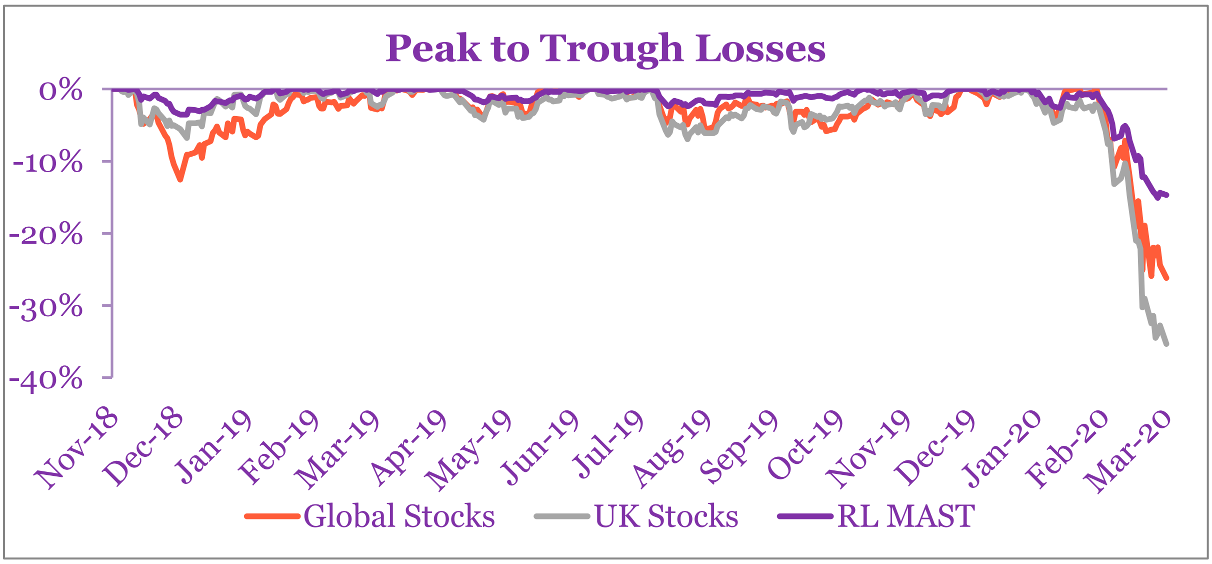
COVID-19 INVESTMENT UPDATE: MULTI ASSET STRATEGIES FUND – 26 MARCH 2020

The Multi Asset Strategies Fund (MAST) went into the coronavirus crisis with almost half of its assets in UK and global equities, in view of the broadening signs of recovery in the world economy at the start of 2020. As a result, the fund experienced a drawdown from its 17 January high-water mark of around 15% as of 23 March. This compares to a 26% drop in global equities and 35% for UK equities over the same period (chart 1).

Chart 1: Peak to trough drawdown for MAST and equities



Past performance is not a reliable indicator of future results. Note: Decline from high-water mark for RL Multi Asset Strategies Fund (net of fees), the MSCI World index in GBP terms and FTSE All Share index as of 23 March 2020.

