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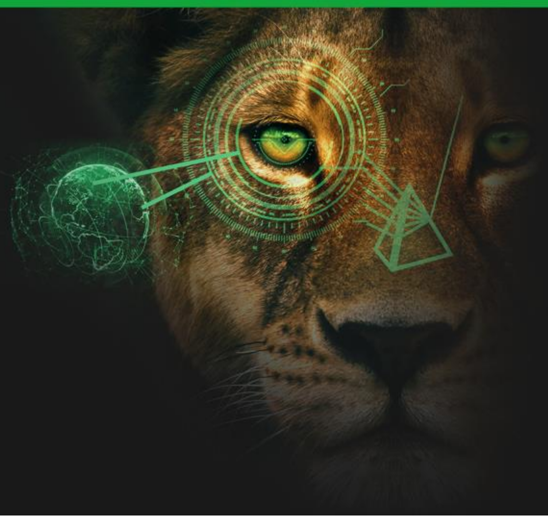

Global Fixed Income

Q4 2023 Review

Liontrust GF High Yield Bond Fund

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The Fund (C5 sterling accumulation class) returned 6.9%* in sterling terms in Q4 2023 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned 6.4% and the average return for the IA Sterling High Yield reference sector was 5.6%. The primary B5 US dollar share class returned 7.0%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned 6.7% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was 6.8%.

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 slightly ahead of that of the ETF in Q4 and has now outperformed by around three percentage points since inception (June 2018).

The global high yield market returned a positive quarter of +6.7% (USD) in Q4 2023, taking the full year 2023 return to +12.9%, a complete turnaround from last year's negative return (-11.39%). The US HY market produced a return of 7.1% (USD) in Q4 2023; in Europe the market returned 6.1% during the period.

Both markets performed well primarily on the back of expectations that rate cuts are on the horizon amid easing inflation concerns, while the Fed embraced a 'lower, sooner' narrative at its December meeting. These developments led the market to price rate cuts in the early part of 2024, with the 'peak rates' narrative boosting performance in risk assets.

In Q4, both the US and European high yield markets saw BB and B bonds outperform CCCs, in particular in Europe. Performance was also supported by corporates demonstrating how resilient their balance sheets are to the headwinds they have been facing, along with limited primary supply, providing a strong technical rally. The volume of issuance this year has increased 90% from last year, demonstrating improving capital market access, but is still trailing below the average over the past four years or so. Issuance has been dominated by refinancings, representing nearly 80% of total volume and very little issuance from debut issuers or for M&A

reasons. The deals that have come to market have predominantly been issued with an attractive coupon and deals have been oversubscribed, demonstrating the demand for new deals.

Not that much reminding is required, but 2022 was an extremely tricky year for our strategy, with more defensive sectors taking the brunt of the interest-rate driven sentiment and exposures in the real estate sector being a particular lightning rod for fears around higher interest rates. After such a tricky period, we are pleased with the rebound in Fund performance seen in 2023, in absolute terms and versus index and peers. It's worth mentioning that the negative sentiment towards real estate bonds continued in 2023, however we had right-sized our holdings such that their weakness was insufficient to de-rail the strong rebound across the portfolio. We stuck to our process and we feel investors in the Fund benefitted in 2023.

Relative to the index, the best performing sectors in the Fund in Q4 2023 were financial services/banking, healthcare and telecommunications. Among the strong contributors were Payment Sense, a UK payments business for SMEs, where the company announced a refinancing of their bonds which were due to mature in 2025, paying us an 8% coupon since we invested in the credit back in 2020. The bonds were called at 102 (5 points above where they were trading immediately before the call announcement). Many of the other strong contributors were mainly from higher-rated quality credits with strong balance sheets that had reported a solid set of results. In conjunction with our concentrated approach to investments, these holdings benefitted most from the market rally.

