MARKET BACKDROP
A review of what's happened in markets recently

MARKET OUTLOOK
Looking ahead to the coming months

SPOTLIGHT ON
Covid-19

The view

Spring 2020

architas

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Welcome

to The View – Spring 2020

The Spring edition of **The View** provides a step-by-step guide to how the political and economic environment has driven financial markets, and what this means for your investments.

Covid-19 has affected our lives in many different ways and has had a devastating impact on financial markets, but markets can and do bounce back from downturns. On page 6 we compare Covid-19 with previous falls and find some support for the view that this downturn may be relatively short-lived.

It is in the nature of financial markets to sometimes go through periods of decline. On page 8 we outline what we do to protect our portfolios in advance of any falls, and the kinds of measures we undertake once such falls do happen.

As part of a concerted programme to support economies and markets during the Covid-19 pandemic, central banks have reduced interest rates to ultra-low levels. On page 10, we outline what this means for bond markets as a whole, from government bonds to investment grade corporate bonds and high yield bonds.

Jaime Arguello
Chief Investment Officer

Market BACKDROP

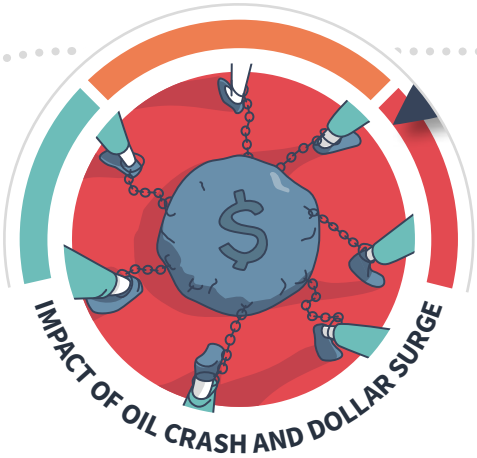
The start to the new decade has been challenging. Worries over the spread of Covid-19 and the economic fallout dominated markets.

The January to March period started on a positive note with markets encouraged by the signed US-China phase one trade deal and the UK leaving the European Union. However, this quickly changed as Covid-19 turned into a global pandemic. Most assets fell in response with riskier assets the worst hit, although lower-risk government bonds lived up to their safe haven status.

ECONOMIC FACTORS

Global activity in the services and manufacturing sectors contracted sharply. The pandemic outbreak weighed on economic growth and ground many business operations to a halt. Unemployment claims jumped to record levels.

Central banks and governments came to the rescue. Extraordinary policy measures from governments and central banks helped to improve risk appetite. Co-ordinated response has helped to diminish the strain on the global economy.



RISKS

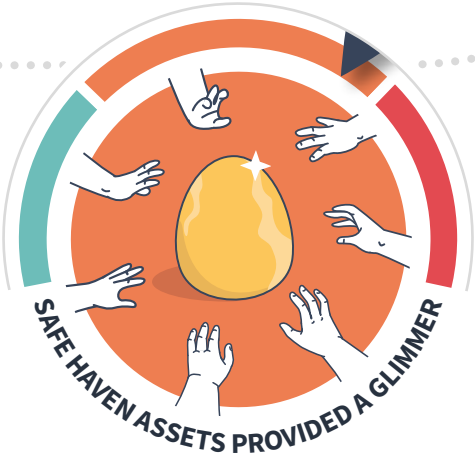
The oil price war over output cuts helped to fuel stock market falls. Following the crash in the price of oil, after the initiation of a price war between Russia and Saudi Arabia, oil lost more than 65% of its value, reaching its lowest price in 17 years.

Investors piled into dollars during the pandemic crisis. The dollar is more integrated into the world economy than ever. This has piled on additional pressure on already stressed businesses and governments as they brace for soaring costs on their dollar debt.

FINANCIAL MARKETS

Global stock markets suffered their worst quarter since the 2008 global financial crisis. The spread of the Covid-19 pandemic fractured supply chains and dampened investor confidence while bringing economic activity to record lows and crushing returns in global stocks.

Government bonds and gold eventually retained their safe haven status. However, they at one point joined in the sell-off of assets in the scramble for the safety of cash. The bonds that suffered the most were in the riskier areas of fixed income, such as high yield and emerging market bonds.



CONCLUSION

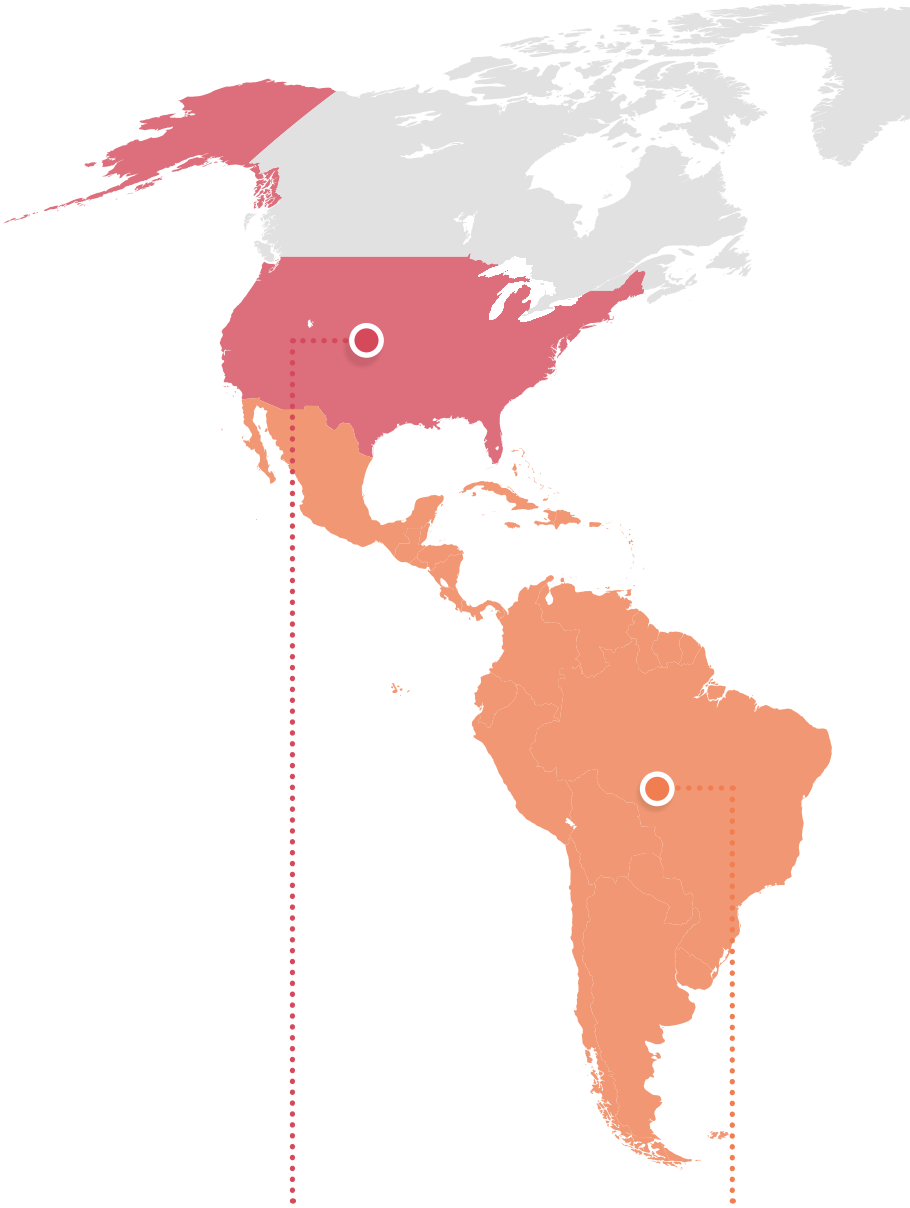
It's been a quarter most investors would want to forget. Covid-19 dominated headlines and markets, characterised by sliding stock prices and investor confidence. While things look challenging, signs that the coronavirus outbreak may be stabilising in some of the worst-affected countries have provided the markets with a degree of optimism. In the meantime, patience and a long-term view might be needed while waiting for the eventual revival of economic activity and asset prices.