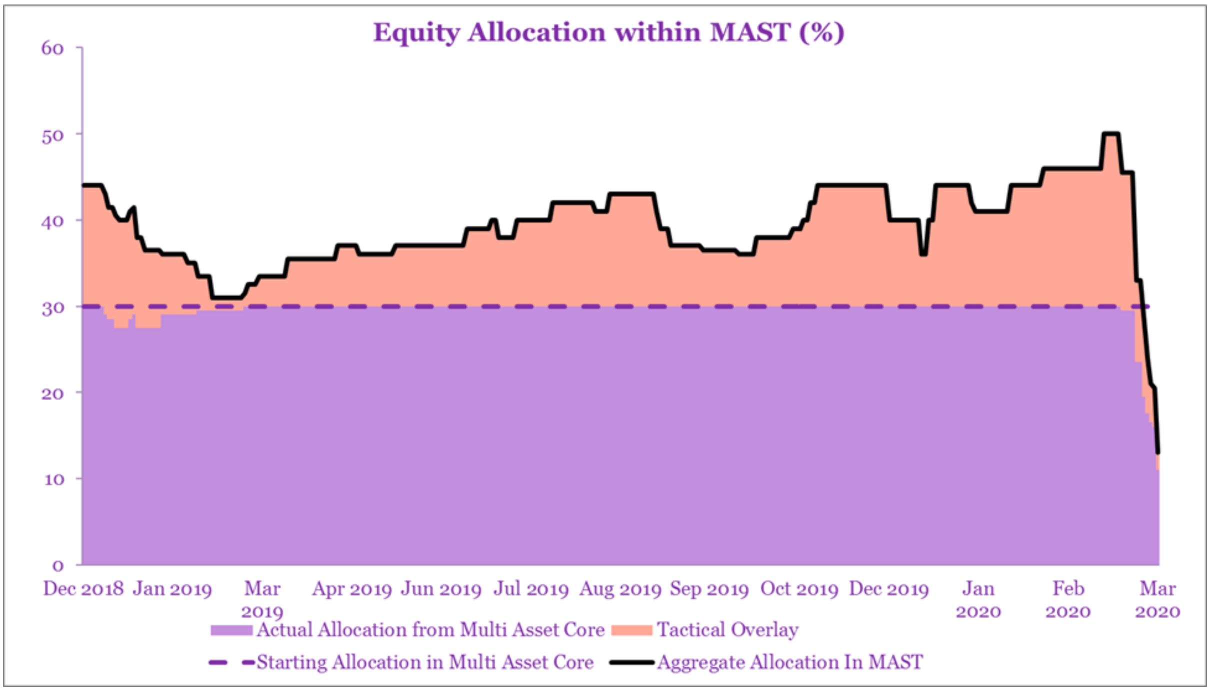
Downside risk control coming into force as intended

We are very conscious that our relatively high starting position in equities means MAST captured more downside than we would have liked when the crisis hit. However, under the circumstances, the fund behaved in line with expectations when faced with a sudden shock, with risk control mechanisms coming into force as intended to limit further losses as the market decline gathered pace.

We moved decisively during March, reducing the core portfolio's exposure to equities by about two thirds to cap volatility in this part of the fund. This is a greater level of de-risking than our systematic approach would have applied during the 2008 Lehman failure. Meanwhile, we reduced our tactical position in equities to a broadly neutral position to factor in the uncertain market outlook.

In aggregate, we cut target equity exposure in MAST from around 45% at the market highs to around 10% today (chart 2).

Chart 2: Target equity exposure in MAST



Portfolio characteristics and holdings are subject to change without notice.

The most sudden drop in stocks since 1929

MAST aims to capture upside in positive market trends, while reducing equity exposure during market turbulence in order to limit downside risk and focus more of its risk budget on tactical strategies at these times.

Before launching the fund we engaged in extensive back-testing to help us understand how the investment process would have weathered a wide range of historical market conditions. Simulation from the mid 1990s suggests MAST should capture about half of the equity market upside in rising markets, while moving sideways on average during bear markets.

The rapid onset of steep market declines once the virus spread outside of China meant volatility capping didn't start to take effect until the drop in stock prices was well under way. This has been the most sudden decline in stocks since 1929, far exceeding anything in the back-test period. However, there were several smaller market corrections in which simulated returns for MAST would have shown a decline of roughly half that of equity markets (table 1).

Table 1: MAST and equity market performance in sudden shocks

Max Drawdown (Peak To Trough Losses)	Start	End	Global equities	UK Equities	RL MAST
Coronavirus, to 23 March 2020	21/01/2020	?	-26.2%	-35.3%	-15.1%
Dot Com downturn/September 11 Attack in	30/04/2001	30/11/2001	-27.8%	-25.7%	-9.8%
China Devaluation Panic	28/02/2015	31/12/2016	-16.0%	-18.7%	-9.4%
Russia crisis/collapse of LTCM in 1998	30/06/1998	31/12/1998	-23.9%	-24.4%	-8.2%
Bernanke Fed Hike in 2006	31/03/2006	30/06/2007	-12.1%	-9.9%	-7.8%

Source: RLAM. Simulated data is used prior to the inception date of 23 November 2018. The simulation for MAST is calculated using historical positions generated by RLAM's in-house tactical asset allocation models and signals from our volatility management process. Net of estimated fees and transaction costs. Simulated data or historical data are not a guide to future performance. MSCI World unhedged in GBP is used to represent global equity returns (FTSE World prior to Jul-01). FTSE Allshare for UK equities.

