

For professional clients only, not suitable for retail clients.



# Royal London US 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 US 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.

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# 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 New York 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 US 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 FTSE USA 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 Index, which the Fund aims largely to replicate, the IA North America sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE US Net Total Return Index

## Fund value

	Total £m
31 March 2024	1,210.68

## Fund analytics

	Fund
Fund launch date	24 August 2007
Base currency	GBP
Number of holdings	555

# Performance and activity

## Performance

	Fund Official 12pm return (%)	Fund End of day return (%)	Benchmark (%)
Quarter	10.66	11.22	11.22
1 Year	28.78	27.03	26.77
3 Years (p.a.)	13.87	13.86	13.40
5 Years (p.a.)	15.66	15.41	14.41
10 Years (p.a.)	15.71	15.64	14.22
Since inception (p.a.)	12.91	15.28	11.25

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on Royal London US Equity Tilt (Z Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 24 August 2007.

## 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

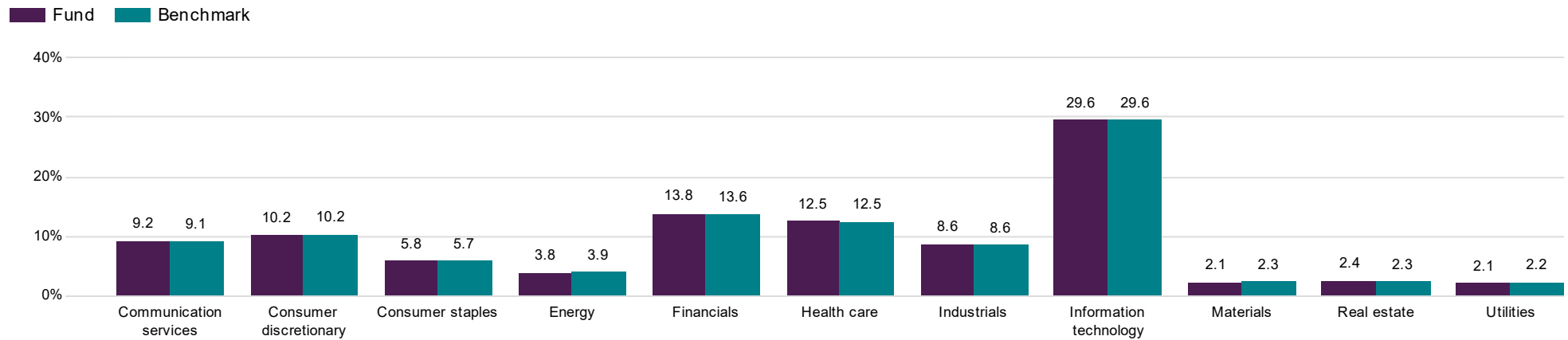
	Weighting (%)
Microsoft Corporation	6.78
Apple Inc.	5.43
NVIDIA Corporation	4.65
Amazon.com, Inc.	3.52
Meta Platforms Inc Class A	2.34
Alphabet Inc. Class A	1.95
Alphabet Inc. Class C	1.66
Eli Lilly and Company	1.42
JPMorgan Chase & Co.	1.26
Broadcom Inc.	1.25
<b>Total</b>	<b>30.26</b>

## 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 (tCO2e)	32,864	n/a	n/a
Financed emissions coverage	98.91%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	21.84	29.99	(27.16)
Carbon footprint coverage	98.91%	98.91%	0.01
Weighted average carbon intensity (tCO2e/\$M sales)	57.55	88.48	(34.95)
Weighted average carbon intensity coverage	99.10%	99.07%	0.03

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	98.91	98.91	0.01
% of portfolio below 2°C ITR	54.58	53.52	1.98
% of portfolio below 1.5°C ITR	25.84	25.51	1.27

## SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	24.85	24.77	0.34
SBTi Near-Term committed	13.27	13.25	0.14
SBTi Near-Term targets set	40.06	40.03	0.07

# Fund Engagement

## Engagement definition

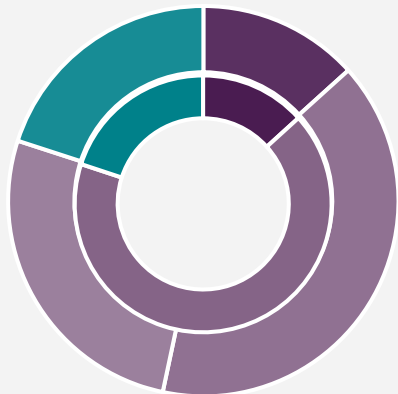
Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence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

## Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	9	42
Number of engagements	10	63

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



Climate	2
Climate - Transition Risk	2
Governance	10
Corporate Governance	6
Remuneration	4
Social & Financial Inclusion	3
Just transition	3

## 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

### Phillips 66 - Just Transition

#### Purpose:

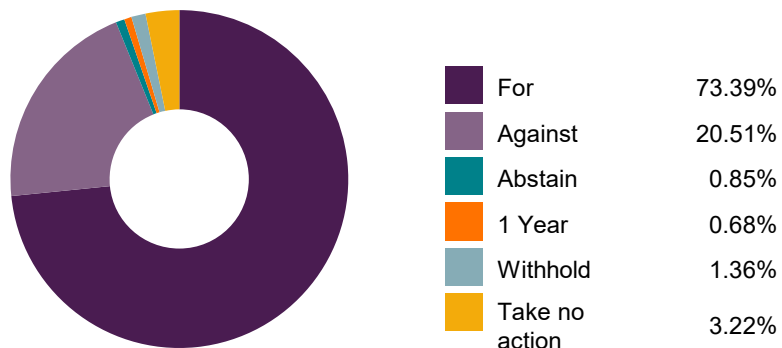
We met with Phillips 66 as part of our just transition engagement programme, to encourage the company to develop a just transition plan and integrate it within its approach to climate change.