Market OUTLOOK

Given the unprecedented situation and current high levels of volatility in the world economy, markets are clamouring for a conclusion to Covid-19.

The combined action from governments and central banks has been a critical factor in reinstating some hope of a market rebound. We believe that while governments can support a short recession, they are unlikely to maintain such levels of support for many months. The aftermath of containment measures being taken across the globe will define the economic factors on the road to recovery.

This recovery is largely out of markets' hands and as such, we maintain a cautious approach by keeping cash on the side-lines. This provides us with the option to be patient and add to riskier assets – where this approach is suitable – if or when the risk-return trade-off improves.



UNITED STATES

STOCKS ▽ BONDS ⊖

- US stock markets have experienced the strongest rebound from the lows helped by unprecedented stimulus from the Federal Reserve and US lawmakers. This leaves US stocks less attractive on a valuation basis compared to other regions.
- We retain a balanced view on US bonds. US government bonds can offer a degree of portfolio protection but the outlook for US corporate bonds is less rosy.

EMERGING MARKETS

STOCKS ▽ BONDS ⊖

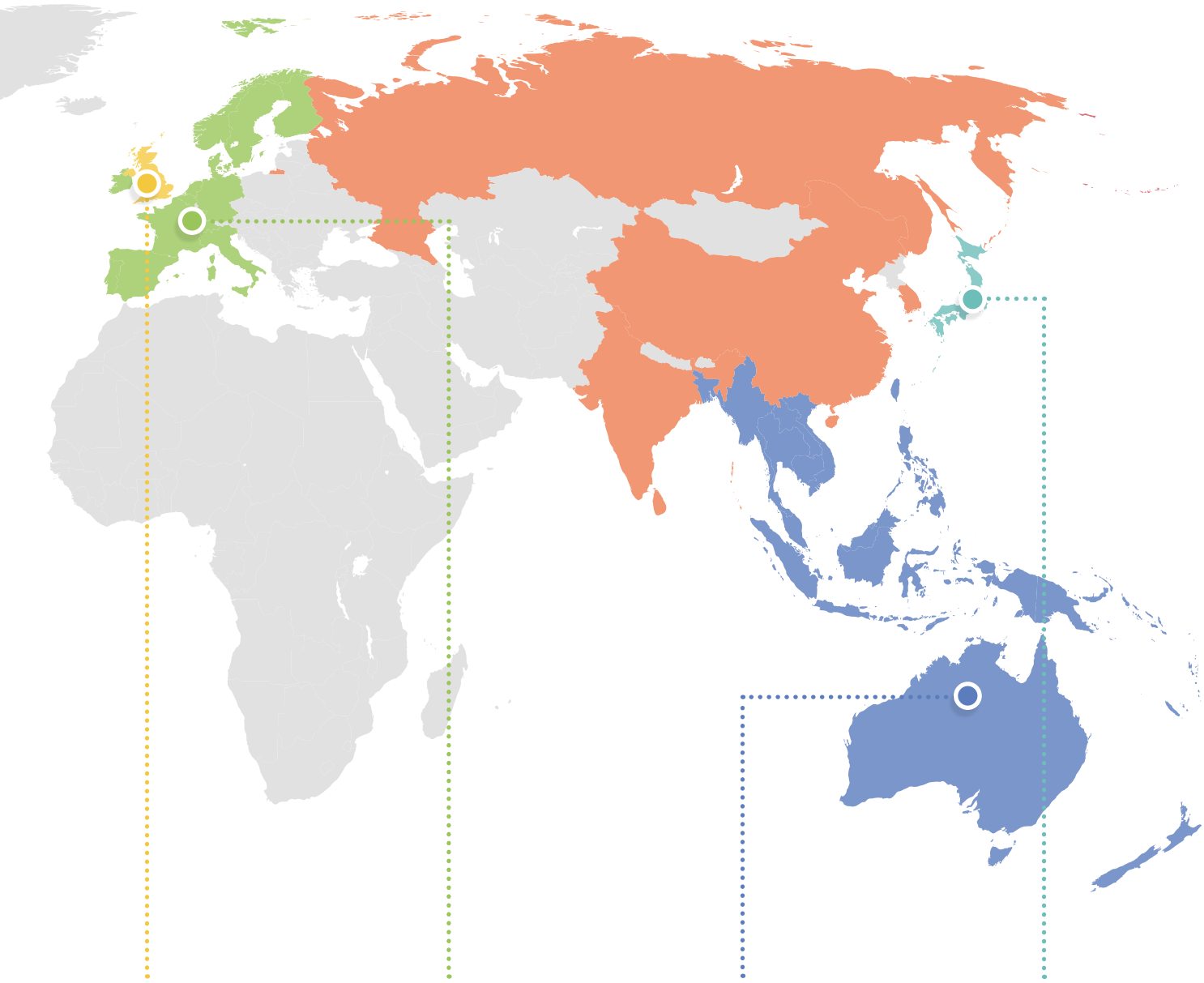
- We are not positive on emerging market stocks. The global scramble for the US dollar has amplified the sell-off. Many emerging market countries are susceptible to sustained oil price declines.
- Emerging market fixed income still offers value but this may be overwhelmed by investors prioritising capital preservation and a flight-to-safety in the short term.

KEY

△ Positive

▽ Negative

⊖ Neutral



UNITED KINGDOM

STOCKS ⊖ BONDS ▽

- UK stocks could now be at an attractive entry level for investors although the unresolved trade deals with the rest of the world pose risks.
- Despite record investor appetite for buying British government bonds, or gilts, we still have a preference for US government bonds. Also the Brexit hangover is still to come.

EUROPE

STOCKS ▽ BONDS ▽

- We are less positive about European stocks compared with other developed markets. We believe there will be an impact on growth and earnings for several quarters at least.
- Regionally, European bonds look the most at risk. The European Central Bank's bond market intervention has provided relief. Arguably, we need a coordinated response from all countries to replace lost wages.

ASIA PACIFIC

STOCKS ⊖

- We are tactically shifting some of our exposures from US to Asian equities. They have so far seen a more modest recovery – providing more room for improvement.
- Some Asian countries appear in a more advanced stage of contamination control. So Asia offers good short-term value on a relative basis. We will monitor this closely and adapt as conditions evolve.

JAPAN

STOCKS ⊖

- Covid-19-related disruption to global supply chains and a drop in tourism will hit Japan's economy hard as will the postponement of Tokyo's Olympics. However Japanese stocks look more attractive on a valuation basis.
- The current demand for the Japanese yen is due to investors selling their risky assets purchased with low-cost yen loans rather than a sign of confidence in Japan or indeed its currency.

