Liontrust Multi-Asset

LIONTRUST MULTI-ASSET FUNDS AND PORTFOLIOS

QUARTER IN REVIEW

1 April to 30 June 2023

- Suitability
- Value for Money
- Transparency

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ECONOMIC AND MARKET REVIEW AND OUTLOOK

Global equities mostly higher but bonds struggle amid inflation fears

- Global equities mostly ground higher during Q2 but fixed income struggled as fears rose of more central bank rate hikes to come.
- Investor sentiment stabilised early in the quarter after the jitters around the financial sector in March, helped by data pointing to economic resilience in developed economies.
- The most significant news in an otherwise relatively quiet quarter was the periodic political standoff regarding the US debt ceiling. However, market fears were eased when the House of Representatives passed the required bill.
- Although data showed headline inflation continued to fall from the highs seen in 2022, helped by lower energy prices, core inflation remained stubbornly high. The world's top central bankers, meeting at Sintra in Portugal, warned that tight labour markets continued to push up wages and inflation and that stiffer action on interest rates could be needed. Bonds, especially US treasuries, weakened on the statements.
- Central banks continued to tighten monetary policy over the quarter: the Federal Reserve raised its benchmark interest rate by 25bps, the Bank of England by 75bps and the European Central Bank by 50bps.
- Latest economic data for Q1 pointed to resilience in developed markets. Eurozone GDP rose by 0.1%, although manufacturing was substantially weaker than the services sector. In the US, a significant upward revision of Q1 GDP raised expectations that higher interest rates would be needed to tame inflation. US initial jobless figures were also stronger than expected.
- Weakening oil prices and the Bank of England's aggressive rate hiking to quell inflation that is the most elevated among developed economies weighed on UK stocks and government bonds (gilts) over the quarter.
- Japan was a strong equities performer, with the Nikkei reaching a 33-year high. New Bank of Japan governor Kazuo Ueda said at Sintra that economic growth and wages were picking up at home after decades of near stagnation, raising the possibility that the Bank of Japan could relent on its ultra-loose economic policy.
- China's post-Covid recovery appeared to be losing steam. Six months after reopening after Covid, China still faces issues, including declining trade activity and a weak property sector.

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Our view of investment markets

- Investors' sentiment might have stabilised in Q2 after the jitters caused by the financial sector in March, helped by data pointing to economic resilience in developed economies, but some of the optimism seen at the start of this year after a bruising 2022 has dissipated.
- The mini banking crisis has largely dropped off investors' radars, but markets have become fickle, with excessive volatility driven by over-reliance on whatever the latest data or news angle dictates.
- Market sentiment is on a tightrope, thanks to inflation remaining stubbornly high, but the general situation is not so dire either. The key issue for markets continues to be whether interest rate hikes will surprise on the upside and threaten economic growth as central banks address inflation. The full impact of past hikes has also yet to materialise.
- Nobody can say with any real certainty what will happen next for inflation and interest rates. Core inflation, which central banks worry about, is falling too but slower than hoped. Unfortunately, this is stoking fears that rates will remain higher for longer.
- However, we believe the broad consensus is that we are through the worst of the inflationary increases. The supply chain issues, Russia's invasion of Ukraine and the poor harvests in mainland Europe last year that drove inflation in 2022 now seem to be receding, reflected by the falls in headline inflation this year.
- Fears of a recession persist, but they remain stable. We believe that the chances of a recession are much lower than those reported in the media. We continue to believe that a mild downturn is more likely in 2023 than a deep recession because central banks will strive to avoid it, and the global economy remains on a solid footing.
- Corporates continue to generate good revenue. Non-runaway inflation does not crash economies, although it can make it more difficult for companies to operate.
- The uncertainty weighing on markets means that financial asset prices still offer reasonable value. Now is an opportune time to identify the positive potential in markets and put in place investments for the long term.

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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. In our most recent quarterly tactical review (Q2), we kept our overall environment ranking at four (five is our most bullish rating and one is the most bearish). We had raised it from three to four in Q1 because of a change in the underlying tone of markets. Market sentiment is still divided between fears around the ultimate impact of inflation and high interest rates, and evidence of more economic resilience than expected. But the underlying tone of markets has become more positive.
- Cash has been a broadly unattractive asset class for some time, but we raised its ranking to three in Q2, having moved it up to two in Q1 2022. These moves reflect the fact that, on a relative basis, cash is looking better as a store of value given the rising interest rate environment.
- We have lowered our rating on high yield (HY) bonds from four to a neutral three in Q2, having raised it from three to four in Q4 2022. We added exposure to HY investments at an opportune time, with attractive spreads versus government bonds. However, spreads have narrowed, so we decided to take some profits.
- We have raised the ranking for European small caps back to three, in line with our now neutral view on European equities generally. Concerns over the domestic economy are abating as Europe continues to progress after the problems associated with gas supplies from Russia due to the war in Ukraine. We had downgraded the sector from three to two in Q3 2022, and from four in the previous quarter, based on the risk of recession and inflation overshooting in certain countries if the European Central Bank proved to be reluctant to move aggressively on interest rates.

	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				•		↓
Real assets			•			↑
Alternatives			•			↑

Source: Liontrust, 12.05.23. Not all the asset classes are used in all the MA portfolios and funds

Current positioning

- Changes in our latest Tactical Asset Allocation (TAA) review were more positive than negative, albeit quite limited. From a tactical point of view. Although market pricing has become more attractive, we are still cautious and expect more volatility.
- After the equities sell-off in 2022, we are gradually increasing our exposure to equities as we see opportunities to buy them at better value in certain areas. Investors should also remember that equities have proved time and again to be the best asset class to beat inflation over the long term.
- We are more neutral on fixed income. We struggle to get excited about government bonds, even when yields have risen to 400 basis points-plus. This does mean they offer more diversification potential than in the ultra-low yields seen previously. We are, however, positive on emerging market debt, both government and corporate, given prices are favourable versus what is available in more developed markets.
- From an asset allocation perspective, we are not excited about the prospect of absolute returns and gains from bonds, but from a diversification perspective they are more valuable than they have been for over a decade.
- There are certainly benefits to diversifying towards non-UK government bonds, with several other central banks further ahead of the curve than the Bank of England in raising interest rates.
- Equity regions we rate most favourably from a tactical viewpoint include the UK, Asia Pacific and emerging markets.
- The UK stock market outperformed many others in 2022 but its equities are still relatively cheap after being disregarded by many international investors since the Brexit vote in 2016. Despite this recent outperformance, the UK still has a long way to go.
- Asian economies fared well during Covid and the re-opening of China will provide more support. Asian stocks will also benefit from strong and favourable demographics.
- Emerging markets have proven themselves to be better at implementing appropriate policies to deal with inflation than developed countries, creating a supportive environment for companies.
- We continue to maintain diversified portfolios to reap returns from across the asset classes.

Rebalancing our funds and portfolios

Earlier this year, we appointed Hymans Robertson (Hymans) to calculate the SAAs for all our multi-asset solutions following a detailed review. This ensures that the SAAs applied to our portfolios is consistent with those of our funds and the eight Liontrust risk profiles.

The funds

With regards to our Explorer, Blended and Dynamic Passive fund ranges, there were significant changes to our target asset allocations linked to our SAA review.

In our Blended and Passive Dynamic funds, equity allocations were reduced across the board, mainly by cutting exposure to UK and Japanese equities. Fixed income target exposure was increased to varying degrees in risk levels three to seven, while exposure to cash and the new alternatives category, which includes global infrastructure, real estate investment trusts, gold and broad commodities, was increased significantly in the two lowest risk levels. Two new categories of short duration gilts and high yield bonds were also added.

In our Explorer funds, the SAAs are calculated in-house but based on Capital Market Assumptions provided by Hymans. The equity targets were increased at the lower risk levels and trimmed in the higher risk levels. Fixed interest targets, which also now include short duration gilts and high yield bonds, were increased in the lowest and higher risk levels but reduced in the mid-range funds. Target exposure for the new alternatives category was increased in all but the highest risk level, while the target for cash was reduced significantly in the lowest risk level but kept at 2% for all other levels.

The portfolios

Historically we have calculated the SAAs for our WSS and MPS in-house. While we were happy with our WSS and MPS SAAs, the opportunity to harmonise with the MA funds and adopt an SAA that is future-proofed was compelling. We want our solutions to have SAAs for the next decade, during which we expect the drivers of successful investing will be different from those of the last 10 years. This will require greater flexibility over asset allocation and access to more asset classes.

As our previous portfolio SAAs were based on 10-year expectations (now 15-year) and followed a similar bespoke risk profile approach, there is not a dramatic change in the approach to the creation of the SAAs, but the new ones do contain several enhancements over their predecessors. For example, our partnership with Hymans will provide the capability to create bespoke Liontrust features in the portfolio design process. We continuously look to enhance our SAAs to obtain a more accurate reflection of what our MA portfolios can trade and we expect to extend this range to more sub-asset classes. We will also have access to a greater suite of asset classes and greater variability within the asset classes.

We undertook several changes to our target asset allocations following the SAA review. We anticipate that the portfolios' risk profiles will be unchanged by these adjustments. At asset class level, we have reduced our equity weights at the margin in the lower-risk portfolios and increased them in the higher risk profiles. Our fixed income weights have been increased in the lower risk profiles but decreased in risk profile seven. We have exited inflation-linked gilts and added to non-linked gilts. We have also increased our exposure to high yield and sterling investment grade corporate bonds, mainly funded by exiting emerging market debt and convertible bonds. Alternatives have been increased in the lower risk profiles but decreased in the mid-range portfolios. Cash has been reduced across the board.