#### Outcome:

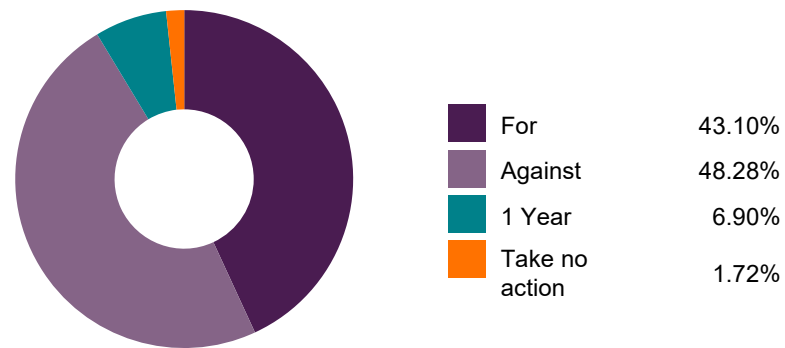
The company has yet to formalise a just transition strategy but is aware of the concept and associated risks and opportunities. Phillips 66 uses community engagement to address social issues, and while it has not committed to a specific plan, it expects to further develop its approach. The company is open to integrating just transition with its climate strategy, welcomed our KPI suggestions, and requested we share best practice examples post meeting. We will continue to monitor Phillips 66's integration of just transition in its disclosures.

# Fund Voting

## Total proxy voting activity



## Executive remuneration voting activity



## Notable votes

### Apple Inc

Curating and Managing Disputes Concerning App Content (SHP) - abstain - While we acknowledge the proponent's concerns, we note the company's improved disclosure around its management of government information requests and raise no further concerns at this time.

Report on Median Gender and Racial Pay Equity (SHP) - for - Though we acknowledge the Company's current disclosures around pay equity, we are supportive of further disclosures in this area.

Report on Use of Artificial Intelligence (SHP) - for - We are supportive of further company disclosure in this area.

# Fund Voting

## Notable votes

### Intuit Inc

Advisory vote on executive compensation - against: The LTIP continues to raise some concerns with noted retesting opportunities and short performance periods. We would also prefer to see a more stretching set of performance metrics under variable incentive plans.

Amendment to the 2005 Equity Incentive Plan - against: We have concerns over the total dilution from all the plans under this amendment.

Ratification of Auditor - against: There are concerns over the auditor's independence given the length of tenure.

Report on Portfolio Risk in Employee Retirement Options (Shareholder Proposal - SHP) - against: The company's 401(k) plans offer participants a diverse array of investment options, including a self-directed brokerage account that allows participants to choose ESG-related investments.

### Tyson Foods Inc

Elect Les R. Baledge - against: The nominee is not independent and serves on the Nominating Committee that lacks sufficient independence.

Elect Mikel A. Durham - against: We continue to raise concerns over the nominee's presence on the Audit Committee which should be fully independent in our view.

Elect David J. Bronczek - against: We raise concerns on this nominee as Chair of the Governance Committee given that the company maintains a multi-class share capital structure with unequal voting rights and has not provided a reasonable time-based sunset provision on the structure.

Elect John H. Tyson - against: We would prefer to see the appointment of a fully independent chair to the board.

Lobbying Activity Alignment with Science-based Targets and Net Zero Emissions Ambitions (SHP) - For: We are supportive of increased disclosure in this area.

Audit of Policies Preventing Child Labor (SHP) - for: Given recent investigations into illegal child labour practices at the company, we would welcome further disclosures into the effectiveness of the company's human-rights related policies concerning child labour.

Deforestation-Free Supply Chains (SHP) - abstain: While we agree with the proponent's ultimate goal behind the proposal, we have some concerns over the prescriptive timeline to implement this resolution.

Report on Circular Economy for Packaging (SHP) - for: We are supportive of increased disclosures into how the Company is managing the issue of plastic packaging and the proposal largely defers to management on the content of the report.

# Fund Voting

## Notable votes

### Visa Inc

Elect Denise M. Morrison - against: The nominee is chair of the remuneration committee and we have long-standing concerns with the company's remuneration.

Advisory vote on executive compensation - against: We remain concerned over the large area of discretion applied to bonus outcomes. We also take issue with the scale of discretionary awards granted during the year.

Severance Approval Policy (SHP) - against: While we are supportive of the request to seek shareholder approval for severance payments valued at 2.99 times the sum of the salary and target bonus, we note that the company has already adopted such a policy.

## 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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# 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>	10.66	18.94	28.78	47.71	107.17	13.87	15.66
<b>Fund (net)</b>	10.62	18.86	28.60	47.04	105.21	13.70	15.44

## 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>	28.78	(5.79)	21.75	39.56	0.50
<b>Fund (net)</b>	28.60	(5.92)	21.53	39.21	0.25

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 US 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.