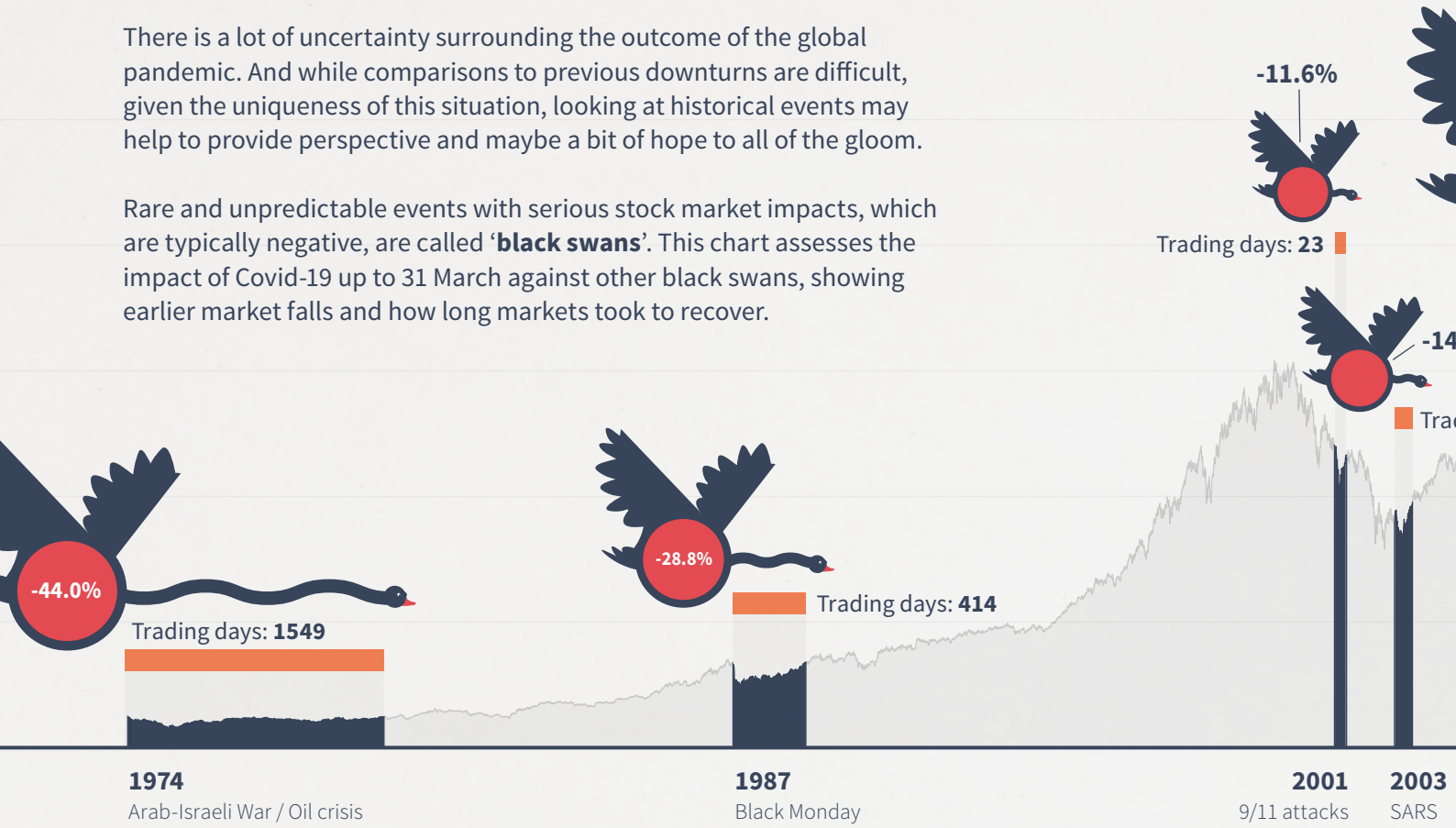
SPOTLIGHT ON...

Covid-19

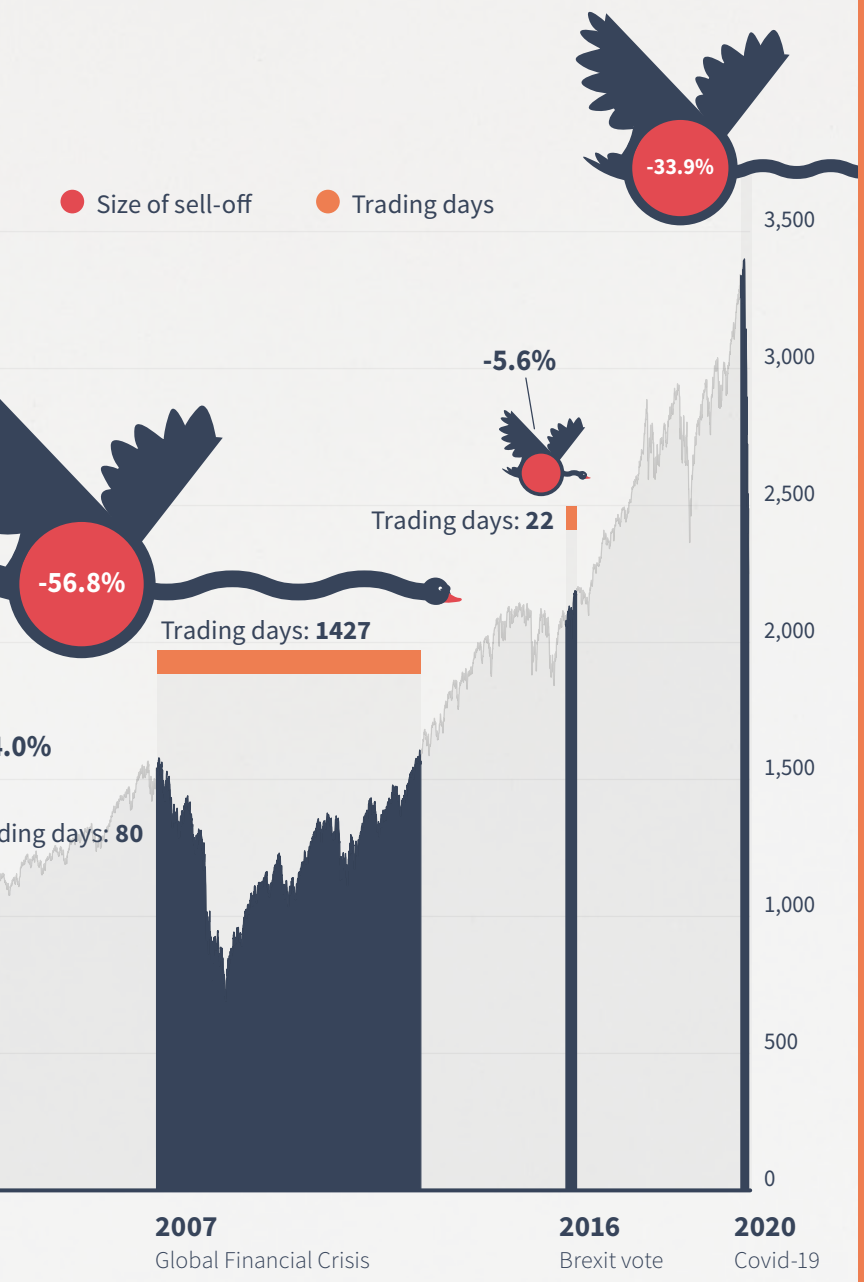
We compare Covid-19 with previous rare and unpredictable stock market events

There is a lot of uncertainty surrounding the outcome of the global pandemic. And while comparisons to previous downturns are difficult, given the uniqueness of this situation, looking at historical events may help to provide perspective and maybe a bit of hope to all of the gloom.

