussing rate cuts in the first half of 2024. As the month progressed, it appeared Fed members were reasonably happy to let the rates rally continue, or less keen than they have been to curtail any investor exuberance in the rates market. Although ending on a slightly weaker note, on the last day of the month, the rates market was pricing in a 50% of chance of a cut by the Fed by March and a 100% chance of a cut by May.

The correlation between rates and credit has been an oft-spoken topic in the last eighteen months. November showed the same positive correlation, with credit also buoyed by speculation that the hiking cycle is done and rate cuts could be around the corner. Indeed, the

US high yield market had its best individual month since July 2022. The US investment grade market, up 5.6%, like government bonds, had its best month since May 1985. US investment grade spreads were ~20bps tighter on the month and European ~13bps tighter. Global high yield spreads were ~55bps tighter on the month.

Fund positioning and activity

Rates

At the end of the month, the Fund remains strategically long duration with 8.2 years' exposure. As a reminder, neutral is 4.5 years with a range of 0-9 years. The geographic split is US 3.75 years, Canada -0.55 years, UK 1.65 years, Europe 2.5 years, and New Zealand 0.85 years. We continue to prefer short-dated and medium-dated bonds, the net duration exposure in the 15+ year maturity bucket is zero.

Allocation

Asset allocation was unchanged during November as we continue to wait for a better opportunity to add to credit. Investment grade exposure is around 50%. The Fund's high yield weighting in bonds is 23%; there is a 7% overlay in place to reduce risk using the iTraxx Xover credit default swap index, thus the net high yield exposure of 16% is below our 20% neutral level.

Selection

The real estate sector was a notable detractor in a strong month for credit returns overall. Bonds issued by Nordic residential real estate company Heimstaden Bostad were weaker. The real estate companies we hold are all operating well, helped by rent indexation to inflation. Yet the European corporate bond market has grown extremely averse to this sector risk. In November, sentiment deteriorated further with news that Heimstaden Bostad's second largest shareholder has itself flagged issues with the initial decision making process of investing in the real estate company. Heimstaden itself is not accused of any wrong-doing, but the market has taken the view that an equity rights issue is now less likely. Its bonds dropped around 15% in the month.

Meanwhile, another real estate holding, CPI Property, was victim to a note written by notorious short selling hedge fund, Muddy Waters. Most of the accusations to date (MW claim to be preparing a follow up) pertain to a period when CPI Property was an entirely family-owned company and not an international bond issuer. The claims are mostly centred around asset stripping to enrich the family owner. The company have passionately argued that the claims are false and are preparing a full response. In a sector already hurting from negative sentiment, the headline was not taken well and bonds initially dropped around 25%, which improved to around 11% lower after CPI's response and (decent) Q3 results. During the month, Heimstaden Bostad and CPI Property cost the Fund around 35bps. The combined exposure to the two bonds is 1%, and they are unique in the portfolio in terms of scale of volatility. We have held on to these positions despite the volatility and negative headlines based on operational performance, asset cover and liquidity.

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Discrete years' performance (%) to previous quarter-end*:

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Strategic Bond B Acc	3.8%	-15.5%	3.0%	4.0%	5.9%
IA Sterling Strategic Bond	4.9%	-14.5%	4.6%	3.6%	7.1%
Quartile	3	3	3	2	3

*Source: Financial Express, as at 30.09.2023, accumulation B share class, total return (net of fees and income reinvested.

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

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 manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for 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.

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.

The Fund can invest in derivatives. Derivatives are used to protect against currency, credit or 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 Fund uses derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

The Fund invests in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. Participation rates on advertised volumes could fall reflecting the less liquid nature of the current market conditions.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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

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