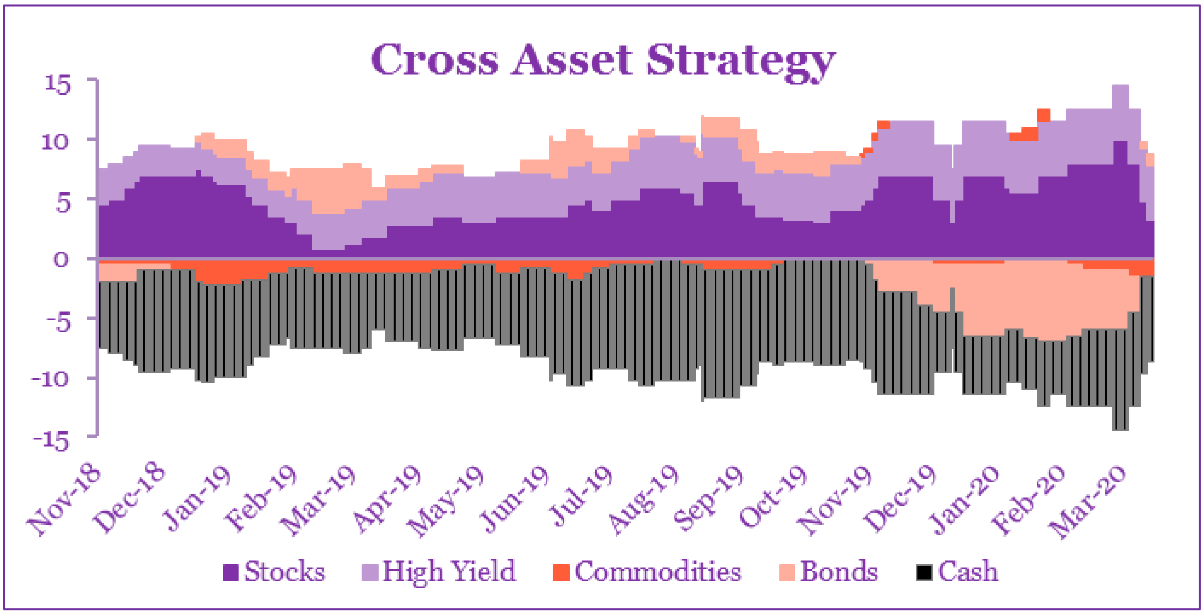
In back-tested scenarios we saw a new high-water mark within about a year due to either a stock market recovery or through the more gradual impact of tactical asset allocation in a more prolonged bear market. The current drawdown is larger than those in the simulation and is likely to take longer to heal, in our view.

Attuned to tactical opportunities

We continue to take an active approach to tactical asset allocation with a view to generating returns irrespective of market direction.

- We bought equities in the initial sharp sell-off and sold a week later when markets bounced on the Fed's first rate cut. As the virus spread rapidly outside of China we took exposure to a broadly neutral position (chart 3) to reflect a high level of uncertainty.
- We increased our exposure to government bonds while trimming global high yield exposure. We retain a position in short duration global high yield, a relatively defensive strategy.
- We have minimal commodity exposure, having sold ahead of the crisis. As a result, MAST felt little impact when the oil price plunged on supply disagreements between Russia and Saudi Arabia.

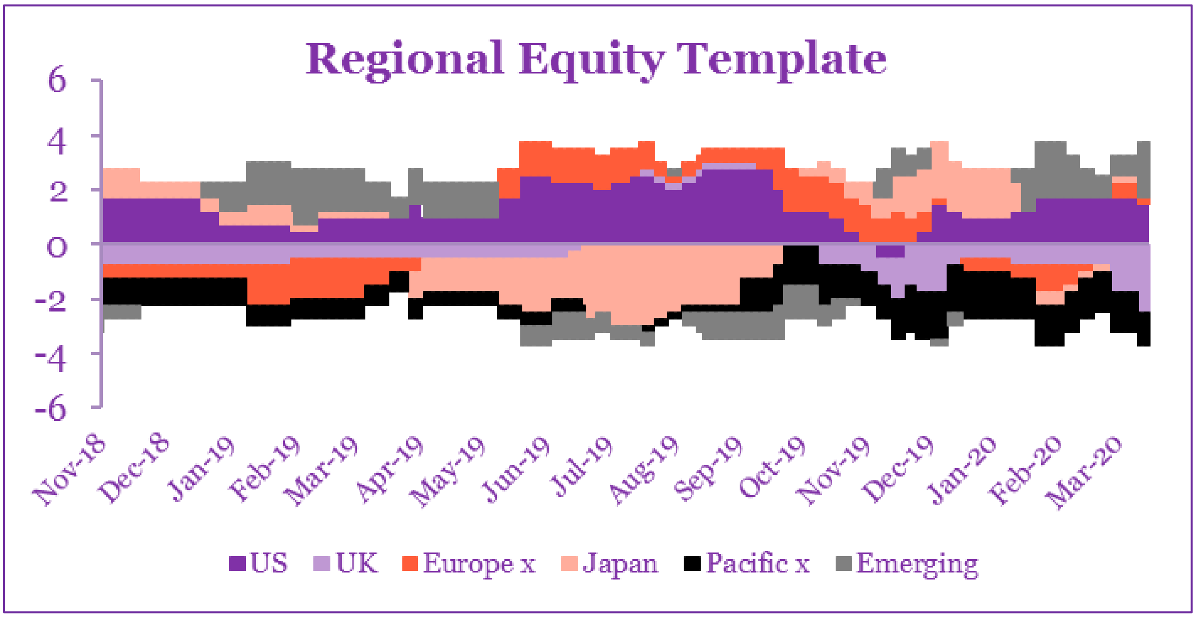
Chart 3: Tactical Positions – Cross Asset



Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

- Regionally, we have a pronounced tilt towards emerging market and US equities and away from the UK (chart 4). Emerging markets have proved more resilient with the epicentre of the virus outbreak moving from China to Western Europe.

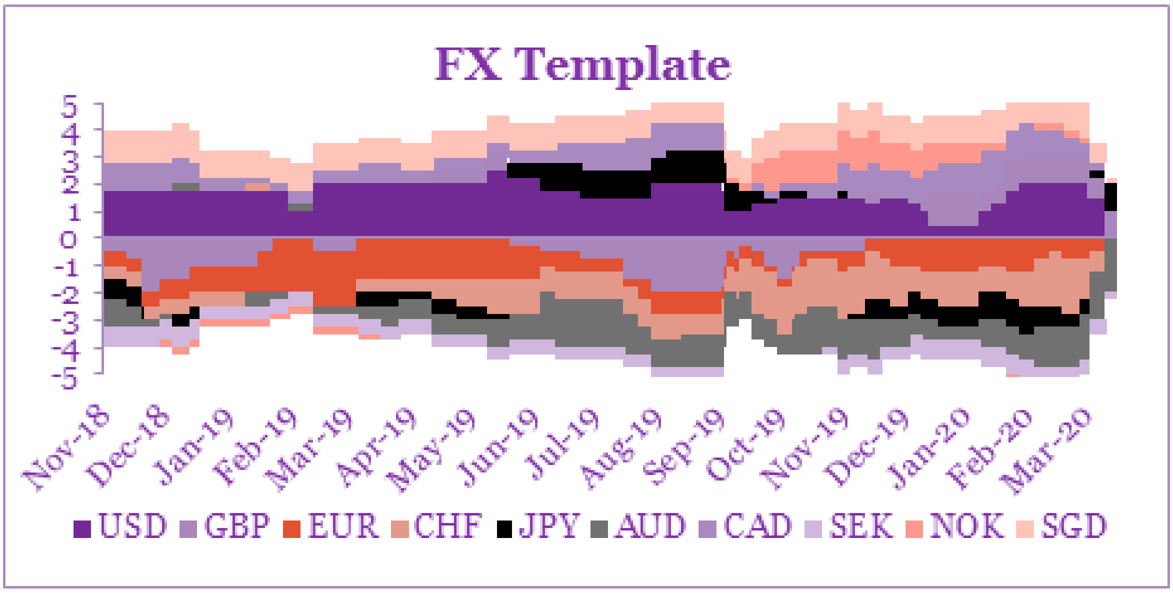
Chart 4: Tactical Positions – Regional Equity



Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

- We de-risked our currency positions (chart 5), remaining short the economically-exposed Australian dollar, and more recently moving short sterling while shifting in favour of the more defensive US dollar and Japanese yen.