As previously mentioned, real estate has been a persistent drag. This has largely been sentiment-based as these companies have been operating well. In Q4, issues around CPI Property (office, retail and hotels in central & eastern Europe) were more idiosyncratic following what we view as an unfair short-seller note by the infamous Muddy Waters (MW). The company put out a detailed and robust response to the note, which has significantly improved the bond price, though MW has threatened to release more accusations (yet to be seen more than a month later). CPI Property has continued to dispose of assets, typically at or above book value and has significantly improved its liquidity position. This is a risky holding, trading at 30 cents on the euro, and is a 0.5% position size. The upside could be significant in this bond from here, but is position-sized to reflect its risky nature. It's worth noting that, in the early days of the year, real estate bonds in general have been the standout performer. Perhaps 2024 will be a very different environment for real estate bond returns.

Trade activity

During Q4 2023, the Fund participated in three new issues, one of which was IQVIA (healthcare research services). The Fund already holds the unsecured notes (rated Ba2/BB). The new issue was a secured bullet maturity deal which has an investment grade rating (Baa3/BBB-) and came with an attractive, 6.25% coupon. The investment helped us maintain our exposure to a solid credit, improved our position by investing further up the capital structure, meanwhile offering the prospect of an attractive total return.

We also participated in Paprec, a French waste and recycling company. We like the defensive nature of the business, although we do have governance concerns about the chairman being investigated for bribery. Fortunately, the balance sheet of this BB-rated company is strong enough to withstand any realistic worst case scenario fine, so for a five year Euro denominated bond offering a 7.25% coupon, the bonds are an attractive risk/return proposition.

Lastly, we participated in a new additional tier one (AT1) issue in US dollars by Banco Santander which came with a 9.625% coupon. Despite weak sentiment at the very end of 2022 and the banking crisis in March, most AT1 closed the year between +2 and +8pt higher. The structure of the product should still be attractive, supported by the current macro theme.

During the second half of the year, we built up some liquidity in the Fund, leaving 'dry powder' to take advantage of any stock opportunities during a market wobble. This was parked in very short-dated US treasuries, which offered much higher yields than cash. However, in order to avoid the drag of being out of the HY market, we took a long CDS index overlay position(selling default protection on the CDX HY index). This, along with adjusting interest rate hedges at advantageous points throughout the year, boosted fund returns, while managing risk prudently.

Outlook

The market looks to be embracing the prospect of interest rate cuts in 2024. As the rate cuts arrive, we still anticipate a mild recession. We expect credit spreads to remain tight until there is further evidence of fundamental deterioration amongst credits.

We anticipate lower-quality companies to suffer from refinancing difficulties, especially with the 2025/26 debt maturity walls that investors are anxious about. The higher coupon needed to get a deal done in this market will be a burden on free cash flow generation for those companies that are able to access the market, and liquidity buffers will be impacted as well as leverage increasing. These factors should lead us to see higher default rates (from a low base) in the asset class over 2024 and a wider dispersion of credit spreads from higher quality credits to lower quality ones.

Our strategy has survived and succeeded from what we believe was close to a perfect storm in 2022, when duration fears took over. The Fund continues to invest in bonds based on strong corporate fundamentals and has a bias towards high quality defensive credits, with minimal exposure to cyclical credits. It is notable that the spread compensation between BB and CCC credit is now below average, so the natural opportunity cost that comes with our strategy is reduced.

CCCs outperformed in 2023, yet the Fund performed well. We believe our defensive approach stands us in good shape to perform well if and when default risk is the major driver of the market, rather than interest rates. The Fund is currently offering a yield of around 9.2% for sterling investors (~7.6% for euro investors). Given the credit risk we ask our clients to take when investing in this Fund, we view this as attractive for long-term investors.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust GF High Yield Bond C5 Acc GBP	13.7%	-13.2%	3.9%	4.0%	13.8%
ICE BofA Global High Yield Hedge GBP	11.9%	-12.6%	2.8%	5.1%	12.3%
IA Sterling High Yield	11.1%	-10.2%	4.1%	4.0%	10.9%
Quartile	1	4	3	3	1

*Source: Financial Express, C5 share class, total return, net of fees and interest reinvested. As at 31.12.23. 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.

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. Low rated (high yield) or equivalent unrated debt securities of the type in which the Fund will invest generally offer a higher return than higher rated debt securities, but also are subject to greater risks that the issuer will default. 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.

Disclaimer