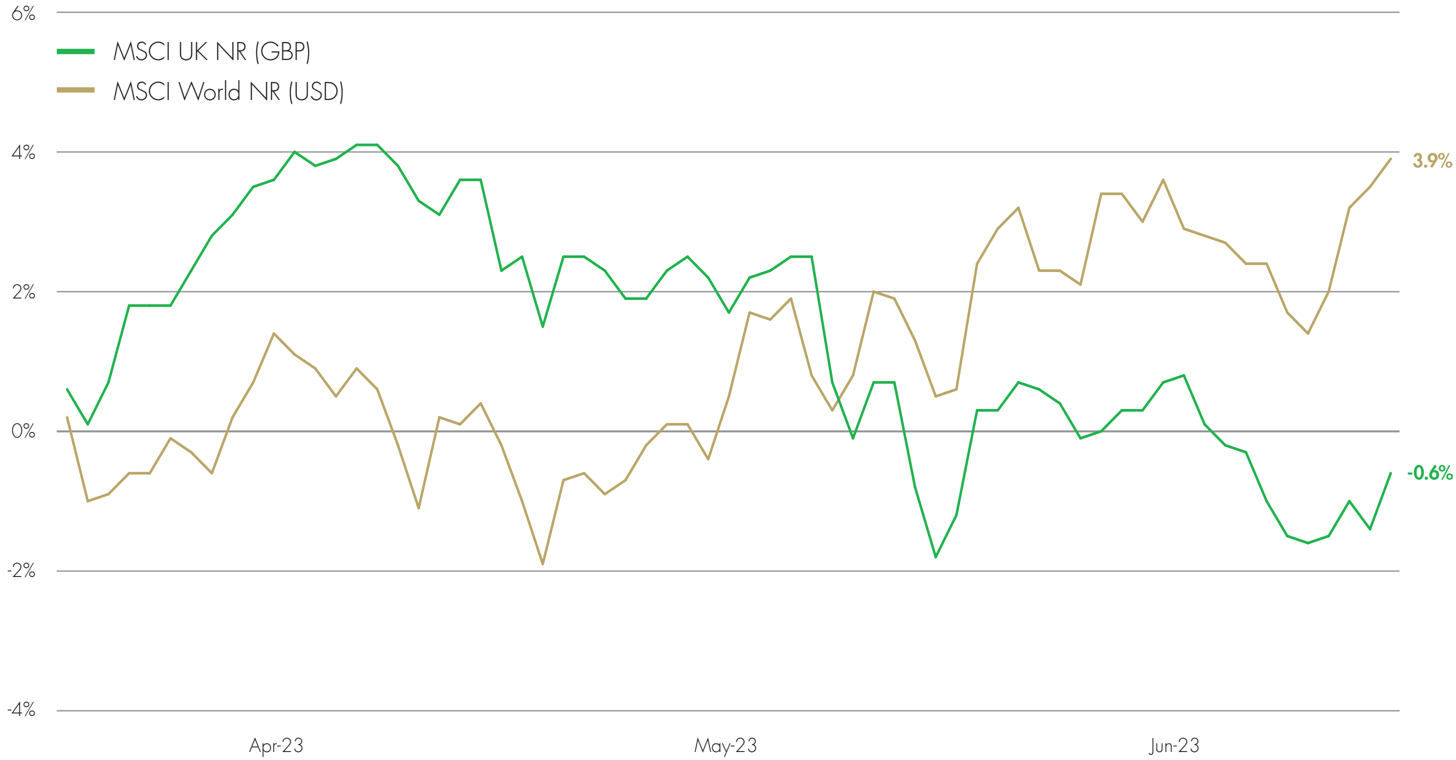
In summary, while our SAAs are important, it is just the first step in our multi-stage investment process, which also includes Tactical Asset Allocation, portfolio construction, manager selection and implementation. It is a robust and repeatable process that invests for the long term and has been tried and tested over many years.

PERFORMANCE OF INVESTMENT MARKETS AND ASSET CLASSES

UK equities finish negative, outstripped by global counterparts

UK equities slipped into negative territory in Q2 as their global counterparts performed strongly in GBP terms. Skewed towards energy and value, the UK stock market lagged as US technology stocks led global markets higher. Inflation continues to be particularly challenging for the UK, however, and two hikes by the Bank of England, including a 50-basis-point rise in June that signified a re-acceleration, added to the downward pressure, especially on domestically-focused stocks.

Investment growth 1 April to 30 June 2023



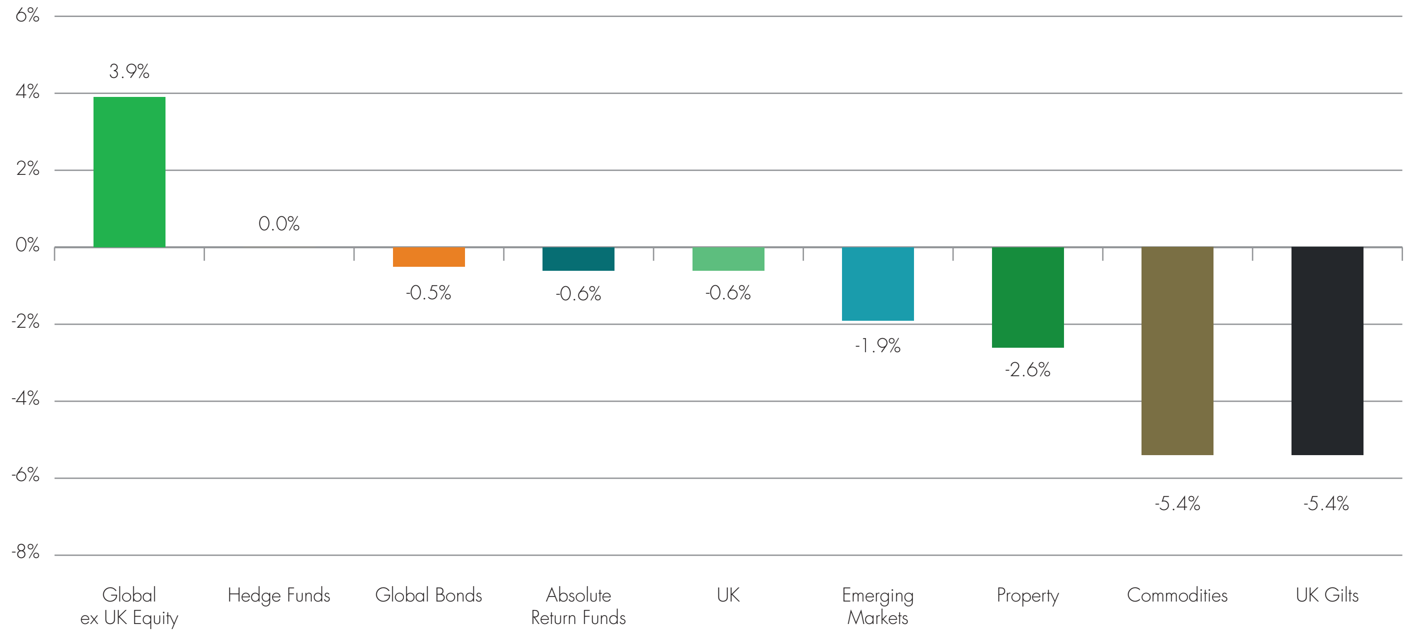
Source: Morningstar, 01.04.23 to 30.06.23. **Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.**

Performance of asset classes

Global ex UK equities positive as other asset classes struggle

Global ex UK equities were the standout performer in Q2, largely driven by the US, where technology stocks saw strong gains, largely thanks to enthusiasm for the Artificial Intelligence theme, and economic data pointed to a resilient economy. Emerging market equities lagged on concerns over the strength of China's recovery and geopolitical tensions with the US. Other asset classes struggled. UK gilts performed badly, ending two quarters of positive performance as stronger than expected inflation data was followed by a 50-basis-point hike by the Bank of England and fears of more strong medicine to come. Global bonds were negative because of interest rate fears. Commodities were down for another quarter, dragged lower largely by the energy sector yet again, and by industrial metals, which had performed positively in Q1.

Asset class returns Q2 2023 (in local currency terms)



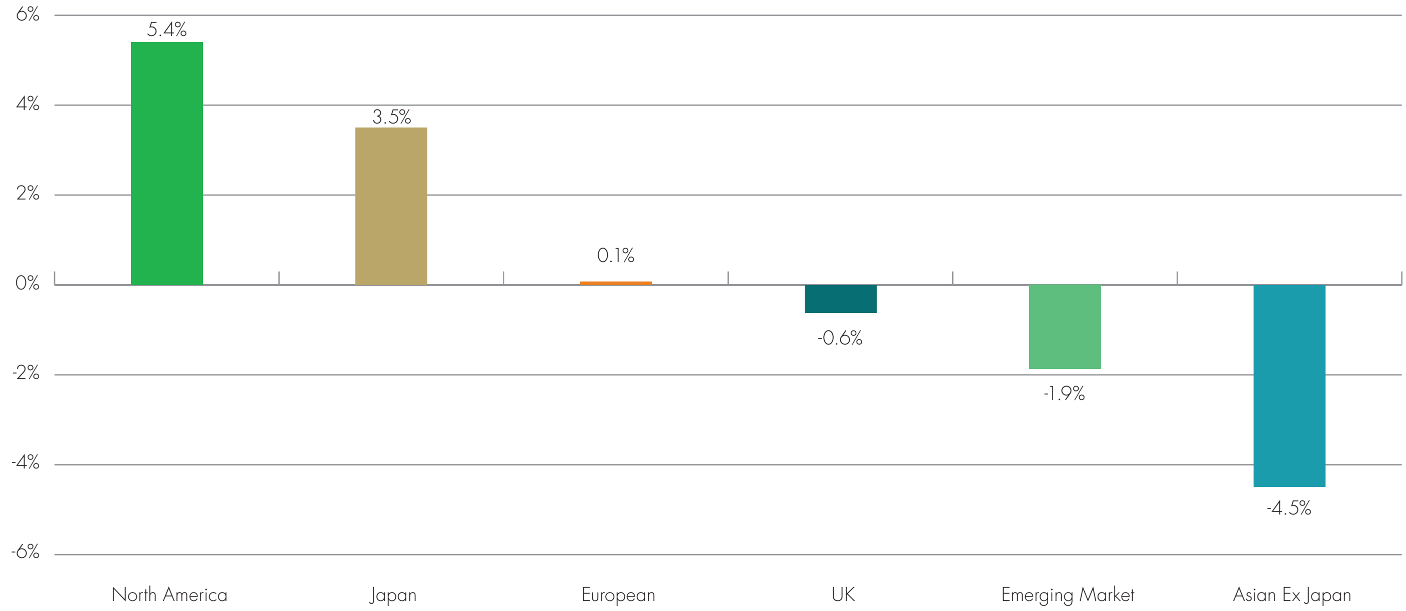
Source: Morningstar, 30.06.23

Performance of global stock markets

Japan stock market makes most significant gain as it hits a 33-year high

US, Japanese and European equities were all in positive territory in Q2 while Asia ex Japan, emerging markets and the UK lagged. Japan's Nikkei index reached a 33-year high. New Bank of Japan governor Kazuo Ueda pointed to a structural shift in the economy as he told the annual conference of central bankers in Portugal that growth and wages were picking up after decades of near stagnation.