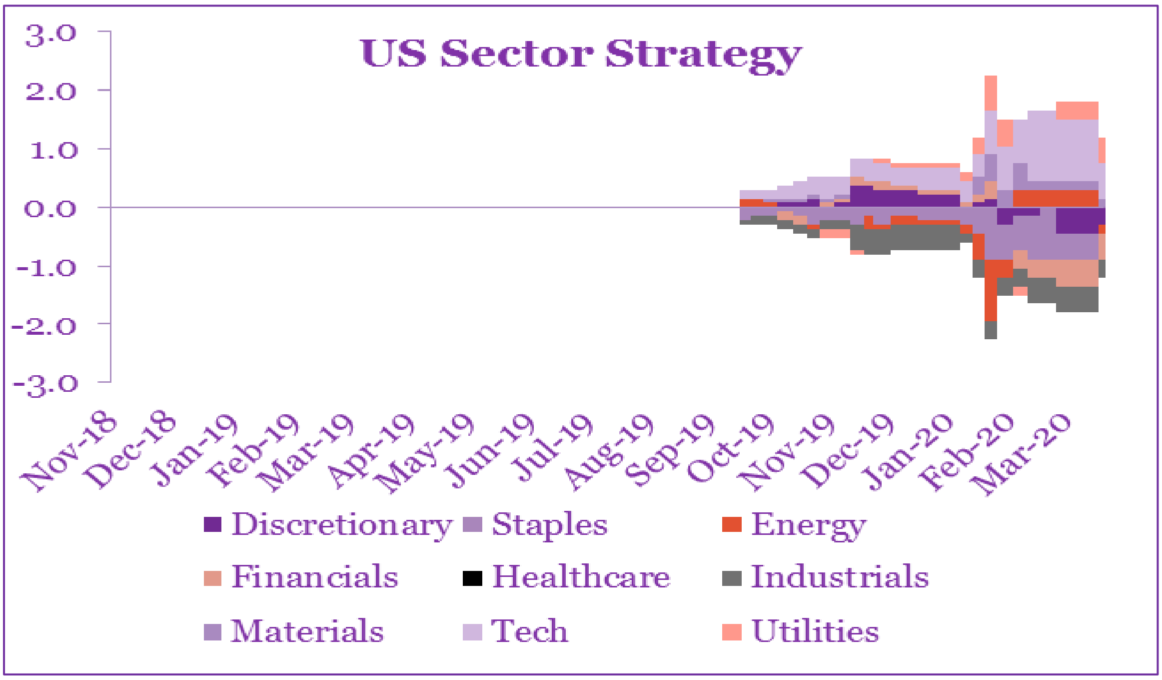
Chart 5: Tactical Positions – Foreign Exchange



Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

- We introduced US sector positions in late 2019 and they have added value due to a positive view on the US technology sector relative to hard hit industrials and materials (chart 6).

Chart 6: Tactical Positions – US equity sectors

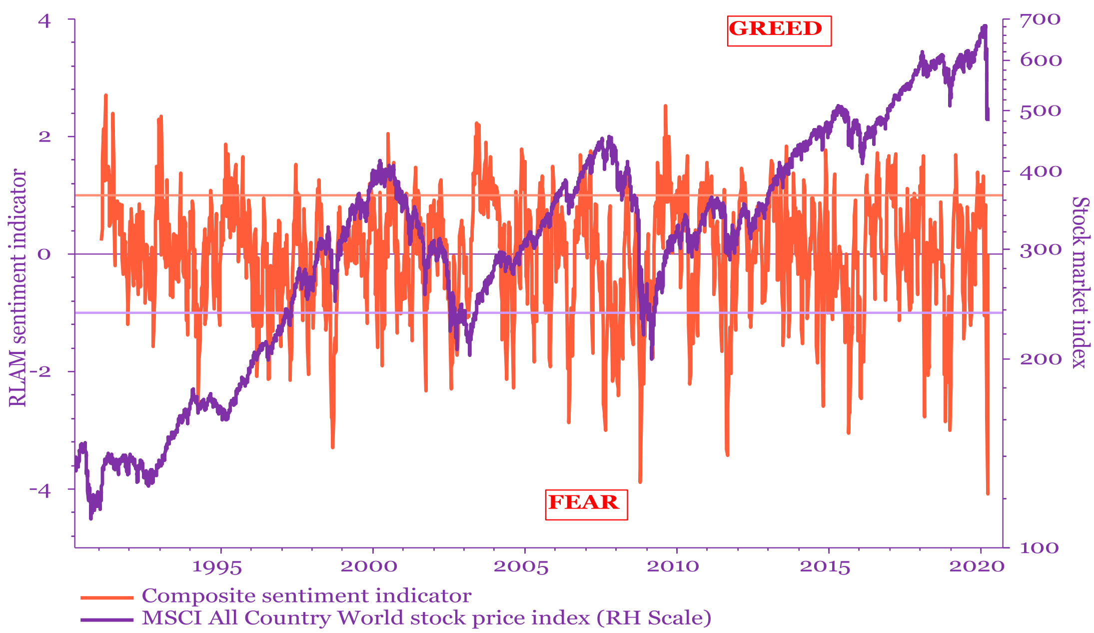


Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

Macro and market outlook

There will be pronounced economic weakness in major economies in the near term, judging by experience in China and the collapse in business confidence surveys, but investor sentiment is already more depressed than it was at the worst point in the Lehman crisis of 2008 (chart 7) and a broad range of monetary and fiscal stimulus measures have been announced that should boost the eventual recovery.

