



For professional UK investors only

Liontrust GF High Yield Bond Fund

Q3 2022 review

Fund managers: Phil Milburn and Donald Phillips.

The Fund (C5 sterling accumulation class) returned -0.9%* in sterling terms in Q3 2022 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned -1.5% and the average return for the IA Sterling High Yield reference sector was -1.4%. The primary B5 US dollar share class returned -0.7%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned -1.0% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was -2.3%.

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 C sterling shares class return was ahead of that of the ETF in Q3 but has slightly underperformed it since inception (June 2018).

The global high yield Q3 market return of -1.0% (US dollar terms) masks two six-week periods marked by 'risk on' then 'risk off'. At the start of the quarter, indeed from 1st July, markets began to rally based mainly on the idea of a 'dovish pivot' from the US Federal Reserve. The tumultuous high yield markets in the first half of the year had mainly been about the impact of rising interest rates/monetary tightening on market liquidity. Rates markets had then begun to reflect a view of the world where inflation was under control, growth was slowing and central banks would be cutting by the end of next year. Risk markets liked the idea of future looser monetary policy.

Yet stubborn inflation data ruined the party, and, from the middle of August, high yield sold off as the ten-year US treasury gradually moved to 4% and higher. By mid-August, the global high yield market had produced a quarter-to-date return of 6.8% in US dollars, only for that to be lost (and some more) by the end of the quarter. A game of two halves. Equity markets had followed a similar path – the correlation between all types of assets, or lack of diversification, remains clear.

Those sectors that are perceived to be longer duration, e.g. telecoms and real estate, were the best performing sectors in the first six week period, and amongst the worst in the second. The high yield market, for now, is like a yoyo under the control of the US rates curve. CCCs have again outperformed, albeit marginally, suggesting to me that the high yield market continues to be more concerned about duration than any recession coming down the line.

In our last quarterly update, we wrote at length about the Fund's holdings in the real estate sector. At the beginning of this period, Heimstaden announced a bond tender and CPI Property bought bonds back in the secondary market. Both of these holdings held up relatively well during the sell-off in the latter half of this period. Castellum has not yet bought back any of its bonds and its bond underperformed in the risk-off period. Between mid-August and the end of the period, the real estate sector cost the Fund around 30bps relative to index. However, over the full quarter the sector made a significant positive contribution to absolute and relative performance.

The insurance sector was a significant detractor. Each holding we have in the sector is a sterling denominated bond (hedged) and the material under-performance versus index occurred in the aftermath of the UK Chancellor's 'mini budget' and the impact this had on UK government bonds. Two of our three holdings in the sector are issued by companies with investment grade ratings in the life insurance sector. A2 rated Rothesay

bonds now yield 11.3% and we have conviction in the long-term prospects for this business. In total, the Fund has around 10% in sterling-dominated bonds.

Our preference towards higher quality bonds and less cyclical sectors skews us towards a slightly longer duration in our credit selection than our index and, likely, our peers. At the start of the year, we had interest rate futures offsetting some of this duration, but, with increasingly higher rates, we removed these hedges.

The Fund therefore feels somewhat higher beta to this rates-driven risk on/risk off dynamic. The bonds that were the strongest performers up until mid-August were amongst the weakest performers in the latter part. Chief amongst these was, for example, the likes of the UK's Virgin Media, a business we deem to have strong credit fundamentals, or Millicom, a quality Latin American telecom with North European ownership and governance. When the market was rallying on this idea of a Fed pivot, the Fund was first in its UK peer group in July. By mid-August, we had all but closed the underperformance versus index in the year-to-date. However, in the latter half of the period, we gave most of this back.

Outlook

We are making lending decisions based on long-term fundamentals and value, not on short-term market sentiment. The Fund has a yield of around 11.5% for sterling investors (8.9% euro) and an average rating of BB-. Our ability to generate returns in line with this yield is entirely down to the underlying credit quality of the holdings and their ability to refinance in the future. The rates-driven volatility that sees Virgin Media as more volatile than many cyclical CCCs in our view is mark-to-market noise.

If the new issue market remains all but closed, then refinancing risk will increase as a risk to the asset class. In 2023, the European currency high yield market has a small €20bn of maturities, so time is on our side (there is ~€50bn of maturing in 2024). Even this year has seen €22bn of issuance to date (versus €150bn in 2021). Our conviction remains in the higher quality part of the high yield market and believe long terms returns will vindicate this.

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

	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust GF High Yield Bond C Acc GBP	-18.0%	10.0%	0.4%	6.6%
ICE BofA Global High Yield Hedge GBP	-16.9%	9.8%	1.3%	5.4%
IA Sterling High Yield	-14.3%	10.6%	-0.4%	4.7%

*Source: Financial Express, as at 30.09.22, total return (net of fees and interest reinvested).

**Source: Financial Express, C share class, total return, net of fees and interest reinvested. As at 30.09.22. The primary share class for this Fund is in US dollars (B5) but we are showing the C 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 (SRR1) 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.

Disclaimer

Non-UK individuals: This document is issued by Liontrust International (Luxembourg) S.A., a Luxembourg public limited company (société anonyme) incorporated on 14 October 2019 and authorised by and regulated as an investment firm in Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF") having its registered office at 18, Val Sainte Croix, L-1370 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under number B.238295. UK individuals: This document is issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business. **This is a marketing communication.** Before making an investment, you should read the relevant Prospectus and the Key Investor Information Document (KIID), which provide full product details including investment charges and risks. These documents can be obtained, free of charge, from www.liontrust.co.uk or direct from Liontrust. Always research your own investments and if you are not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. This should not be construed as advice for investment in any product or security mentioned, an offer to buy or sell units/shares of Funds mentioned, or a solicitation to purchase securities in any company or investment product. Examples of stocks are provided for general information only to demonstrate our investment philosophy. The investment being promoted is for units in a fund, not directly in the underlying assets. It contains information and analysis that is believed to be accurate at the time of publication but is subject to change without notice. Whilst care has been taken in compiling the content of this document, no representation or warranty, express or implied, is made by Liontrust as to its accuracy or completeness, including for external sources (which may have been used) which have not been verified. It should not be copied, forwarded, reproduced, divulged or otherwise distributed in any form whether by way of fax, email, oral or otherwise, in whole or in part without the express and prior written consent of Liontrust.

[22/737]