Equity returns Q2 2023



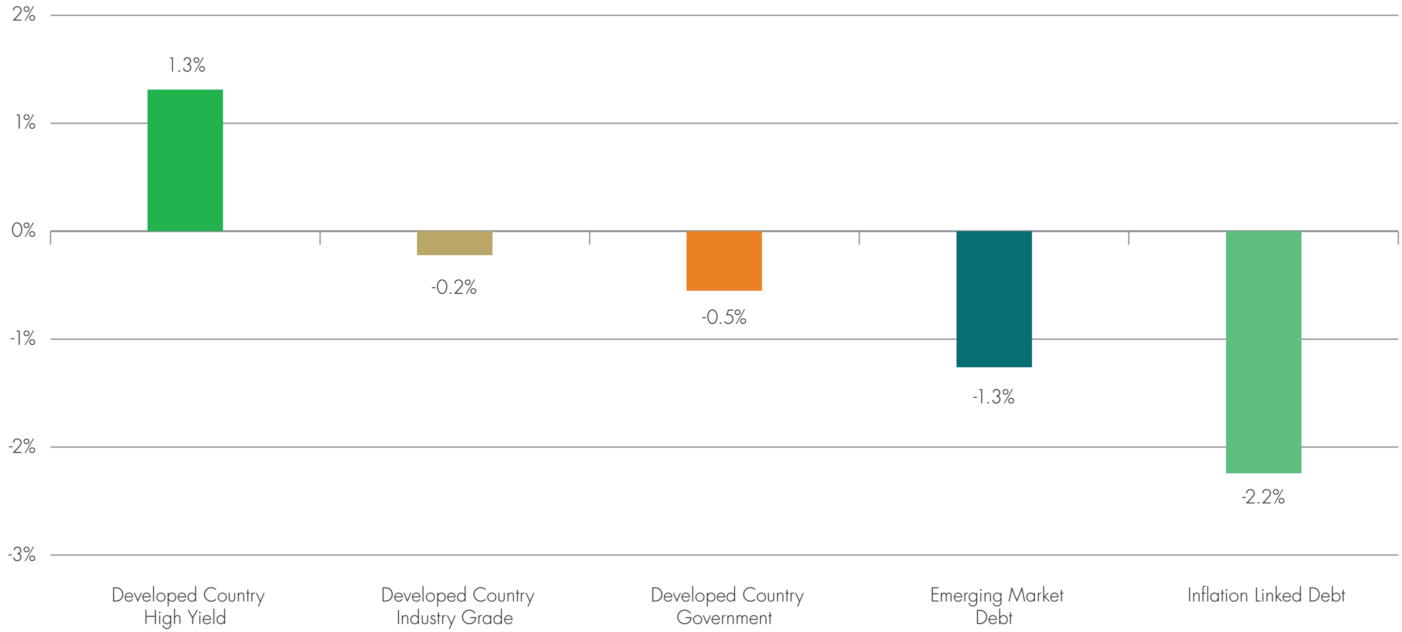
Source: Morningstar, 30.06.23

Performance of bond markets

High yield bonds outperform as inflation-linked debt reverses Q1 gains

Developed country high yield bonds were the fixed income leaders in Q2 while inflation-linked debt reversed much of the gain it had made in Q1. A dilution in recessionary worries was supportive of the higher risk bonds. But yields on developed country government and investment grade corporate bonds rose on worries that stiffer action on interest rates could be needed to tame inflation, which were prompted by data pointing to economic resilience and comments from central bankers.

Bond returns Q2 2023



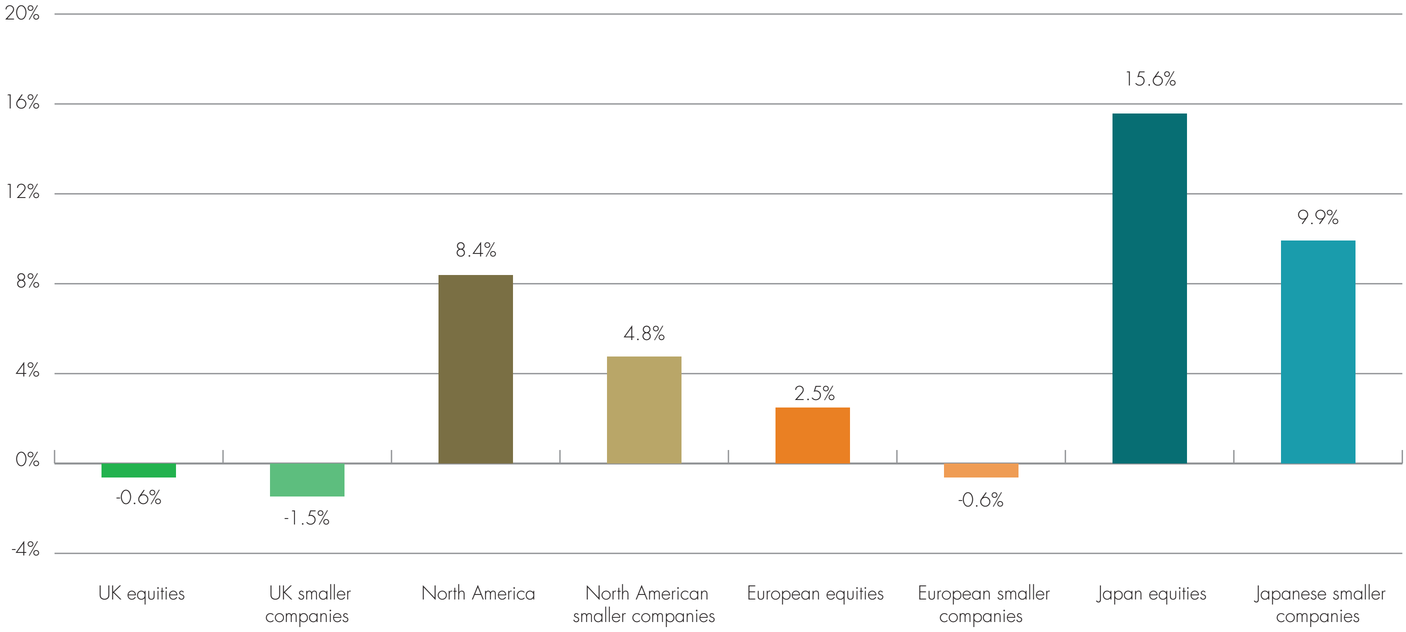
Source: Morningstar, 30.06.23

Large versus small cap equities

Small caps underperform their larger peers for second quarter

Large and small caps delivered mixed performances over the quarter but the latter underperformed their domestic peers for the second quarter running. The biggest differential was in Japan, but both classes there outperformed on the global stage. The poorest-performing small caps were in the UK and Europe, where fears increased of sterner monetary policies to come to tackle inflation.

Equity returns Q2 2023



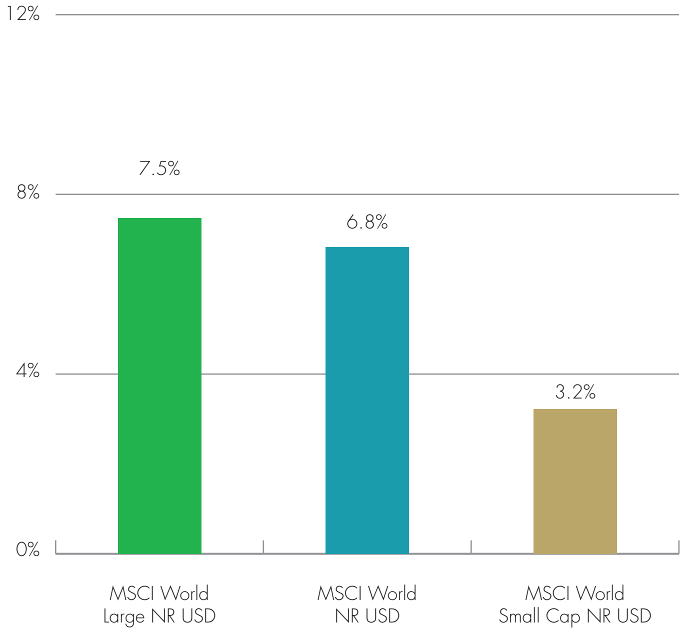
Source: Morningstar, 30.06.23

Global large cap vs small cap and value vs growth

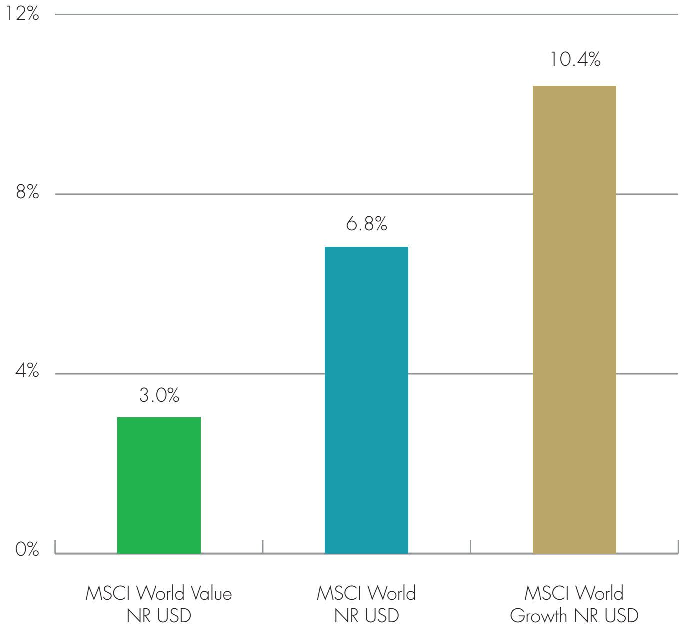
Large caps and growth style stocks outperform their counterparts

From a global perspective, large caps outperformed small caps, and growth stocks outperformed value, for the second quarter running. The surging popularity of a few US technology growth stocks and their significant weighting in global indexes was a key factor in the relative performances.

