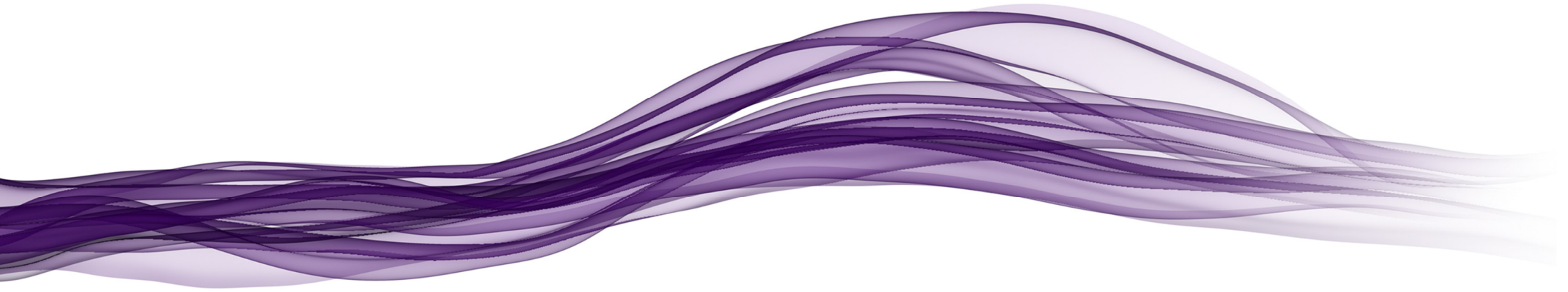


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# Royal London Japan Equity Tilt Fund

Quarterly Investment Report

31 March 2024

# Quarterly Report

## The fund as at 31 March 2024

The purpose of this report is to provide an update on the Royal London Japan Equity Tilt Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

# Contents

The fund	3
Performance and activity	4
Fund breakdown	6
ESG	7
Market commentary	11
Further information	12
Disclaimers	13
Performance net and gross	15
Glossary	16

# The fund

## Fund performance objective and benchmark

The Fund's investment objective is to deliver capital and income over the medium term (3 to 5 years), by primarily investing in the largest companies listed on the Japanese Stock Exchange, and incorporating responsible investment and environmental, social & governance insights into the investment process. The Fund's performance target is to deliver the performance, after the deduction of charges, of the FTSE Japan GBP Net Total Return Index (the "Index") over rolling 3-year periods. The Fund will seek to achieve carbon intensity of at least 30% lower than that of the Index whilst also considering a company's ability and willingness to transition and contribute to a lower carbon economy. The benchmark changed from the Japan GBP Index (Capital Return) on 9 August 2021. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the Index), to the Index, the IA Japan sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE Japan GBP Net Total Return Index

## Fund value

	Total £m
31 March 2024	440.91

## Fund analytics

	Fund
Fund launch date	11 May 2005
Base currency	GBP
Number of holdings	470

# Performance and activity

## Performance

	Fund Official 12pm return (%)	Fund End of day return (%)	Benchmark (%)
Quarter	11.01	11.06	11.43
1 Year	21.91	21.69	21.91
3 Years (p.a.)	6.23	6.34	6.33
5 Years (p.a.)	8.28	8.17	7.24
10 Years (p.a.)	9.81	9.79	8.31

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance based on Royal London Japan Equity Tilt (Z Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 30 April 1985.

## Performance commentary

The fund uses sophisticated portfolio modelling tools to help construct a portfolio designed to track the performance of the benchmark without necessarily holding all the constituents in their exact benchmark weights. In practice, the fund holds most of its benchmark's names.

The fund will take underweight and overweight stock positions relative to the Index to achieve carbon intensity and ESG profile improvements, focusing on areas such as superior corporate governance, lower social risk, higher social value and superior environmental risk / reward. These factor contribute to the portfolio having a different weighting to some sectors than the index.