Rare and unpredictable events with serious stock market impacts, which are typically negative, are called '**black swans**'. This chart assesses the impact of Covid-19 up to 31 March against other black swans, showing earlier market falls and how long markets took to recover.



S&P 500 performance, 26 October 1973 to 31 March 2020. 'Length of recovery' refers to the number of days* from when the index started to drop until it recovered back to the point just before the decline started. 'Size of sell-off' refers to the percentage fall of the index from the value it held just before the decline started to the lowest value it held before the index started to rally. We have not included the dotcom crash of 2000 to 2003 in this chart, as it overlaps with the 9/11 attacks and SARS, which seem more comparable with the Covid-19 pandemic. (*Days refers to the number of days that markets traded.) Source: Morningstar, April 2020.

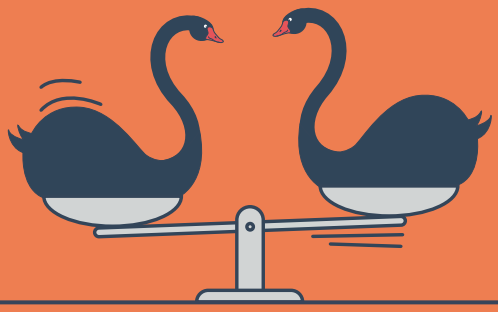


MARKET DOWNTURNS DUE TO ONE-OFF EVENTS HAVE HISTORICALLY RALLIED THE QUICKEST

The Covid-19 downturn appears to be just such an 'event driven' fall

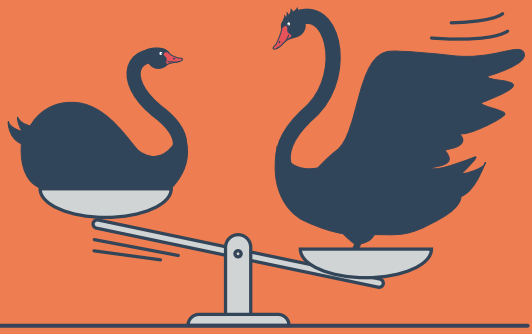
Recent research from Goldman Sachs assessed the average length of different types of market declines and how long markets took to recover. It divided falling markets into three types. One such type is the 'event driven' downturn, in which the market decline is triggered by a one-off event.

We believe the Covid-19 crash is best classified as an event driven downturn. And this type of decline has the shortest average length of market downturn and the quickest average recovery time. So, if Covid-19 follows a similar pattern to other event-driven downturns, then Covid-19's economic recession could be shorter lived than is currently priced in to the market.



Comparable to the 1918-19 flu epidemic

Covid-19 is in some respects similar to the 1918-19 flu pandemic, an event-driven downturn in which one-third of the global population got infected and 5% died. So it appears to have been much more deadly than Covid-19, yet the economic impact was comparatively mild: a recession of seven months.



Not like the global financial crisis

Significantly, Covid-19 seems very different from the 2008 global financial crisis. With the financial crisis, the market took around six years to rise back above the level it held at the start of the decline. Covid-19, given its event-driven nature, could have a shorter recovery time. As such, long-term investors, who are not seeking to sell their investments, could be relatively well-placed to ride out the Covid-19 downturn.

AN INTRODUCTION TO **PROTECTION AGAINST MARKET FALLS**

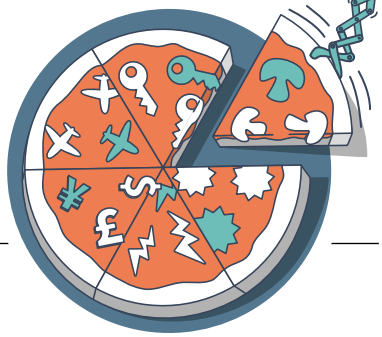
Today's Covid-19-driven declines are clearly concerning, but markets inevitably have downswings as well as upswings and we've seen drops of this level before. So how can we provide some potential fund protection and position ourselves for any potential rebound?

Maintain the right levels of risk

Once people have made strategic decisions about how much investment risk they are willing to accept, they need to know they will be invested at a level of risk appropriate to them. We offer funds with various levels of risk and provide funds that aim to stay within those levels of risk. Our funds consist of a range of underlying fund holdings that comprise a range of investment assets. We closely monitor these underlying fund holdings and the mix of asset holdings. This helps us to maintain appropriate levels of risk in line with the funds' objectives.

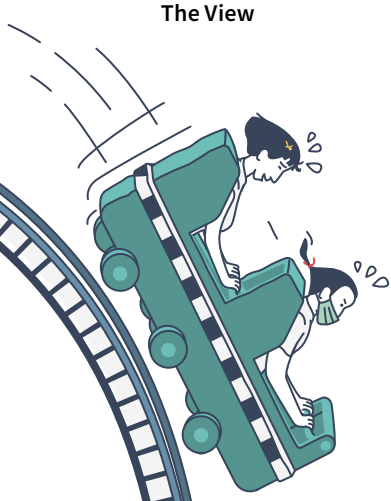
Be diversified

Diversification means ensuring your eggs are in more than one investment basket. Effective diversification can be an important approach to potential protection against market ups and downs. Bonds usually go down less than stocks (equities) – or often even go up! – in a market downturn. So the typical response to falling markets is to increase bond holdings. But we invest in other areas too, including real assets such as precious metals, land, equipment and natural resources. This increases our diversification options, although not all our funds will invest in these assets types.



Reduce risk in vulnerable areas

In a market downturn, we try to reduce risk tactically in areas we think could be hardest hit. We analyse events, market starting points and valuations, and then exercise our judgement about which areas could fall the most. We can also increase the level of cash we hold in our funds, and cash is considered very low risk. But that, for us, is generally a short-term measure, as cash can fall in real value over time due to inflation.

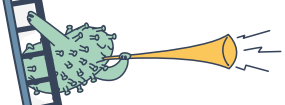


Seek funds that hold quality stocks

In the current environment, for Architas funds investing in stocks, we like underlying funds holding quality stocks. Such stocks look relatively well-positioned to deliver stable earnings regardless of economic circumstances. They are generally financially strong companies with good market positions, enabling them to hold up relatively well in situations such as the current one. Unilever and Nestlé are classic quality stocks: people still have to buy their toilet rolls or baby food even in difficult economic times.

Select appropriate funds

When appropriate to the strategies of the funds we manage, we try to ensure our underlying fund holdings are diversified across different asset types and investment styles. We want to own a range of underlying funds that perform differently from each other in different market conditions. When selecting funds, we don't just look at what is happening at that point in time. Where possible we take the time to research whether the underlying assets can perform relatively well when markets fall. We also consider how to blend funds for protection in falling markets by seeking to ensure our funds are as effectively diversified as they can be.

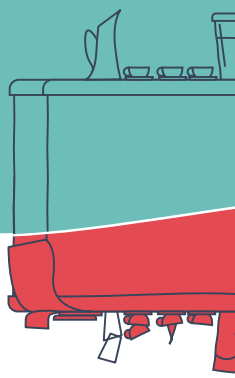


Don't panic

Things may look difficult today, as many assets have fallen in value. But we believe in the 'don't panic' mindset. Governments have provided unprecedented economic support and enacted measures to limit the virus's impact. The current situation will pass. It will then be reasonable to expect markets to make a recovery. But we think prudence is key right now.

Interest rate swings

WHAT'S THE BIG STORY?