Global large cap versus small cap returns Q2 2023



Global growth versus value returns Q2 2023



Source: Morningstar, 30.06.23. **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 views from fund managers we have interviewed over the quarter, revealing different takes on the key questions of the moment. Not all the managers included are held in our funds and portfolios, and we have kept things anonymous so people feel comfortable expressing sometimes frank opinions.

Fund managers look beyond interest rate hikes

How far central banks would continue to raise interest rates to tackle inflation continued to be a key focus for markets in Q2, but fund managers are also turning their attention to other issues, such as economic growth, valuations and even credit differentiation and default levels.

The meeting of leading central bankers at Sintra in Portugal during Q2 did spur much noise and speculation around the direction of monetary policy though. Bonds, especially US treasuries, weakened on statements made at the meeting that tight labour markets were still pushing up wages and inflation and that stiffer action on interest rates could be needed. European Central Bank (ECB) president Christine Lagarde told the conference that there was still insufficient evidence that core inflation was stabilising or falling.

The comments, together with fresh data pointing to economic resilience, were enough to raise fears about future interest rate hikes and pushed up yields on government and investment grade corporate bonds. In contrast, more faith in economic strength supported higher risk, high yield bonds.

Despite the recent elevated volatility within bond markets, one fixed income fund manager noted that high yield credit continues to exhibit resilient fundamentals – including a near-zero default rate, high recovery rates, declining leverage, and improved liquidity. He said:

> "When the risk-free rate and credit spreads reach levels such as those observed today, we have historically seen strong one-year forward returns in the high yield asset class."

"The market also contains some of the highest interest coverage ratios we have seen in more than a decade. When the risk-free rate and credit spreads reach levels such as those observed today, we have historically seen strong one-year forward returns in the high yield asset class. This year's jump in yields has meant this buffer is back again, providing investors with a powerful compounding effect."

Another fixed income fund manager said: "Last year was all about interest rates and inflation but so far, 2023 has been all about credit differentiation. Credit will matter much more. To date, we have had a rates sell-off, not a credit sell-off.

"Defaults this year have been at record lows. Stripping out Russia and Ukraine, they've been at about 0.5%. That leaves only one way to go. That said, the average balance sheet is better quality than in recent history and we don't expect a significant spike like that seen in the Global Financial Crisis, but defaults will pick up from here. We expect a rate of 3-4% in the UK, and 2-3% in Europe."

We lowered our ranking on high yield bonds in our Q2 tactical asset allocation review to neutral, having raised it in Q4 2022. We added exposure to high yield investments at an opportune time, when they had attractive spreads versus government bonds but these have since narrowed and we have taken some profits but remain constructive on the long-term prospects for the asset class.

UK still offers opportunities

UK stocks were the laggards in Q2, weighed down by weakening oil prices and the Bank of England's aggressive rate hiking to quell inflation that is the most elevated among developed economies. The UK is dominated by energy multinationals and cash-generative stocks but lacks the technology-centric growth stocks that have benefited from the AI rally in recent months. We are still positive on UK equities, however, which we see as still relatively cheap despite the energy bounce of 2022.

A fund manager said of the UK: "With the outlook for inflation and interest rates moderating in the UK, many analysts are now questioning whether Britain is really heading for a deep recession. However, the more relevant question is whether the new economic regime of elevated inflation and higher rates will result in businesses and consumers continuing to tighten their purse strings – given Britons have already cut discretionary spending."

Data also showed that UK GDP remained in positive territory in Q1 and the BoE said it no longer expected a recession lasting throughout 2023 and into Q1 2024. One UK equities fund manager also said it had been a reassuring Q1 earnings season. He added: "The more economic sensitive businesses such as the recruiters and consumer discretionary have seen a slowdown. But then to some degree that was already reflected in their valuations, so the share price reactions have been OK in those names. The valuations of those businesses are interesting for long-term investors who can see through the cycle." The UK continues to face the severest inflation challenge among developed nations, but it is one of the regions to which we are most favourable for equities, including small caps. It remains a cheap market despite outperforming other developed regions in 2022.

Looking across the Channel, our view on continental Europe continues to improve. In our Q2 TAA Review, we raised our outlook on European small caps to neutral, in line with our now neutral view on European equities generally. Concerns over the domestic economy are abating as Europe continues to progress after the problems associated with gas supplies from Russia. Arguably, the region's equities have been impacted disproportionately now, given that Europe is home to many multi-national businesses linked to the global growth story. A European fund manager said: "We have been taking advantage of the market sell-off by adding to companies the team has long admired in every aspect except valuation."

> "China's growth rate may be slowing following years of breakneck expansion, but it is forecast to significantly outperform most developed markets in 2023."

China recovery petering out

We also maintain a positive outlook on Asian and emerging market equities. Both regions are benefiting from loose monetary policies and, for some countries, links to commodities. But for Asia, a lot will depend on how China supports its economy in the coming months.

China's post-Covid recovery appeared to be losing steam, however. Data released in Q2 showed manufacturing activity contracting and the country cut its benchmark lending rates in a move to ease monetary policy. Six months after reopening after Covid, China still faced issues, including declining trade activity and a weak property sector. China's property sector is still riven with problems, including liquidity issues, while unemployment, especially among youths, remains high.

A fund manager commented: "China's growth rate may be slowing following years of breakneck expansion, but it is forecast to significantly outperform most developed markets in 2023. Looking at the short-term, China is the only major economy that is going to grow meaningfully from a low base this year."

Another fund manager pointed out the risks and challenges of investing in Asia: "The challenges in the region are sentiment swings and retail participation, although these can both also represent opportunities. Some markets in the region are not as institutionalised as the more developed markets.

"China, for example, has very high retail participation, and so its market can be very sentiment driven from time to time, in both positive and negative directions. That's a challenge, but it can also be an opportunity when things go your way."

Time to implement portfolios for the future

While the bigger risk today seems to be that interest rates will surprise on the upside, fund managers are right to look beyond the current hiking cycle. Central banks have already implemented aggressive hikes for an extended period and the chances are that we are close to terminal rates.

We recognise that inflation has proven to be more stubborn than expected, but we have yet to see strong evidence pointing to excessive harm being caused to the economy in the long term. We believe that now is the time for investors to look for opportunities and position their pieces on the board for the long term.

LIONTRUST MULTI-ASSET PERFORMANCE

MPS Blended Growth

The performance of our multi-asset solutions reflected the mixed fortunes of fixed income and equity markets globally. Most equity regions were positive but fixed income generally had to contend with rising interest rates – both actual and anticipated – which was partly reminiscent of 2022.

Global government bonds sold off, especially US treasuries and gilts, the former due to statements made by Federal Reserve chairman Jay Powell that stiffer action might be needed to tackle price rises and the latter by the Bank of England's response to the most elevated inflation among developed nations. Gilts plumbed year-to-date lows.

Globally, equities were generally strong, particularly in North America and Japan, whereas the UK, emerging markets and Asia sold off slightly. The US saw strong gains on enthusiasm once again for technology stocks, driven by the appetite for AI with Nvidia a stand-out performer.

Thankfully, the 'mini' banking crisis seen in Q1 has so far proved to be just that and now seems to no longer be of concern to investors. The focus is back on inflation and how much policymakers must do to tame it and the negative economic impact this might have.

In our most recent Tactical Asset Allocation (TAA) review, we retained our overall positive outlook on markets and equities in general. The underlying tone in markets has stabilised but investors' confidence has subsided from the optimism they had earlier in the year. They seem to have accepted what central banks were telling them, that interest rates would have to stay higher for longer to deal with stubborn inflation. But they are now too susceptible to short-term developments. We agree with the short-term diagnosis that inflation will be stickier than expected, but we disagree with any prognosis of severe damage being caused in the long run. Inflation is trending down, and there are opportunities now to put investments in place for the longer term.

In Q2 we began to implement the adjustments to our Strategic Asset Allocation (SAA) that were determined in Q1. Some of these changes, together with our TAA, put our portfolios on the right side of markets in Q2. A reduction in target exposures to UK equities helped our relative performance from the beginning of the quarter. We have also significantly reduced target exposure and duration in gilts and raised it to high yield bonds. More exposure to Japan would have aided performance, however – for our SAA, we reduced target exposure to Japan equities and raised it to Asia and emerging markets, which weighed on relative performance.

Our negative contribution from emerging markets (EMs) in Q2 followed two previous quarters of positive contributions from the region. As so often, the performances of individual countries within EMs were mixed: India did well on encouraging economic data, and Brazil and eastern European countries progressed on hopes of interest rate cuts and other positive news. But worries over China's post-Covid economic recovery running out of steam and political tensions with the US were major negatives for EMs, while South Africa performed badly amid its ongoing power crisis.

