Multi-Asset

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Liontrust Managed Portfolio Service (MPS) Update

Introduction

The Liontrust Multi-Asset Investment team is pleased to provide an update on the Q3 2023 MPS rebalance, highlighting changes to fund allocations in the portfolios.

Japan equities

Exposure to Japanese equities ranges from 0.95% in risk level one portfolios to 6.80% in risk level nine.

As part of our ongoing manager selection research, we have made changes to the Japanese equity allocation in the MPS Growth and MPS Income portfolios. As with all the equity regions, in Japan we want to provide a balanced stylistic exposure using excellent fund managers.

We have divested our position in Man GLG Japan CoreAlpha and reallocated into M&G Japan. Despite the strong returns generated by Man GLG Japan CoreAlpha in 2023, buoyed by the prevailing favourability towards the value style in Japan this year, we believe the new blend presents a more balanced approach to risks and market cap and sector exposure within the region. The addition of M&G Japan will provide a valuable counterbalance to the quality growth approach of Baillie Gifford Japan, ensuring the portfolios benefit from a diversified stylistic mix in the Japanese equity market.

M&G Japan has a valuation-sensitive investment style, focusing on bottom-up company fundamentals. The M&G team look for situations where a specific debate or controversy has driven a large wedge between the share price and what they consider to be the value of a listed equity. The investment process has a strong emphasis on reducing simplistic risk factors and we like the manager's focus on increasing stock-specific esoteric risk. The team benefits from expert engagement capabilities, with Dr Yanagi (ranked in the Top 10 CFOs by Forbes in Japan) serving as executive consultant and seeking to become "shareholder of choice" to unlock enhanced dialogue with companies through which the team can look to add value.

Past performance does not predict future

We believe that this new manager blend, with a 60% allocation to M&G Japan and 40% to Baillie Gifford Japan, has the potential to deliver attractive returns over the medium to long term. We will continue to have a 50% passive allocation in the Japan sleeve.

Developed Asia ex-Japan equities

Exposure to Developed Asia ex-Japan equities ranges from 2.25% in risk level one portfolios to 20.80% in risk level ten.

Following a review of our Developed Asia ex-Japan equity managers, we have brought two new funds into MPS Growth with the aim of enhancing the overall stylistic balance of our equity blend in the region. This manager change involves the sale and replacement of Schroder Asian Income and Schroder Asian Total Return with a 50-50 blend of Fidelity Asia Pacific Opportunities and Federated Hermes Asia Ex-Japan.

Fidelity Asia Pacific Opportunities follows a high conviction investment approach, operating a 1 in 1 out portfolio construction philosophy. Leveraging Fidelity's extensive analyst base, the fund focuses on finding companies with stable, low leverage balance sheets, predominantly exhibiting a bias toward large cap growth companies. The Federated Hermes Asia Ex-Japan has a contrarian strategy, seeking companies trading at the right price relative to their quality and exhibiting a broader spectrum of value compared to their peers. Portfolio positioning is weighted towards the highest asymmetric risk/return opportunities, not necessarily those with the highest Alpha expectation. This defensive approach stance is distinctive in the universe and key to avoiding momentum traps.

The benefits of this change are multi-faceted. First, the new blend offers a more complementary style profile, balancing Fidelity's quality growth approach with Federated Hermes' broader spectrum of value. Second, the revised allocation is 12 basis points cheaper for investors. The inclusion of these funds brings a more idiosyncratic risk profile, which makes stock selection more important for expected returns. The change also enhances diversification, ensuring a well-rounded exposure to Asian equities.

The new allocation will continue to incorporate a 50% passive allocation alongside the two active funds.

Global High Yield Bond

Exposure to global high yield bonds ranges from 0.0% in risk level seven portfolios to 14.0% in risk level one.

We have implemented a new high yield (HY) blend across the Growth, Income, and Dynamic Beta portfolios. We have built strong conviction in two funds that have robust investment processes, experienced teams and are complementary.

Barings Global High Yield has a unique approach to the HY universe by excluding the issuers in emerging markets and focusing exclusively on developed markets with a bias towards non-financial businesses. While their preference is for industrial issuers, they also like financials (such as aircraft leasing and insurance companies) and prefer consumer-oriented businesses. The outcome of their process is a core, active HY fund focusing on US and European issuers and diversified across sectors and issuers.

Aegon High Yield, which we have held for several years, has a well-resourced fixed income division with 13 people dedicated to its two managers. The strategy is differentiated versus its peers by its high-conviction, bottom-up security selection, index-agnostic positioning and the manager's global approach to investing across North America, Europe and emerging markets.

The blend of these managers provides two distinct approaches to global HY, providing us with regional, sector and issuer diversification. We have implemented the blend with a 50% allocation to both funds but we may reweight it according to market conditions.

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.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. 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;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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