# Performance and activity

## Top 10 holdings

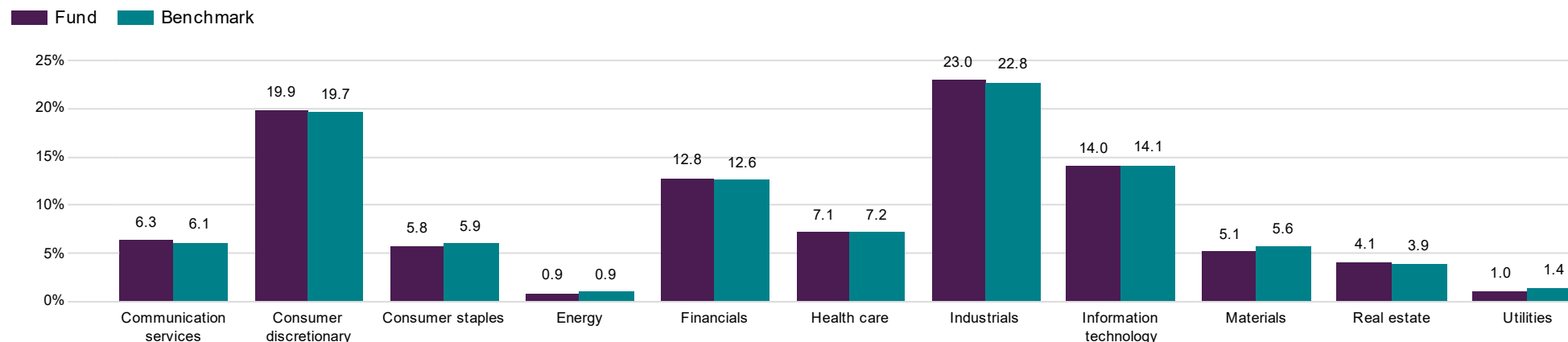
	Weighting (%)
Toyota Motor Corp.	6.32
Mitsubishi UFJ Financial Group, Inc.	2.43
Tokyo Electron Ltd.	2.41
Sony Group Corporation	2.20
Keyence Corporation	1.87
Mitsubishi Corporation	1.78
Hitachi, Ltd.	1.70
Shin-Etsu Chemical Co Ltd	1.69
Sumitomo Mitsui Financial Group, Inc.	1.57
Mitsui & Co., Ltd	1.42
<b>Total</b>	<b>23.39</b>

## Fund activity

When constructing our portfolio, we manage our exposure relative to the index across a number of dimensions. These include sector, region, country, and size. The fund is constructed with an optimisation algorithm that aims to minimise tracking error to the benchmark and lower transaction costs at the same time.

# Fund breakdown

## Sector weights



# Characteristics and climate

## ESG characteristics rationale

The Fund considers environmental, social, governance ("ESG") standards of the companies it invests in alongside financial analysis, and Responsible Investment criteria are applied to provide better and sustainable outcomes for investors. Underweight and overweight stock positions relative to the Index will be taken to achieve carbon intensity and ESG profile improvements. The Fund will seek to achieve an improved ESG profile than the Index by focusing on superior corporate governance, lower social risk and higher social value and superior environmental risk-reward.

## ESG characteristics

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics		✓
Sustainable fund objective		✓
Additional exclusions	✓	

## Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

Controversial weapons	✓
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## Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO <sub>2</sub> e)	22,592	n/a	n/a
Financed emissions coverage	99.43%	n/a	n/a
Carbon footprint (tCO <sub>2</sub> e/\$M invested)	41.90	68.36	(38.70)
Carbon footprint coverage	99.43%	99.42%	0.01
Weighted average carbon intensity (tCO <sub>2</sub> e/\$M sales)	51.92	77.93	(33.38)
Weighted average carbon intensity coverage	99.91%	99.86%	0.05

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

## Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	99.43	99.42	0.01
% of portfolio below 2°C ITR	37.09	36.82	0.74
% of portfolio below 1.5°C ITR	11.48	11.34	1.21

## SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	11.14	10.98	1.45
SBTi Near-Term committed	4.64	4.69	(0.97)
SBTi Near-Term targets set	31.66	31.32	1.07

# Fund Engagement

## Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

## Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	2	6
Number of engagements	2	10

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

## Total engagements by theme and topic



Social & Financial Inclusion	2
Labour & Human Rights	1
Social & Financial inclusion	1

## Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.



# Fund Engagement

## Engagement outcomes

### Sumitomo Mitsui Financial Group Inc - Social & Financial Inclusion

#### Purpose:

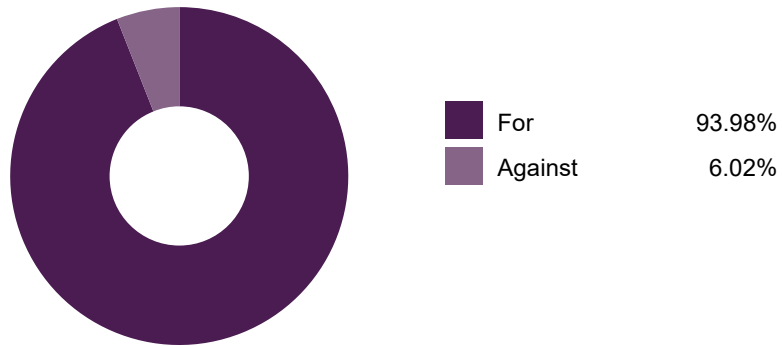
To seek further information to understand how Sumitomo Mitsui Financial Group (SMFG) incorporates responsible microlending practices.

#### Outcome:

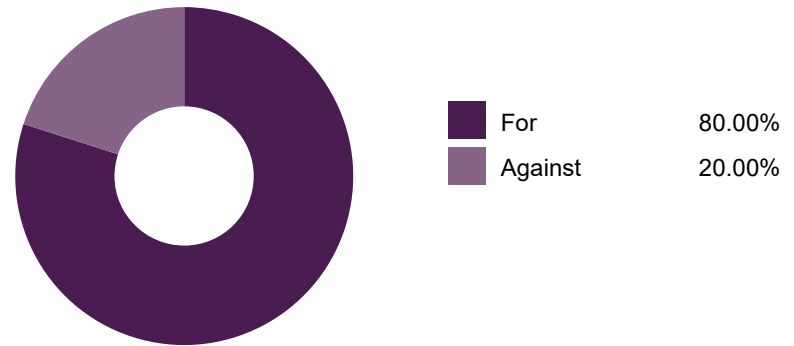
We gained comfort that SMFG adheres to customer protection and responsible lending practices within its microfinance operations. The company performs comprehensive customer due diligence, offers financial education, and operates in compliance with local regulations. Its practices are in line with industry standards, particularly around debt collection and ensuring a customer centric product design. SMFG's commitment to responsible microfinance is further evidenced by its cross learning and regulatory information sharing between its Indian and Indonesian operations.