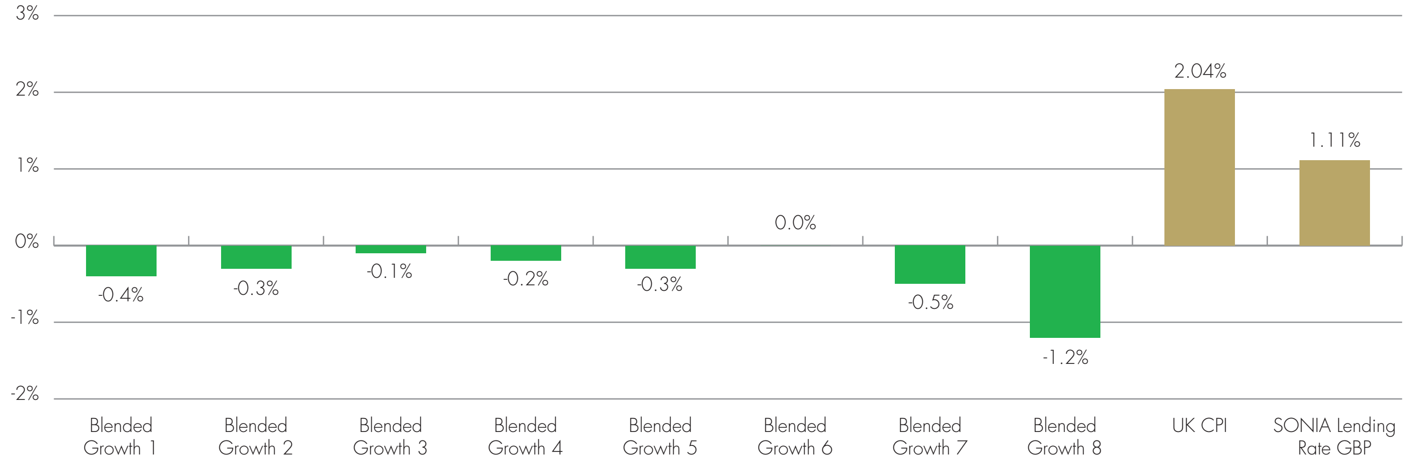
Equities and bonds overall provided mixed contributions to performance.

In equities, the strongest performances were delivered by Fidelity Index US, AB American Growth and Artemis US Smaller Companies. Fidelity Index Japan also provided supported. The poorest equity performers included Fidelity Index Pacific ex Japan and Fidelity Index Emerging Markets. In the UK, Schroder Income and Janus Henderson UK Smaller Companies also weighed.

In our fixed income exposure, Aegon High Yield, AXA US Short Duration High Yield and L&G Active Global High Yield Bond were our strong performers. However, iShares UK Gilts All Stocks Index and Royal London Short Duration Gilts dragged on performance, while corporate bonds weighed through AXA ACT Carbon Transition Sterling Buy and Maintain Credit and Fidelity Sustainable MoneyBuilder Income.

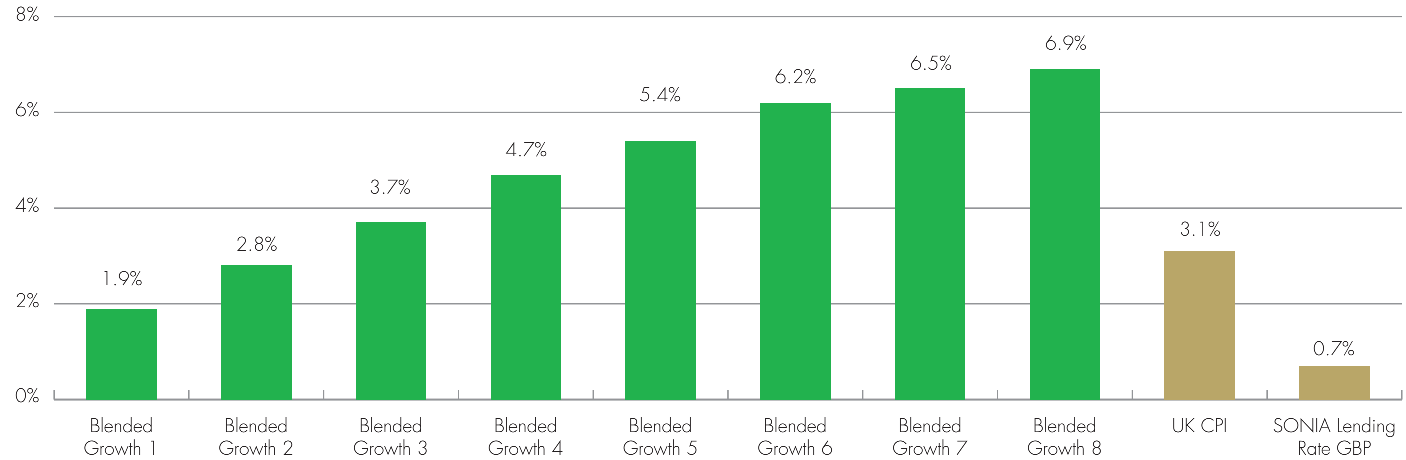
Our Alternatives holding was also a negative through Liontrust Diversified Real Assets.

MPS Blended Growth Portfolios: Q2 2023



Source: Morningstar, Liontrust, 30.06.23. 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 Blended Growth Portfolios: Annualised returns since inception



Source: Morningstar, Liontrust. The above graph is based on data from 31.05.14 to 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

MPS Blended Income

The performance of our multi-asset solutions reflected the mixed fortunes of fixed income and equity markets globally. Most equity regions were positive but fixed income generally had to contend with rising interest rates – both actual and anticipated – which was partly reminiscent of 2022.

Global government bonds sold off, especially US treasuries and gilts, the former due to statements made by Federal Reserve chairman Jay Powell that stiffer action might be needed to tackle price rises and the latter by the Bank of England's response to the most elevated inflation among developed nations. Gilts plumbed year-to-date lows.

Globally, equities were generally strong, particularly in North America and Japan, whereas the UK, emerging markets and Asia sold off slightly. The US saw strong gains on enthusiasm once again for technology stocks, driven by the appetite for AI with Nvidia a stand-out performer.

Thankfully, the 'mini' banking crisis seen in Q1 has so far proved to be just that and now seems to no longer be of concern to investors. The focus is back on inflation and how much policymakers must do to tame it and the negative economic impact this might have.

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In Q2 we began to implement the adjustments to our Strategic Asset Allocation (SAA) that were determined in Q1. Some of these changes, together with our TAA, put our portfolios on the right side of markets in Q2. A reduction in target exposures to UK equities helped our relative performance from the beginning of the quarter. We have also significantly reduced target exposure and duration in gilts and raised it to high yield bonds. More exposure to Japan would have aided performance, however – for our SAA, we reduced target exposure to Japan equities and raised it to Asia and emerging markets, which weighed on relative performance.

Our negative contribution from emerging markets (EMs) in Q2 followed two previous quarters of positive contributions from the region. As so often, the performances of individual countries within EMs were mixed: India did well on encouraging economic data, and Brazil and eastern European countries progressed on hopes of interest rate cuts and other positive news. But worries over China's post-Covid economic recovery running out of steam and political tensions with the US were major negatives for EMs, while South Africa performed badly amid its ongoing power crisis.

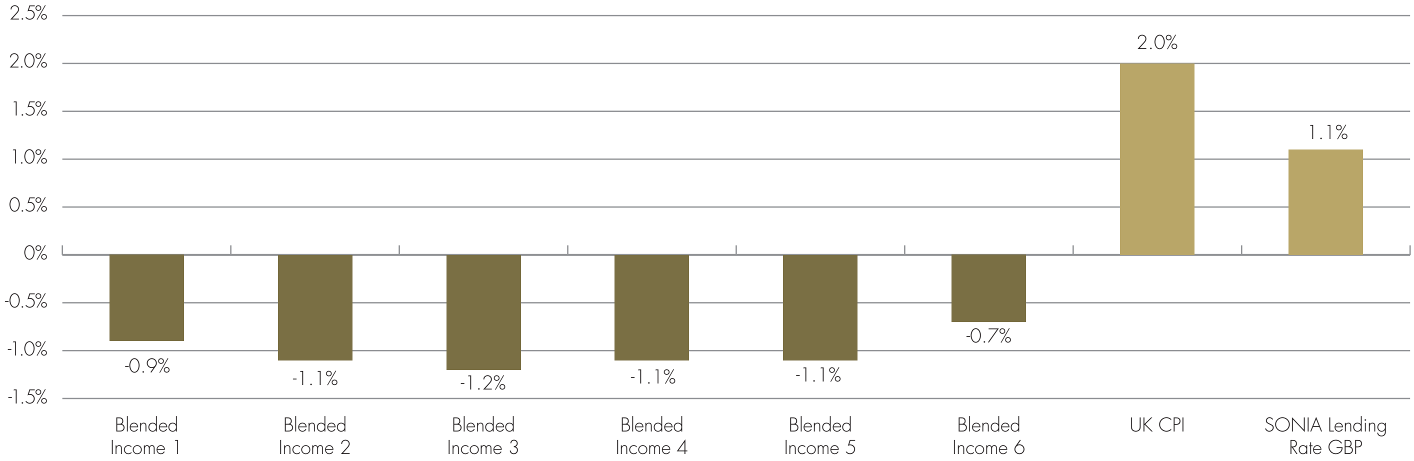
US and Japanese equities and high yield bonds delivered the most significant contribution to performance.

Leading equity contributors included Fidelity Index US, Artemis US Smaller Companies and Fidelity Index Japan. However, exposure to emerging markets and developed Asia weighed on performance, with key detractors including Fidelity Index Emerging Markets, Schroder Asian Income and Fidelity Index Pacific ex Japan.

In fixed income, leading performers included Invesco High Yield UK, AXA US Short Duration High Yield and L&G Active Global High Yield Bonds. But other fixed income sectors weighed, and poor performers included iShares UK Gilts All Stocks Index, AXA ACT Carbon Transition Sterling Buy and Maintain Credit, Royal London Short Duration Gilts, Royal London Corporate Bond and Fidelity Sustainable MoneyBuilder Income.