When economic crisis strikes, central banks often cut interest rates. The aim is to ensure the financial system runs relatively smoothly and to stimulate future growth. This time it's no different, only somewhat more extreme. As Covid-19 has halted much global activity, government bond rates the world over are teetering at or below zero. In contrast, some exposed companies are seeing a sell-off of their bonds. We look at the brave new world of interest rates.

1

Central bank action

In a move that surprised financial markets, the US Federal Reserve (Fed) cut its interest rate to zero in mid-March. This brought total cuts to 1.5% in a matter of weeks. In the UK, interest rates hit record lows just above zero. China is now the last major economy with significantly positive rates, just over 4%, despite a sequence of cuts in response to the outbreak of Covid-19.

In the eurozone and Japan, together representing a quarter of the global economy, rates have been negative for several years. The European Central Bank (ECB) pushed rates below zero in 2014 and the Bank of Japan followed in 2016, both with a view to kick-starting bank lending and boosting inflation. In neither case was this very successful.

2

Government bonds

Let's turn now to government bond markets. In recent years, as interest rates have fallen, bond yields (or annual income provided) have fallen with them, even into negative territory. Meanwhile, bond prices have risen (bond prices rise when bond yields fall). It's estimated that $14 trillion of global bonds now have a negative yield. This means investors are, in effect, paying to hold these bonds.

However, as stock (equity) markets tumbled over the past month, many asset managers looked to raise cash from elsewhere, to help restore their equity holdings to levels required by their portfolios. This helped drive a sell-off of government bonds, which, in turn, caused a fall in bond prices and a rise in bond yields, despite lower interest rates from central banks.

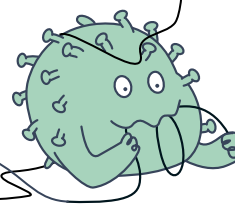
Moreover, governments have announced huge stimulus packages intent on supporting growth in the future. Bond yields have risen as a result, particularly in the case of bonds with longer expiry dates. This is because investors have become more confident in future economic prospects and feel less need to seek the relative safety of these assets.

3

Bond downgrades for big-name companies

While declines in stock markets have attracted much attention, bond markets have also been affected by the spread of Covid-19, with bond prices falling markedly.

Corporate bonds are loans made to companies that generally pay a fixed income up to the time the company repays the loan. As much of the world has gone into lockdown, economic activity has fallen or even halted in many industry sectors. This has increased the possibility that some companies in affected sectors could default on their loans, with sectors such as energy, auto manufacturing, travel and leisure looking potentially vulnerable.



4

Bond ratings

Corporate bonds are given ratings by specialist agencies. Those with the highest ratings are known as investment grade bonds and are considered lower risk, meaning the risk of default is thought to be relatively low. Those with the lowest ratings are known as high yield bonds and are considered higher risk, meaning the risk of default is considered relatively high.

Higher risk bonds offer higher yields than lower risk, investment grade bonds. This reflects the fact that investors seek a higher yield to compensate them for the higher risk the bond could default.

5

The mighty fall

In recent weeks, big name companies such as auto-maker Ford, consumer goods company Kraft and giant energy company Occidental Petroleum have seen their bonds downgraded from investment grade to high yield status. Meanwhile, Goldman Sachs estimates that around $200-$250 billion of bonds rated as BBB (this is the lowest rating for bonds classified as investment grade) could enter the high yield market in the coming year. This is equivalent to 17% of current US high yield market value.

These are sobering numbers. But the Fed and the ECB have launched bond-buying programmes, while the UK government launched a large-scale lending programme. When it comes to dealing with Covid-19, the battle is taking place on many fronts.

Facts & Figures

QUARTERLY DATA

Global government bonds	UK corporate bonds	US corporate bonds	European corporate bonds	Emerging market bonds	Global high yield bonds
▲	▲	▲	▼	▼	▼
10.35	**3.58**	**2.96**	**-1.99**	**-5.72**	**-8.23**
FTSE G7 Index	Bloomberg Barclays Sterling Aggregate Bond Index	Bloomberg Barclays US Corporate Bond Index	Bloomberg Barclays European Corporate Bond Index	JP Morgan Global Emerging Market Bond Index	ICE Bank of America ML Global High Yield Bond Index

Japanese stocks	US stocks	European (but not UK) stocks	Emerging market stocks	Asian (but not Japanese) stocks	UK stocks
▼	▼	▼	▼	▼	▼
-12.34	**-14.10**	**-17.33**	**-18.34**	**-22.63**	**-25.13**
TOPIX Index	S&P 500 Composite Index	FTSE All World Developed Europe excluding UK Index	MSCI Emerging Market Index	MSCI Pacific excluding Japan Index	FTSE All-Share Index

To highlight the unpredictability of markets, the table below details the performance of global equity and fixed income indices over the past five years (in sterling terms).

This table demonstrates how volatile markets can be, and shows the benefits of diversifying your investment, or in other words, not putting all your eggs in one basket.

Index percentage growth (%)	1 Apr 2019 to 31 Mar 2020	1 Apr 2018 to 31 Mar 2019	1 Apr 2017 to 31 Mar 2018	1 Apr 2016 to 31 Mar 2017	1 Apr 2015 to 31 Mar 2016
US stocks	-2.2	17.9	1.6	34.7	5.1
European (but not UK) stocks	-7.8	2.9	4.1	28.3	-4.3
UK stocks	-18.5	6.4	1.2	22.0	-3.9
Japanese stocks	-5.0	-4.1	6.0	30.2	-3.8
Asian (but not Japanese) stocks	-19.7	12.7	-3.2	36.3	-6.6
Emerging market stocks	-13.2	0.1	11.8	35.2	-8.8
Global government bonds	12.9	6.7	-4.6	11.1	9.7
Global high yield bonds	-3.6	11.1	-4.9	30.8	2.5
US corporate bonds	10.3	13.0	-8.5	18.7	4.2
European corporate bonds	-0.8	0.6	4.3	10.6	10.2
Emerging market bonds	-0.5	11.4	-7.9	25.1	7.8
UK corporate bonds	7.8	3.8	0.7	7.6	2.5

Past performance is not a guide to future performance. Rebased in sterling where appropriate, i.e. all index returns are recalculated based on exchange rates to give returns for a sterling investor. Source: Morningstar Direct, April 2020.

Active FUND RANGE

Nathan Sweeney
Senior Investment Manager

"It's quite clear that 2020's black swan event, an occasion characterised by its extreme rarity and impact, is coronavirus."

Following on from the spread of the infection, economies are now experiencing partial, or even near-complete, lockdowns. This abrupt halt in economic activity has resulted in a record-high spike in market volatility. This has brought an end to the historic 11-year bull market – the stock market's upward trend - with one of the fastest drops in history. The absolute magnitude of the falls so far is in line with many event-driven crashes in the past.

Importantly, the policy response from central banks globally and governments has been fast to adjust this time, with two rate cuts in the UK and US and we see this as a large positive. Alongside this, large stimulus packages have been put together by governments to protect individuals and businesses. This is likely to prevent this from undermining the financial system and may lead to a faster recovery.