# Fund Voting

Total proxy voting activity



Executive remuneration voting activity



# Market commentary

A key theme to emerge during the quarter was indication of a more favourable global macro backdrop. Despite some mixed signals, the US economy remains resilient, while Europe and the UK show signs of gradually exiting their recessions. Activity in China also seems to be stabilising. At the same time, core central banks are still confident that the disinflation trend remains intact, despite some recent setbacks in inflation prints. Policymakers have often highlighted that they are in no rush to cut rates – with markets now generally pricing the start of the easing cycles to begin this summer. The Federal Reserve, European Central Bank and Bank of England all left interest rates unchanged over the quarter.

One major development over the quarter is that markets have recalibrated their pricing for expected central bank cuts over this year. At the end of last year, markets were pricing in an aggressive rate cutting cycle, but then swiftly move to temper those forecasts. This re-pricing contributed to negative returns for global government bond markets over the quarter. Despite the belief of many that it was the anticipation of a 'Fed-pivot' that contributed to the rally in equity markets in late 2023, equity markets proved to be immune to this bond market sell-off as global growth and business confidence showed signs of resilience and investors focused on the potential offered by AI.

Some of the same trends that were driving markets during the fourth quarter continued into the first quarter of 2024. The tech sector continues to benefit from the excitement around AI and industrials continued to experience a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The energy sector benefitted from higher oil prices though the quarter.

For the first quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced positive returns for the quarter. Looking at national MSCI indices, the strongest market was Ireland, while the weakest was Portugal. In terms of larger markets, Japan and the US were the best performing, followed by Europe and the UK. Emerging markets and Asia ex Japan were the worst performing.

The price of WTI crude oil gained 17.5% over the quarter to \$83.71 a barrel, reversing the losses of the prior quarter amid attacks on Russian refineries and OPEC signalling production cuts. The US dollar appreciated by 6.85% against the yen, by 2.23% against the euro, and by almost 1% against sterling.

## Further Information

Please click on the links below for further information:



### Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of [www.rlam.com](http://www.rlam.com), including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# Disclaimers

## Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at [www.rlam.com](http://www.rlam.com).

Issued in May 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Equity Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000807.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on [www.rlam.com](http://www.rlam.com).

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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

# Risks and Warnings

## **Investment risk**

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

## **EPM techniques risk**

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

## **Exchange rate risk**

Changes in currency exchange rates may affect the value of your investment.

## **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.

# Performance to 31 March 2024

## Cumulative (%)

## Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
<b>Fund (gross)</b>	11.01	14.55	21.91	19.91	48.94	6.23	8.28
<b>Fund (net)</b>	10.97	14.47	21.73	19.36	47.53	6.07	8.08

## Year on year performance (%)

	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021	31/03/2019 - 31/03/2020
<b>Fund (gross)</b>	21.91	1.43	(3.02)	27.84	(2.84)
<b>Fund (net)</b>	21.73	1.28	(3.19)	27.52	(3.07)

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 March 2024. All figures are mid-price to mid-price in GBP for the Royal London Japan Equity Tilt (Z Acc).

# Glossary

## Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO<sub>2</sub>e/\$M invested. Financed emissions are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

## ESG Integration

The systematic and explicit inclusion of environmental, social and governance (ESG) factors into investment analysis and investment decisions.

## Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

## Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO<sub>2</sub>e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

## Fund restrictions definitions

**Adult Entertainment:** Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.

**Alcohol:** Companies which have involvement in brewing, distillation or sale of alcoholic drinks.

**Animal Welfare:** Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).

**Armaments:** Companies who manufacture armaments or nuclear weapons or associated products.

**Controversial Weapons:** Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.

**Fossil Fuels:** Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.

**Gambling:** Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.

**High Environmental Impact:** Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.

**Human Rights Risks:** Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.

**Nuclear Power:** Companies who generate energy from Nuclear Power.

**Nuclear Weapons:** Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.

**Tobacco:** Companies which are growing, processing or selling tobacco products.

## Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

## Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

## Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

## Performance

Official Fund performance is shown on a mid-to-mid price basis, gross of fees and taxes, with gross income reinvested unless otherwise stated. Supplementary end of day performance has also been provided at fund level in order to show a comparison vs the benchmark which is also priced at end of day.

## Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

## SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.



# Glossary

## Sector weights

Breakdown of holdings by GICS (Global Industry Classification Standard) sector relative to the benchmark index.

## Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

## Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.

## Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO<sub>2</sub>e / \$M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.