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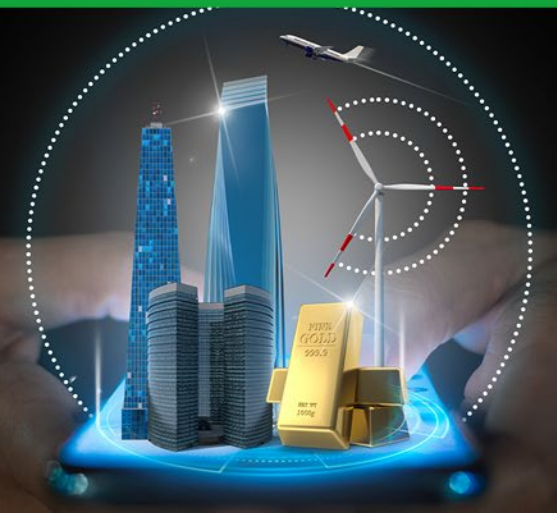
Diversified Real Assets

Q1 2024 review



Liontrust Diversified Real Assets Fund

- Core infrastructure was the biggest detractor to performance in Q1, followed by core property
- Cyclical real assets also weighed on performance in Q1
- Diversifiers were largely flat in a difficult period for the fund

Over the three months to 31 March 2024, the Diversified Real Assets Fund (the 'Fund') returned -6.2%, (Class A accumulation share class, net of fees).[1]

Within core infrastructure, which was the largest detractor to the Fund's performance in Q1 2024, social infrastructure weighed heavily. In particular, this was driven down by our holding in Cordiant Digital and to a lesser degree, HICL Infrastructure. Renewable infrastructure holdings also had a negative impact over the three months to the end of March.

Core property also contributed negatively to the Fund's overall performance, due to the weakness of the speciality REITs sub sector, and our holdings in Supermarket Income REIT and Primary Health Properties which both dragged. The losses in this sub-area were somewhat offset by small gains in industrials, thanks to our holding in LondonMetric Property.

Cyclical real assets dragged slightly on performance, due to a negative contributon to performance in global infrastructure equity caused by our holding in RWE AG.

However, in what continued to be a difficult period economically, diversifiers remained largely flat, with gold showing a small positive return due to our holding in iShares Physical Gold.

Outlook

The market has been aggressively resetting its expectations regarding interest rates cuts going into 2024, with the result being rising government bond yields across the developed markets. Part of this is driven by strong economic data, specifically jobs data, but also stickier core inflation which is meaningfully lower than 2023 but above central bank targets.

As interest rates have been the primary driver of risk and returns for the last 12 months, they will continue to drive risk and volatility – however for real assets, the higher interest rate environment is arguably already reflected in the discounts in their share prices, which in many cases remain the cheapest levels since the global financial crisis.

In terms of our positioning, we remain overweight in specialist real estate sectors that either provide defence in an economic slowdown (e.g. health care REITs) or are supported by structural themes that support supply demand dynamics (e.g. data centre REITs). We similarly remain overweight social infrastructure due to their attractive valuations and defensive characteristics while the dividend yields and inflation sensitivity make renewables still attractive to own.

We expect both the historically cheapest valuations and the interest rate catalysts to drive strong positive returns over the next 12 to 24 months (albeit it will not all come in a straight line). The Fund remains at the cheapest level valuation (P/E, dividend yield) since its inception, with a current running yield close to c.6%.

Furthermore, the first quarter has also seen much more aggressive corporate activity in the form of share buybacks to support share prices, disposal of selective asset(s) at premium to book values either to reduce leverage or recycle the capital into more profitable projects. We believe the fundamental catalysts of our companies remain supportive with robust balance sheets, so given the current running dividend yield investors are paid to be patient for a more favourable macro to unlock the capital appreciation across our names.

We believe that for most clients owning a diversified portfolio which contains defensive real assets alongside their traditional equities and bonds can provide a good source of diversification, especially in an economic and earnings slowdown scenario.

For more insights and views from Liontrust visit: https://www.liontrust.co.uk/insights/ourinsights

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

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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 invests at least 80% of its net asset value in a diversified portfolio of real assets (including investments in infrastructure, renewables. commodities, inflation linked assets and specialist property).

The Fund will gain exposure to these real assets through investment in real estate investment trusts (REITs), investment trusts, equities, debt instruments (bonds), collective investment schemes and exchange traded instruments.

The Fund is currently categorised 4 primarily for its balanced exposure to higher and lower risk assets.

The SRRI may not fully take into account the following risks:

- that a company may fail thus reducing its value within the Fund;
- 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.
- 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.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments or have significant sector or factor exposures. If one of these investments or sectors / factors fall in value this can have a greater impact on the Fund's value than if it held a larger number of investments across a more diversified portfolio.

The Fund may, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and 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 use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. 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.

The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

The Fund may have 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.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

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

ESG Risk: there may be limitations to the availability, completeness or accuracy of ESG information from third-party providers, or inconsistencies in the consideration of ESG factors across different third party data providers, given the evolving nature of ESG.

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.