FUND THEMES

1

PORTFOLIO CHANGES

BOUGHT

- Assura Group Plc
- BlackRock Asia Special Situations Fund
- BlackRock Emerging Markets Fund
- Brown Advisory US Mid-Cap Growth Fund
- GCP Student Living plc
- iShares S&P 500 Utilities Sector ETF
- Real Estate Credit Investments Ltd
- Vanguard UK Government Bond Index Fund
- Vontobel mtx Sustainable Emerging Markets Leaders Fund

SOLD

- Hermes Asia Ex Japan Equity Fund
- iShares MSCI UK Small Cap ETF
- Hermes Asia Ex Japan Equity Fund
- iShares Physical Gold ETC
- iShares MSCI UK Small Cap ETF
- L&G UK Property Fund

ARCHITAS **MULTI-ASSET (MA)**

CUMULATIVE RETURN

Fund and share class Total returns for the periods shown (%)	3 MONTHS 01 Jan 20 to 31 Mar 20	1 YEAR 01 Apr 19 to 31 Mar 20	3 YEARS 01 Apr 17 to 31 Mar 20	5 YEARS 01 Apr 15 to 31 Mar 20
Architas MA Active Reserve A Acc	-1.7	1.6	3.0	12.9
Architas MA Active Moderate Income A Acc	-7.3	-2.0	-1.2	10.3
Architas MA Active Intermediate Income A Acc	-12.1	-5.1	-2.9	11.8
Architas MA Active Progressive A Acc	-16.3	-8.4	-3.1	15.5
Architas MA Active Growth A Acc	-19.9	-10.9	-5.5	15.2
Architas MA Active Dynamic A Acc	-18.2	-9.0	-5.6	16.1

DISCRETE YEARLY PERFORMANCE

Fund and share class Total returns for the periods shown (%)	01 Apr 19 to 31 Mar 20	01 Apr 18 to 31 Mar 19	01 Apr 17 to 31 Mar 18	01 Apr 16 to 31 Mar 17	01 Apr 15 to 31 Mar 16
Architas MA Active Reserve A Acc	1.6	3.4	-1.9	7.9	1.6
Architas MA Active Moderate Income A Acc	-2.0	2.3	-1.5	13.3	-1.5
Architas MA Active Intermediate Income A Acc	-5.1	4.0	-1.6	16.8	-1.4
Architas MA Active Progressive A Acc	-8.4	5.2	0.6	20.9	-1.5
Architas MA Active Growth A Acc	-10.9	4.1	1.8	25.5	-2.9
Architas MA Active Dynamic A Acc	-9.0	1.4	2.2	27.6	-3.5

2

ASSET ALLOCATION

WHAT WORKED?

- Alternatives – asset leasing
- Overseas government bonds
- Environmental
- Infrastructure investments

WHAT DIDN'T?

- UK stocks
- UK income stocks
- Emerging market stocks

3

FUND SELECTION

WHAT WORKED?

- Amedeo Air Four Plus Ltd
- iShares Overseas Government Bond Index Fund
- John Laing Environmental Assets Ltd

WHAT DIDN'T?

- Majedie UK Equity Fund
- Artemis Income Fund
- RWC Global Emerging Markets Fund

For details on how to assess the performance of this fund please refer to the important information at the end of this document. Past performance is not a guide to future performance. The value of an investment, and any income, can fall as well as rise and is not guaranteed. You could get back less than you invested. Source: Morningstar Direct, April 2020. Performance as at 31 March 2020. Performance figures are shown in sterling unless we say otherwise. We work out return figures using a single pricing basis. The fund performance figures are net of all fees. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. Investing using a wrapper (a wrapper is an arrangement that brings together a range of investments under one roof) may also involve charges which will have the effect of reducing the past performance figures shown.

Blended FUND RANGE

Sheldon MacDonald
Deputy Chief Investment Officer

Mayank Markanday
Senior Investment Manager

"Global stock markets fell dramatically in the January to March period. This was driven by the spread of Covid-19 across much of the world, which forced many countries to lock down. This, in turn, caused economic dislocation and led many governments to launch large-scale stimulus measures."

The UK left the European Union on 31 January. All main global stock markets fell in that month due to geopolitical tensions in Iran and the outbreak of Covid-19. Even so, there was good news in the form of a signed US-China phase one trade deal.

February was a tough month for equities, as the Covid-19 outbreak spread further.

Several stock markets slipped into correction territory, meaning they had fallen more than 10% from their latest peak. The declines continued into March, with UK and US markets undergoing the worst daily falls since 1987. But markets rallied strongly in the final week of March, in response to the $2 trillion US stimulus package.

FUND THEMES

1

PORTFOLIO CHANGES

BOUGHT

- Starwood European Real Estate Finance Plc
- Loomis Sayles US Growth Equity Fund
- iShares Physical Gold ETC

SOLD

- CATCo Reinsurance Opportunities Fund Ltd

ARCHITAS
MULTI-ASSET (MA)

CUMULATIVE RETURN

Fund and share class Total returns for the periods shown (%)	3 MONTHS 01 Jan 20 to 31 Mar 20	1 YEAR 01 Apr 19 to 31 Mar 20	3 YEARS 01 Apr 17 to 31 Mar 20	5 YEARS 01 Apr 15 to 31 Mar 20
Architas MA Blended Reserve A Acc	-5.5	-1.6	1.5	13.7
Architas MA Blended Moderate A Acc	-9.2	-3.9	-0.1	14.7
Architas MA Blended Intermediate A Acc	-12.2	-6.2	-1.4	15.1
Architas MA Blended Progressive A Acc	-16.4	-9.7	-3.7	14.9
Architas MA Blended Growth A Acc	-20.5	-12.6	-6.6	13.8

DISCRETE YEARLY PERFORMANCE

Fund and share class Total returns for the periods shown (%)	01 Apr 19 to 31 Mar 20	01 Apr 18 to 31 Mar 19	01 Apr 17 to 31 Mar 18	01 Apr 16 to 31 Mar 17	01 Apr 15 to 31 Mar 16
Architas MA Blended Reserve A Acc	-1.6	3.8	-0.5	12.8	-0.8
Architas MA Blended Moderate A Acc	-3.9	4.6	-0.6	16.6	-1.5
Architas MA Blended Intermediate A Acc	-6.2	5.5	-0.4	18.7	-1.6
Architas MA Blended Progressive A Acc	-9.7	6.7	-0.1	22.5	-2.6
Architas MA Blended Growth A Acc	-12.6	6.3	0.6	25.3	-2.7

2

ASSET ALLOCATION

WHAT WORKED?

- Gold
- UK government bonds
- Global government bonds

WHAT DIDN'T?

- UK income stocks
- UK stocks
- Emerging market stocks

3

FUND SELECTION

WHAT WORKED?

- iShares Physical Gold Exchange traded Fund
- Vanguard UK Long Duration Gilt Index Fund
- iShares Global Government Bond Index Fund

WHAT DIDN'T?

- Majedie UK Equity Fund
- JOHCM UK Equity Income Fund
- RWC Global Emerging Markets Fund

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Passive

FUND RANGE

Sheldon MacDonald
Deputy Chief Investment Officer

Alex Burn
Investment Manager

"The first quarter of 2020 will be memorable for years to come, with a single dominating theme, Covid-19. This crippled financial markets, bringing to an end the longest run bull market of our time. With the majority of equity markets falling rapidly more defensive fixed income, such as government bonds rallied sharply."

UK stocks (equities) were the worst performing asset class over the quarter, followed by emerging market and Asian equities, mainly given Asia's proximity to Covid-19's origins in China. Europe, as the new epicentre of the pandemic, suffered similarly but managed to rally strongly towards the end of the quarter following European government strong fiscal stimulus response. Japan and the US were the best performing stock markets but were still extremely negative over the quarter.

Government bonds were the strongest performing asset classes but only countered about half the sell-off in equities. Property and slightly riskier fixed income such as corporate bonds were also negative.