Chart 7: RLAM Investor Sentiment with Stock Prices



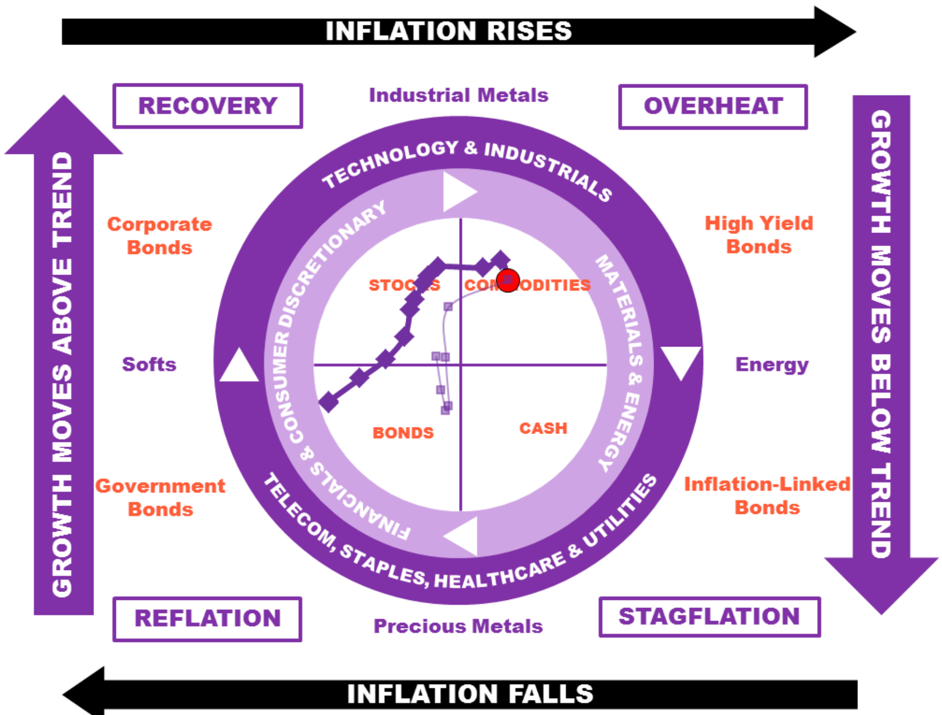
Source: Refinitiv Datastream as at 20/03/2020

Past performance is not necessarily a reliable indicator of future performance.

Given this backdrop, a sudden and sizable short-covering rally could be under way, but we suspect the lows will be re-tested later in the year. Sustained recovery will probably have to wait until shuttered parts of the global economy start to open again and that could be months rather than weeks from now.

Our Investment Clock model will reflect the collapse in economic activity by moving quickly into disinflationary Reflation. We expect it to move sharply upwards into Recovery when the crisis ends (chart 8). We intend to make full use of the separate risk budget for tactical asset allocation to add to equity exposure when we judge the time is right so we can capture some of the eventual rebound in stock prices from depressed levels.

Charts 8: Investment Clock showing a positive future scenario



Source: RLAM. For illustrative purposes only. Trails shows readings based on global growth and inflation indicators. Red dot is the current reading. Faint trail represents a positive scenario for future readings taking the corona virus impact into account.

The MAST volatility capping process is very responsive to market conditions and it will play its part in a return to higher equity exposures when uncertainty drops and a positive trend reasserts itself.

Our investment process has weathered difficult markets in the past and we added significant value over the 2007-9 Global Financial Crisis. We believe a disciplined and active approach to both risk control and tactical asset allocation will be crucial over this period.

Please note that this is a fast moving environment and markets and impacts on portfolios are changing. Opinions contained in this document represent views of our fund managers at time of writing, and performance numbers are estimates and not audited.

Past performance is not a reliable indicator of future results.The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested. Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment

recommendation. For information purposes only. The views expressed are the author's own and do not constitute investment advice.

For more information on the fund or the risks of investing, please refer to the fund factsheet, Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Price page on www.rlam.co.uk.