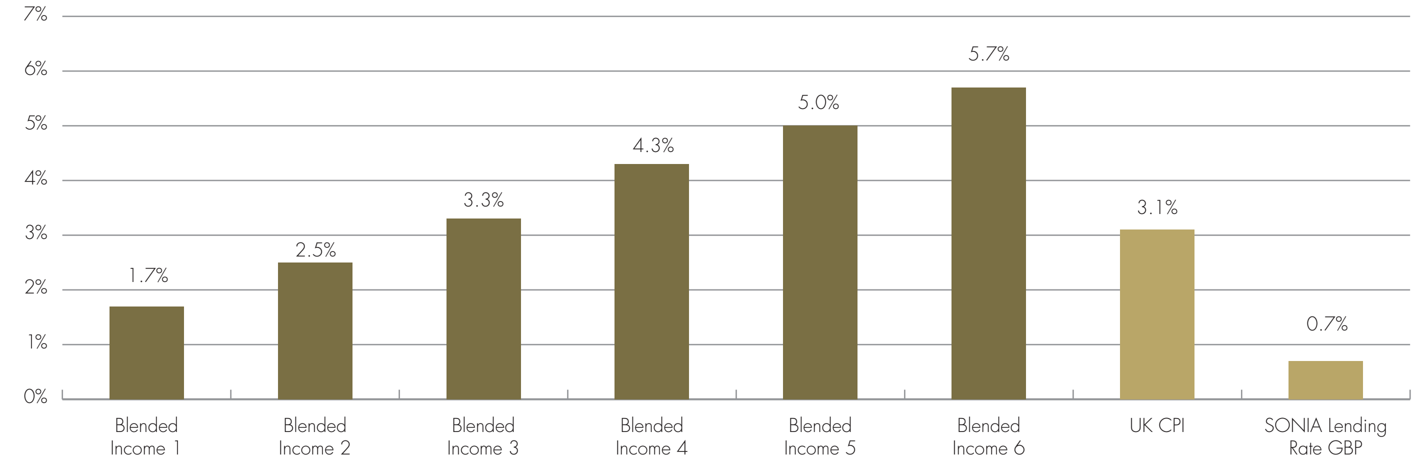
The alternatives sector also weighed through Liontrust Diversified Real Assets Fund.

MPS Blended Income Portfolios: Q2 2023



Source: Morningstar, Liontrust, 30.06.23. 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 Blended Income Portfolios: Annualised returns since inception



Source: Morningstar, Liontrust. The above graph is based on data from 31.05.14 to 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

MPS Dynamic Passive

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Global government bonds sold off, especially US treasuries and gilts, the former due to statements made by Federal Reserve chairman Jay Powell that stiffer action might be needed to tackle price rises and the latter by the Bank of England's response to the most elevated inflation among developed nations. Gilts plumbed year-to-date lows.

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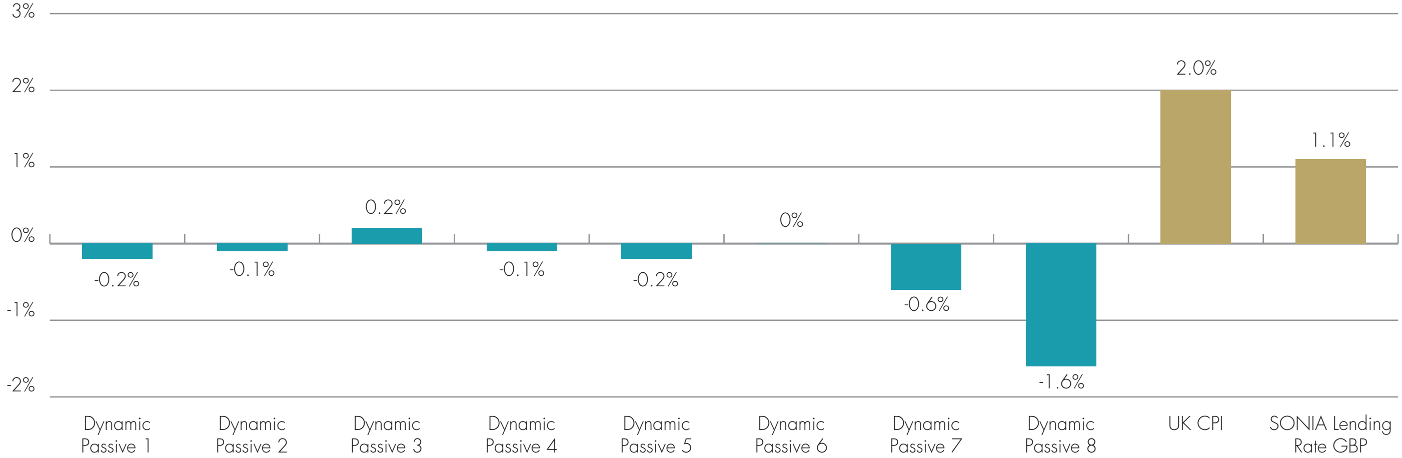
US and Japanese equities and high yield bonds delivered the most significant contribution to performance.

In our equity holdings, leading performers included Fidelity Index US, Fidelity Index Japan and Artemis US Smaller Companies. Fidelity Index Europe ex UK was also a positive performer. However, the emerging market and Asian ex Japan regions weighed the most through Fidelity Index Emerging Markets and Fidelity Index Pacific ex Japan, while Barings Europe Select and Janus Henderson UK Smaller Companies also detracted from performance.

In fixed income, L&G Active Global High Yield Bond and AXA US Short Duration High Yield were the leading contributors. Other fixed income sectors weighed on performance, however, through funds including iShares UK Gilts All Stocks Index, L&G Sterling Corporate Bond Index, iShares Corporate Bond Index and Royal London Short Duration Gilts.

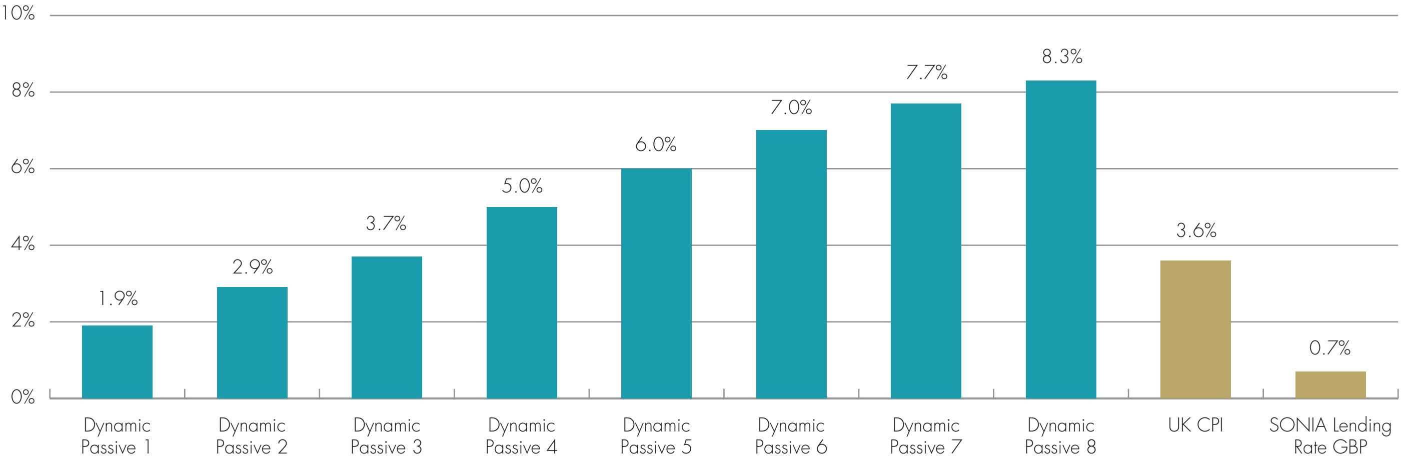
Our alternatives holding also detracted from performance through Liontrust Diversified Real Assets.

MPS Dynamic Passive Portfolios: Q2 2023



Source: Morningstar, Liontrust, 30.06.23. 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 Passive Portfolios: Annualised returns since inception



Source: Morningstar, Liontrust. The above graph is based on data from 30.09.15 to 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

MA Explorer

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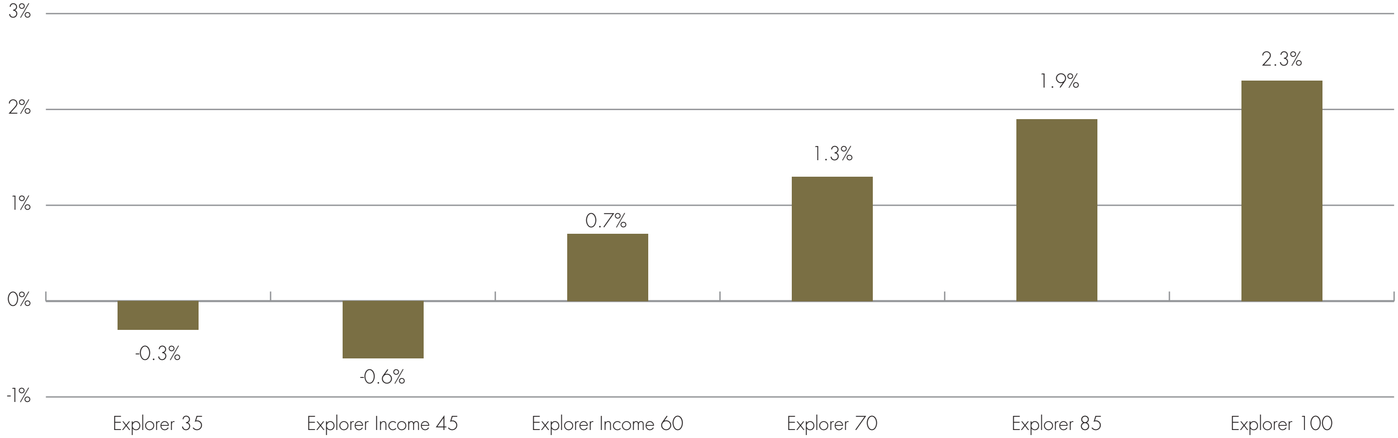
Our negative contribution from emerging markets (EMs) in Q2 followed two previous quarters of positive contributions from the region. As so often, the performances of individual countries within EMs were mixed: India did well on encouraging economic data, and Brazil and eastern European countries progressed on hopes of interest rate cuts and other positive news. But worries over China's post-Covid economic recovery running out of steam and political tensions with the US were major negatives for EMs, while South Africa performed badly amid its ongoing power crisis.