Alongside fixed income, more typical defensive assets held strong; Japanese yen, gold and the US dollar all rallied on investor's rush to safe haven assets. Conversely, oil continued to test record lows as economic growth and company earnings expectations crashed.

FUND THEMES

PORTFOLIO CHANGES

BOUGHT

- n/a

SOLD

- L&G UK Property Fund

ARCHITAS
MULTI-ASSET (MA)

CUMULATIVE RETURN

Fund and share class Total returns for the periods shown (%)	3 MONTHS 01 Jan 20 to 31 Mar 20	1 YEAR 01 Apr 19 to 31 Mar 20	3 YEARS 01 Apr 17 to 31 Mar 20	5 YEARS 01 Apr 15 to 31 Mar 20
Architas MA Passive Reserve A Acc	-4.2	1.5	7.2	23.5
Architas MA Passive Moderate A Acc	-8.3	-1.8	4.3	21.5
Architas MA Passive Intermediate A Acc	-11.7	-4.4	2.4	21.2
Architas MA Passive Progressive A Acc	-16.2	-8.0	0.1	21.9
Architas MA Passive Growth A Acc	-20.3	-11.4	-2.6	21.2
Architas MA Passive Dynamic A Acc	-19.8	-10.4	-3.3	20.0

DISCRETE YEARLY PERFORMANCE

Fund and share class Total returns for the periods shown (%)	01 Apr 19 to 31 Mar 20	01 Apr 18 to 31 Mar 19	01 Apr 17 to 31 Mar 18	01 Apr 16 to 31 Mar 17	01 Apr 15 to 31 Mar 16
Architas MA Passive Reserve A Acc	1.5	5.7	-0.1	13.8	1.2
Architas MA Passive Moderate A Acc	-1.8	6.4	-0.1	16.0	0.4
Architas MA Passive Intermediate A Acc	-4.4	6.9	0.3	18.7	-0.4
Architas MA Passive Progressive A Acc	-8.0	8.5	0.2	22.8	-0.7
Architas MA Passive Growth A Acc	-11.4	9.1	0.7	27.8	-2.6
Architas MA Passive Dynamic A Acc	-10.4	6.2	1.6	29.9	-4.4

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Income generating FUND RANGE

Mayank Markanday
Senior Investment Manager

Nathan Sweeney
Senior Investment Manager

"Q1 saw a pandemic induced market volatility event that bought the world economy to its knees, echoing times of the Great Depression or something even more severe. While we continue to tackle this great unknown, the sustained recovery in stock markets and other riskier assets we saw in 2019, came to an abrupt end."

In fact the magnitude and speed of the sell-off was so severe that we had rarely, if ever seen such a reaction in financial assets. However, central banks and governments having learnt their lessons from the 2008 credit crisis responded quickly and decisively which helped stem further losses.

This helped to establish some kind of a 'bottom' to the market fall and even sparking a strong recovery towards the end of March for riskier types of assets. Income assets, especially the ones offering higher income or yield were the most severely punished while the safety of low-yielding government bonds proved to be the most resilient.

FUND THEMES

1

PORTFOLIO CHANGES

BOUGHT

- Assura Group Plc
- BlackRock Asia Special Situations Fund
- BlackRock Emerging Markets Fund
- Brown Advisory US Mid-Cap Growth Fund
- iShares S&P 500 Utilities Sector ETF
- Vanguard UK Government Bond Index Fund

SOLD

- Hermes Asia Ex Japan Equity Fund
- Invesco US Senior Loan
- iShares MSCI UK Small Cap ETF
- iShares Physical Gold ETC
- L&G UK Property Fund

CUMULATIVE RETURN

Fund and share class Total returns for the periods shown (%)	12 MONTH YIELD	3 MONTHS 01 Jan 20 to 31 Mar 20	1 YEAR 01 Apr 19 to 31 Mar 20	3 YEARS 01 Apr 17 to 31 Mar 20	5 YEARS 01 Apr 15 to 31 Mar 20
Architas MA Active Reserve A Inc	1.75	-1.7	1.7	3.2	12.9
Architas MA Active Moderate Income A Inc	1.34	-7.3	-2.0	-1.2	10.3
Architas MA Active Intermediate Income A Inc	1.98	-12.1	-5.1	-2.9	11.7
Architas Diversified Global Income A Inc	5.03	-17.4	-12.2	-10.7	-3.1
Architas MM Monthly High Income A Inc	4.40	-13.4	-9.5	-7.3	2.4
Architas Global Equity Income A Inc	4.86	-18.7	-10.3	–	–

DISCRETE YEARLY PERFORMANCE

Fund and share class Total returns for the periods shown (%)	01 Apr 19 to 31 Mar 20	01 Apr 18 to 31 Mar 19	01 Apr 17 to 31 Mar 18	01 Apr 16 to 31 Mar 17	01 Apr 15 to 31 Mar 16
Architas MA Active Reserve A Inc	1.7	3.4	-1.9	7.9	1.5
Architas MA Active Moderate Income A Inc	-2.0	2.3	-1.5	13.2	-1.4
Architas MA Active Intermediate Income A Inc	-5.1	4.0	-1.6	16.8	-1.5
Architas Diversified Global Income A Inc	-12.2	2.0	-0.3	12.1	-3.2
Architas MM Monthly High Income A Inc	-9.5	1.7	0.7	12.0	-1.3
Architas Global Equity Income A Inc	-10.3	8.9	–	–	–

2

ASSET ALLOCATION

WHAT WORKED?

- US Government bonds
- UK government bonds

WHAT DIDN'T?

- Global income stocks
- UK income stocks
- Emerging market bonds

3

FUND SELECTION

WHAT WORKED?

- iShares $ Treasury Bond 20+yr UCITS ETF
- iShares UK Gilts All Stocks Index Fund
- Vanguard U.K. Long Duration Gilt Index Fund

WHAT DIDN'T?

- Schroder International Selection Fund Global Dividend Maximiser
- Artemis Income Fund
- Vontobel Fund - Emerging Markets Debt Fund

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Specialist FUND RANGE

Solomon Nevins
Senior Investment Manager

Jen Causton
Investment Manager

Mayank Markanday
Senior Investment Manager

"Q1 saw unprecedented market action across the whole spectrum of riskier assets such as stocks, and real asset classes were not immune. We witnessed a breakdown in typical and asset class behaviours. And investors looked to assets where the connection to the coronavirus outbreak is less clear."

The current crisis not only impacted financial assets but is directly affecting the real economy and assets that facilitate many of these essential activities, such as infrastructure and property. As a result, the strict restrictions on movement and social distancing to contain the virus's spread hit areas that typically may not be completely sensitive to economic growth, such as student accommodation and aircraft leasing.

On the other hand government backed cash flows performed well – examples include social housing, doctors' surgeries and social infrastructure. With the expectation that many companies struggle to maintain earnings as they economy grinds to a halt, their slow and steady income generation with low default risk continued to attract investors.