Equities provided the strongest contribution to performance through the US, Japan and Europe ex-UK regions. Key performers here included Loomis Sayles US Growth Equity, Ossiam Shiller Barclays CAPE US Sector Value, AB American Growth, Man GLG Japan Core Alpha Professional, Baillie Gifford Japanese, BlackRock European Dynamic and Liontrust European Dynamic. But emerging market, developed Asia and UK equities were negatives, with poor performers including Vontobel mtx Sustainable Emerging Markets Leaders, BlackRock Emerging Markets, Fidelity Asia Pacific Opportunities and Federated Hermes Asia ex Japan Equity.

In fixed income, high yield, emerging market and global ex-UK bonds were positive contributors, with contributing funds including Barings Global High Yield Bond, Barings Emerging Markets Sovereign Debt and Vanguard Global Aggregate Bond. Medium-term gilts detracted the most from performance overall, with poor performers including iShares UK Gilts All Stocks Index, L&G All Stocks Gilt Index and Vanguard UK Government Bond Index.

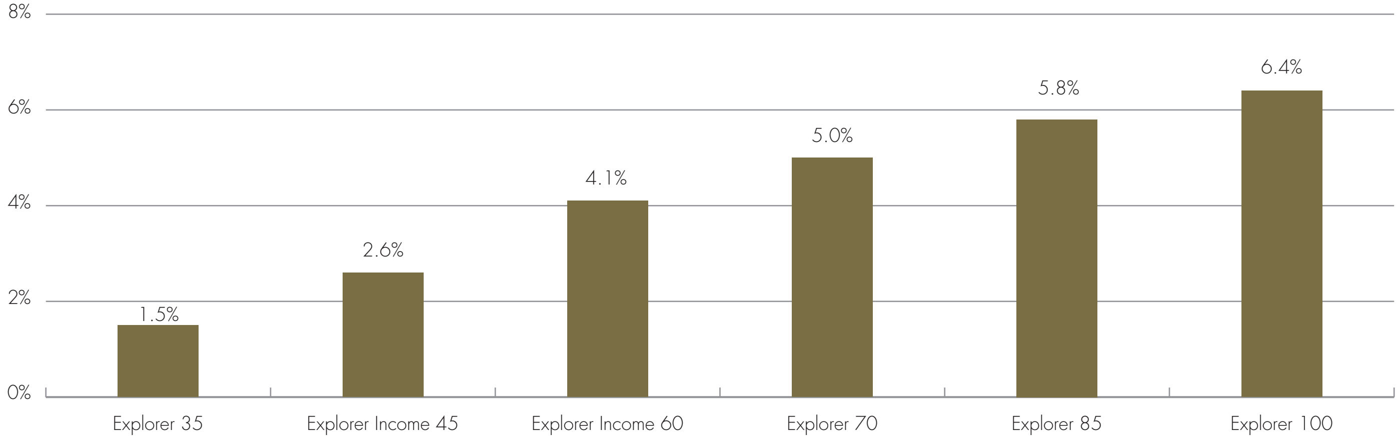
Our Alternatives holding was also a negative, with L&G Global Infrastructure Index and iShares UK Property weighing the most.

MA Explorer Funds: Q2 2023



Source: FE Analytics, as at 30.06.23. 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 Explorer Funds: Annualised returns since inception



Source: FE Analytics, as at 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

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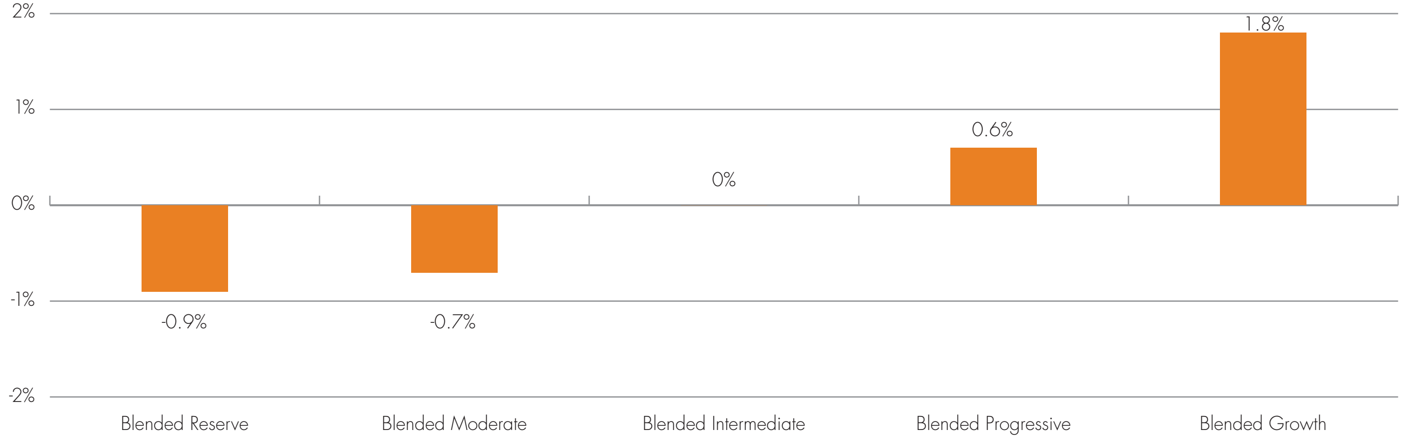
Positive contributions to performance came from US, Japan and Europe ex UK equities, and high yield bonds. Key contributing equity funds included L&G US Index, Ossiam Shiller Barclays CAPE US Sector Value, AB American Growth, Loomis Sayles US Growth Equity, Man GLG Japan Core Alpha Professional, iShares Japan Equity Index, Liontrust European Dynamic and BlackRock European Dynamic. Barings Global High Yield Bond and iShares Euro High Yield Corporate Bond ESG were the leading fixed income contributors.

Negative contributions to performance came most significantly from corporate bonds and medium gilts, and from emerging market, developed Asian and UK equities. Poor performers included Vanguard UK Investment Grade Bond Index, iShares Corporate Bond Index, iShares UK Gilts All Stocks Index, L&G All Stocks Gilt Index and Vanguard UK Government Bond Index on the fixed income side. Poor equity performers included L&G Emerging Markets Equity Index, Vontobel mtx Sustainable Emerging Markets Leaders, Fidelity Asia Pacific Opportunities, L&G Pacific Index and Federated Hermes Asia ex Japan Equity.

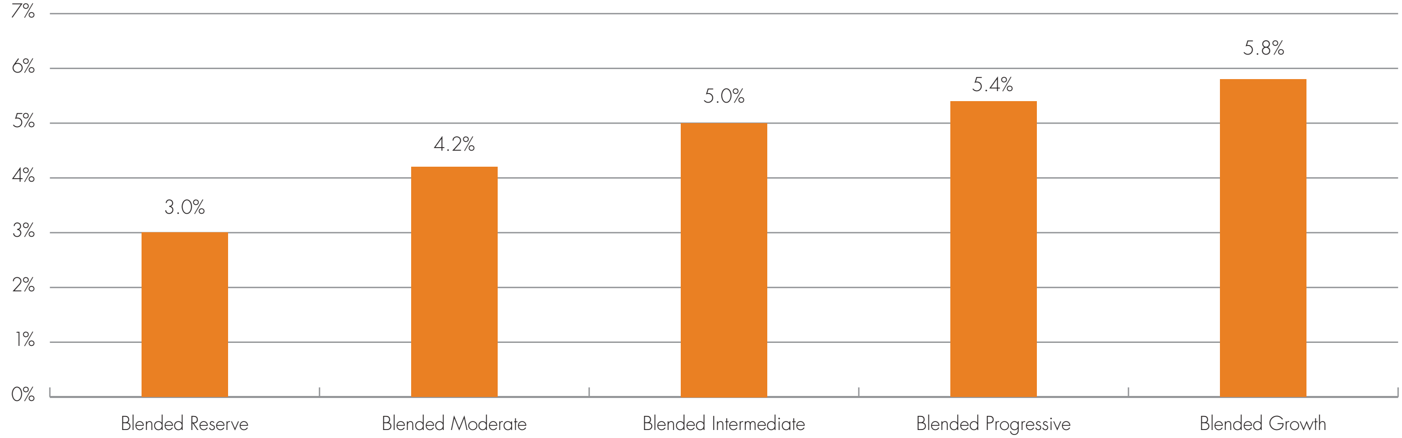
Our holding in alternatives was also a negative, with iShares Physical Gold and L&G Global Infrastructure weighing slightly.