FUND THEMES

1

PORTFOLIO CHANGES

BOUGHT

- n/a

SOLD

- Invesco US Senior Loan Fund
- Royal London Sterling Extra Yield Bond Fund

ARCHITAS

CUMULATIVE RETURN

Fund and share class Total returns for the periods shown (%)	12 MONTH YIELD	3 MONTHS 01 Jan 20 to 31 Mar 20	1 YEAR 01 Apr 19 to 31 Mar 20	3 YEARS 01 Apr 17 to 31 Mar 20	5 YEARS 01 Apr 15 to 31 Mar 20
Architas Diversified Real Assets Fund D Acc	3.41	-11.2	-5.6	-4.2	5.0
Architas MM UK Equity Fund A Acc	2.52	-26.4	-17.4	-13.3	-1.3
Architas MM Strategic Bond Fund A Acc	2.76	-10.4	-7.2	-4.3	4.2
Architas MM Diversified Protector 70	N/A	-7.5	0.8	2.0	8.5
Architas MM Diversified Protector 80	N/A	-4.7	1.4	1.7	5.3
Architas MM Diversified Protector 85	N/A	-3.5	1.0	1.2	2.7

DISCRETE YEARLY PERFORMANCE

Fund and share class Total returns for the periods shown (%)	01 Apr 19 to 31 Mar 20	01 Apr 18 to 31 Mar 19	01 Apr 17 to 31 Mar 18	01 Apr 16 to 31 Mar 17	01 Apr 15 to 31 Mar 16
Architas Diversified Real Assets Fund D Acc	-5.6	3.9	-2.4	9.8	-0.2
Architas MM UK Equity Fund A Acc	-17.4	5.3	-0.3	17.0	-2.7
Architas MM Strategic Bond Fund A Acc	-7.2	2.2	0.9	11.9	-2.7
Architas MM Diversified Protector 70	0.8	3.4	-2.2	14.1	-6.7
Architas MM Diversified Protector 80	1.4	1.9	-1.6	8.8	-4.9
Architas MM Diversified Protector 85	1.0	1.5	-1.3	6.0	-4.3

2

ASSET ALLOCATION

WHAT WORKED?

- Commodities - Gold
- Infrastructure assets
- Specialist healthcare property

WHAT DIDN'T?

- US government bonds
- Global property stocks
- UK stocks

3

FUND SELECTION

WHAT WORKED?

- iShares Physical Gold ETC
- GCP Infrastructure Investment Fund
- Assura Group Ltd

WHAT DIDN'T?

- AXA World Funds Global Flexible Property Fund
- PIMCO GIS Commodity Real Return Fund
- JOHCM UK Dynamic Fund

For details on how to assess the performance of this fund please refer to the important information at the end of this document. Past performance is not a guide to future performance. The value of an investment, and any income, can fall as well as rise and is not guaranteed. You could get back less than you invested. Some of the Diversified Real Assets portfolio is invested in alternative assets which are different to the more traditional asset classes such as equities and bonds. During difficult market conditions these may be hard to sell at a fair price, referred to as being illiquid, which may in turn cause prices of these assets to go up and down more sharply than usual. Source: Morningstar Direct, April 2020. Performance as at 31 March 2020. Performance figures are shown in sterling unless we say otherwise. We work out return figures using a single pricing basis. The fund performance figures are net of all fees. Transaction costs are included for the period shown but may differ in the future as these costs cannot be determined with precision in advance. The 12-month yield is the income delivered by a fund in the last 12 months. Source for 12-month yield data is Architas, as at 31 March 2020. Investing using a wrapper (a wrapper is an arrangement that brings together a range of investments under one roof) may also involve charges which will have the effect of reducing the past performance figures shown.

Important INFORMATION

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The value of investments and the income from them can fall as well as rise and is not guaranteed which means you could get back less than you invest. Past performance is not a guide to future performance. Investments in newer markets, smaller companies or single sectors offer the possibility of higher returns but may also involve a higher degree of risk. The value of investments can fall as well as rise purely as a result of changes in the exchange rate.

You can invest in the funds mentioned in this document using a number of financial products. These funds may not be appropriate for investors who plan to withdraw their money within five years.

The MA Active, MA Passive and MA Blended funds do not have a benchmark. Investors can assess the performance of the funds by viewing the performance data of funds in the respective Investment Association (IA) sectors:

- **MA Active Reserve Fund**
  IA 'Volatility Managed' sector
- **MA Active Moderate Income Fund**
  IA 'Mixed Investment - 0-35% Shares' sector
- **MA Active Intermediate Income Fund**
  IA 'Mixed Investment - 20-60% Shares' sector
- **MA Active Progressive Fund**
  IA 'Mixed Investment - 40-85% Shares' sector
- **MA Active Growth Fund**
  IA 'Flexible Investment' sector
- **MA Active Dynamic Fund**
  IA 'Flexible Investment' sector
- **MA Passive and MA Blended Fund Ranges**
  IA 'Volatility Managed' sector

The Diversified Global Income and MM Monthly High Income have a reference benchmark for performance comparison purposes:

- **Diversified Global Income Fund**
  IA's 'Mixed Investment - 20-60% Shares' sector
- **MM Monthly High Income Fund**
  IA's 'Mixed Investment - 0-35% Shares' sector

The **MM UK Equity Fund** has a reference benchmark for performance comparison purposes – the IA's 'UK All Companies' sector.

The **MM Strategic Bond Fund** has a reference benchmark for performance comparison purposes - the IA's 'Sterling Strategic Bond' sector.

The IA is a trade body that represent UK investment managers and they group funds with broadly similar characteristics into sectors. Each 'sector' contains funds with similar characteristics.

- 'Mixed investment' sectors contain funds with a similar level of exposure to shares/equities, indicated by the percentage in the name.
- The 'Volatility Managed' sector contains funds that are managed with the aim of adhering to a set level of volatility (a measure of the size of changes in the value of an investment).
- The 'Flexible Investment' sector. This 'sector' contains funds where the fund manager has significant flexibility regarding which assets to invest in.
- This 'UK All Companies' sector contains funds with similar characteristics; they invest at least 80% of the fund's assets in UK equities / shares.
- The 'Sterling Strategic Bond' sector. This 'sector' contains funds with similar characteristics; they invest at least 80% of the fund's assets in Sterling denominated fixed income securities.

The funds in each sector will not have exactly the same characteristics (such as their objectives, level of risk, types of risk or level of volatility) and are therefore not an exact like-for-like comparison. Investors can find details of each sector's performance at www.trustnet.com by selecting the respective 'sector' from the drop down menu.

The **Diversified Real Assets Fund** does not have a benchmark. Investors can assess the performance of the Fund against the prevailing Bank of England base rate (Base Rate) over the medium to long term (at least 5 years). The Base Rate has been chosen because funds that invest in "alternative" asset classes often use a cash interest rate for performance assessment purposes. Investors should note that it is not an exact like-for-like comparison because the Fund investments

are subject to a level of risk or volatility. Investors can find details of the Bank of England's base rate at https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp.

The **Protector 70**, **Protector 80** and **Protector 85** Funds do not have a benchmark. Investors can assess the performance of the Fund by viewing the current Fund Protection Floor figure to ascertain if the Fund is achieving its objective. The Funds' objectives are to respectively protect 70, 80 and 85% of the highest Share Price achieved by the fund – the relevant 'protected' amount is referred to as 'The Fund Protection Floor'. The current Share Price and Fund Protection Floor figures can be found on our website: https://uk.**architas.com**/retail-clients/funds/prices/ (page 6), or upon request.

The Architas funds featured in this brochure can invest entirely in units of collective investment schemes.

If you need more information on any of our funds, you can ask us for a free copy of the Key Investor Information Document (KIID) and the prospectus.

The KIID is designed to help investors to make an informed decision before investing. You can view or download all our funds' KIIDs from our website at **architas.com**, by following the Key Investor Information documents link from the home page and in the literature library.

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architas

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Call 0800 953 0197

Monday to Friday 9.00am–5.30pm; calls may be recorded. Calls are free from landlines and mobiles within the UK.

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