MA Blended Funds: Q2 2023



Source: FE Analytics, as at 30.06.23. 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 Funds: Annualised returns since inception



Source: FE Analytics, as at 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

MA Dynamic Passive

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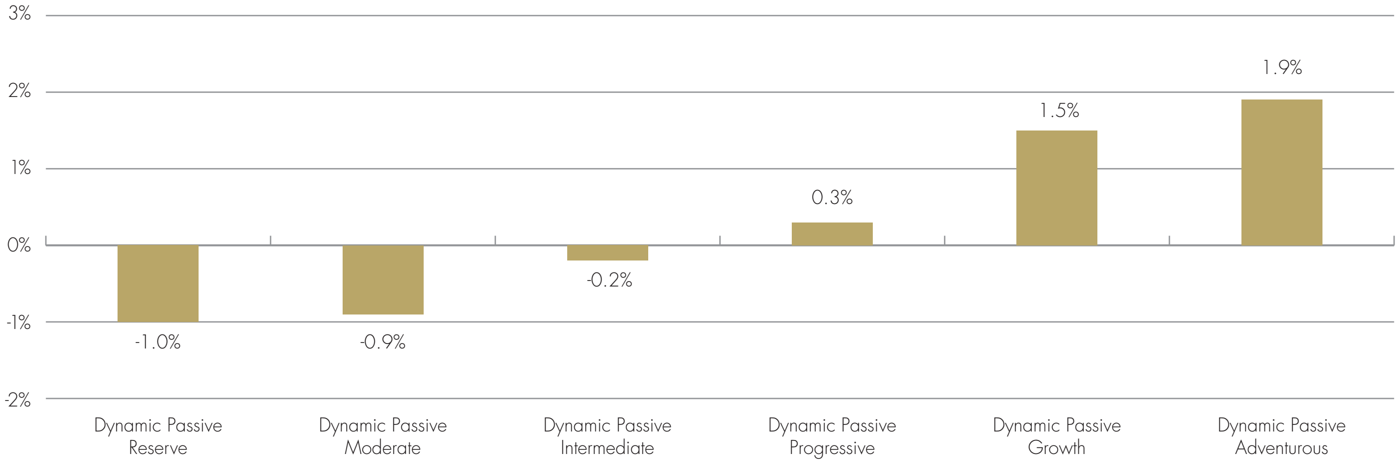
Our holdings in equities and bonds delivered mixed performances. The US, Japan and Europe ex-UK contributed the most on the equities side while high yield bonds provided the only positive fixed income contribution.

Leading equity performers included L&G US Index, HSBC American Index, iShares Japan Equity Index, HSBC Japan Index, iShares Continental Europe Equity Index and HSBC European Index. iShares Fallen Angels High Yield Corporate Bond, iShares Euro High Yield Corporate Bond ESG and iShares USD High Yield Corporate Bond ESG were also key contributors.

Corporate bonds and medium gilts were the most significant detractors from performance, with Vanguard UK Investment Grade Bond Index, iShares Corporate Bond Index, iShares UK Gilts All Stocks Index, L&G All Stocks Gilt Index and Vanguard UK Government Bond Index weighing here. Emerging markets detracted the most from performance on the equities side through iShares Emerging Markets Equity Index and L&G Emerging Markets Equity Index.

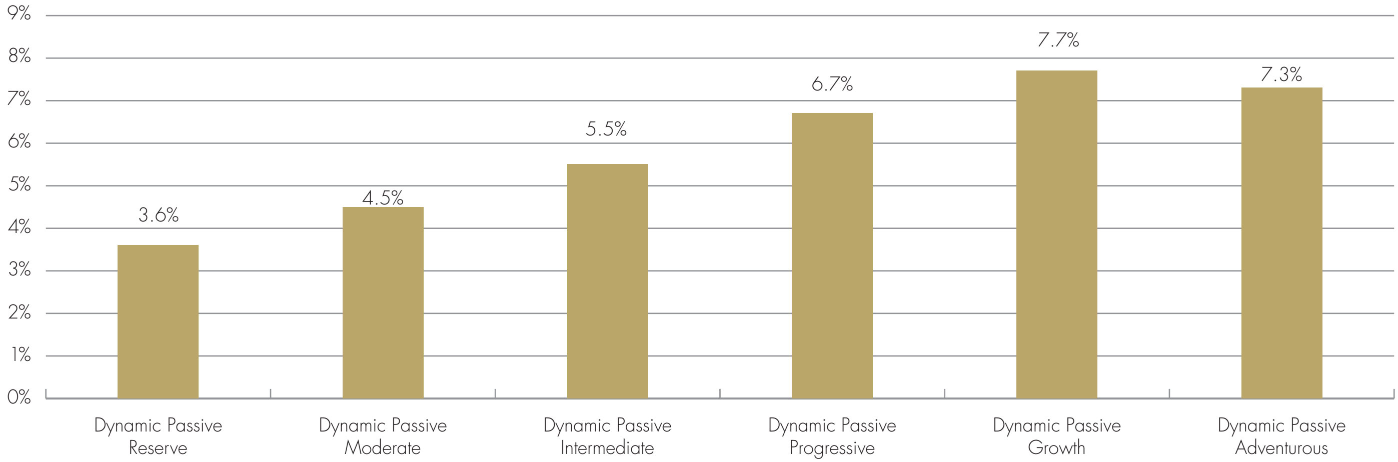
Alternative holdings also weighed, with iShares Physical Gold the most significant detractor.

MA Dynamic Passive Funds: Q2 2023



Source: FE Analytics, as at 30.06.23. 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 Dynamic Passive Funds: Annualised returns since inception



Source: FE Analytics, as at 30.06.23. Performance is from 08.03.11 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MPS Blended Growth

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MPS Blended Growth 1	2.5	-0.5	6.3	-5.5	1.0
Liontrust MPS Blended Growth 2	3.7	-0.8	9.4	-8.2	1.7
Liontrust MPS Blended Growth 3	5.0	-1.0	12.6	-10.8	2.6
Liontrust MPS Blended Growth 4	4.4	-2.3	17.2	-11.4	4.0
Liontrust MPS Blended Growth 5	4.0	-3.4	20.9	-11.9	5.0
Liontrust MPS Blended Growth 6	3.5	-4.1	24.4	-12.3	6.4
Liontrust MPS Blended Growth 7	4.6	-4.5	25.9	-12.9	5.6
Liontrust MPS Blended Growth 8	5.7	-4.6	27.4	-13.3	4.5

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Discrete performance for MPS Blended Income

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MPS Blended Income 1	2.0	-1.2	6.3	-4.2	0.0
Liontrust MPS Blended Income 2	3.0	-1.8	9.7	-6.3	0.2
Liontrust MPS Blended Income 3	4.0	-2.4	13.0	-8.2	0.6
Liontrust MPS Blended Income 4	3.7	-3.2	17.3	-8.8	1.9
Liontrust MPS Blended Income 5	3.4	-3.9	20.5	-9.3	2.8
Liontrust MPS Blended Income 6	3.2	-4.5	23.8	-9.8	4.1

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Discrete performance for MPS Dynamic Passive

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MPS Dynamic Passive 1	2.5	-0.4	5.7	-5.1	1.2
Liontrust MPS Dynamic Passive 2	3.7	-0.5	8.7	-7.7	2.0
Liontrust MPS Dynamic Passive 3	4.9	-0.7	11.6	-10.1	3.0
Liontrust MPS Dynamic Passive 4	5.1	-1.7	15.5	-10.5	4.0
Liontrust MPS Dynamic Passive 5	5.3	-2.4	18.5	-10.9	4.9
Liontrust MPS Dynamic Passive 6	5.4	-3.1	21.5	-11.2	6.1
Liontrust MPS Dynamic Passive 7	6.7	-2.4	22.5	-11.5	4.9
Liontrust MPS Dynamic Passive 8	7.7	-1.6	23.4	-11.8	3.5

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Discrete performance for MA Explorer

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MA Explorer 35 Fund S Acc	3.0	3.8	0.7	-9.7	-7.9
Liontrust MA Explorer Income 45 Fund S Acc	3.8	3.8	6.5	-13.4	-2.2
Liontrust MA Explorer Income 60 Fund S Acc	4.1	2.0	13.9	-10.0	2.3
Liontrust MA Explorer 70 Fund S Acc	3.6	0.1	18.9	-10.0	4.7
Liontrust MA Explorer 85 Fund S Acc	3.3	-1.4	24.8	-9.5	8.1
Liontrust MA Explorer 100 Fund S Acc	3.3	1.5	26.5	-10.7	9.6

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Discrete performance for MA Blended

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MA Blended Reserve Fund S Acc	3.1	2.8	4.5	-11.5	-3.7
Liontrust MA Blended Moderate Fund S Acc	3.7	1.9	8.9	-9.5	-1.8
Liontrust MA Blended Intermediate Fund S Acc	3.7	0.2	13.3	-8.2	0.6
Liontrust MA Blended Progressive Fund S Acc	3.5	-1.5	17.5	-7.6	3.4
Liontrust MA Blended Growth Fund S Acc	3.8	-2.5	23.4	-6.8	7.0

Source: FE Analytics, as at 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

Discrete performance for MA Dynamic Passive

	Year 1 01.07.18 to 30.06.19	Year 2 01.07.19 to 30.06.20	Year 3 01.07.20 to 30.06.21	Year 4 01.07.21 to 30.06.22	Year 5 01.07.22 to 30.06.23
Liontrust MA Dynamic Passive Reserve Fund S Acc	5.2	5.5	4.1	-8.7	-4.5
Liontrust MA Dynamic Passive Moderate Fund S Acc	5.6	3.4	7.1	-7.6	-2.5
Liontrust MA Dynamic Passive Intermediate Fund S Acc	5.2	2.0	10.8	-5.9	0.3
Liontrust MA Dynamic Passive Progressive Fund S Acc	5.5	-0.3	15.2	-4.3	2.9
Liontrust MA Dynamic Passive Growth Fund S Acc	6.1	-2.1	21.0	-3.4	6.4
Liontrust MA Dynamic Passive Adventurous Fund S Acc	6.5	-0.4	23.7	-4.2	6.7

Source: FE Analytics, as at 30.06.23. 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 does not predict future returns. You may get back less than you originally invested. Please refer to page 38 for more information.**

Key risks

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

Some of the Funds and Model Portfolios managed by the Multi-Asset Team have exposure to foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The majority of the Funds and Model Portfolios invest in Fixed Income securities indirectly through collective investment schemes. 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. Some Funds may have exposure to property via collective investment schemes. Property funds may be more difficult to value objectively so may be incorrectly priced, and may at times be harder to sell. This could lead to reduced liquidity in the Fund. Some Funds and Model Portfolios also invest in non-mainstream (alternative) assets indirectly through collective investment schemes. During periods of stressed market conditions non-mainstream (alternative) assets may be difficult to sell at a fair price, which may cause prices to fluctuate more sharply.

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 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.

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