Royal London UK Equity Income Fund

Quarterly Report 30 June 2022

Asset split

	Fund (%)
Royal Dutch Shell plc	6.8
Astrazeneca	6.3
British American Tobacco	5.5
BP Plc	4.3
GlaxoSmithKline	3.5
Rio Tinto	3.4
Relx Plc	3.1
Imperial Brands	3.0
Unilever	3.0
3i Group	2.8
Total	**41.7**

Fund data

	Fund
No. of stocks	49
Fund size	£1,096.8m
Launch date	11.04.1984

Source: RLAM, based on the A share class.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q2 2022	**-7.08**	**-5.04**	**-2.05**
Year-to-date	-4.81	-4.57	-0.24
Rolling 12 months	1.65	1.64	0.01
3 years p.a.	3.05	2.41	0.63
5 years p.a.	3.39	3.32	0.07
10 years p.a.	9.60	6.88	2.72
Since inception p.a. 30.06.2000	7.21	4.74	2.47

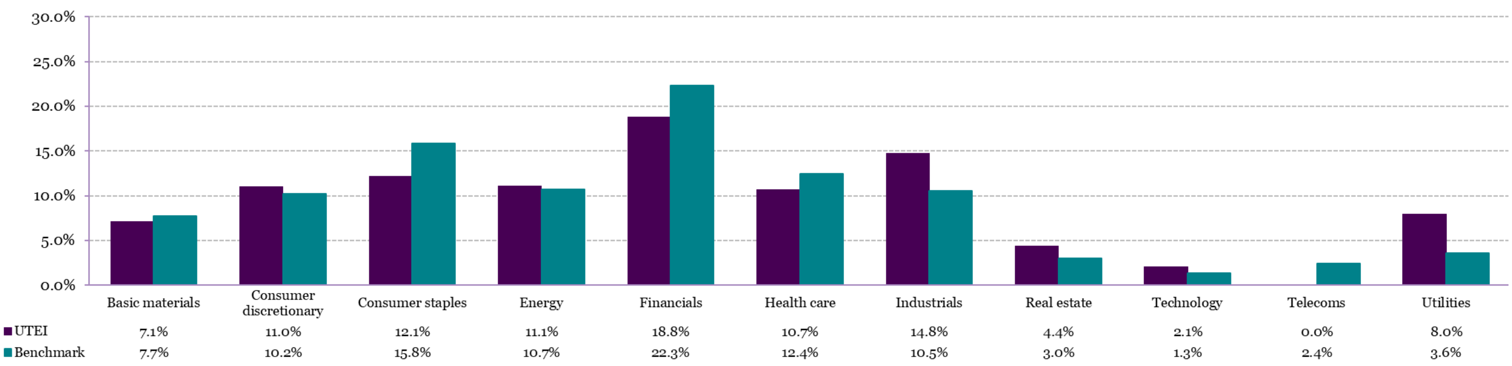
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces your return.

Source: RLAM, as at 30 June 2022, based on the A Income share class.

[1]Benchmark: FTSE® All Share Index.

Sector breakdown



Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held.

Background

- The key theme in markets remains high inflation and the cost-of-living squeeze that households are facing. At the heart of this issue is the much higher cost of energy, driven by the severe disruption to the energy markets from Russia's invasion of Ukraine. However, the pressures are by no means confined to energy. Others inflationary factors are also at play, such as supply chain disruption from COVID lockdowns in China, tight labour markets and sharp rises in many agricultural products feeding through into food prices.
- Monetary authorities are raising interest rates to try to tackle the inflationary pressures, and one fear amongst investors is that ultimately the squeeze on consumer budgets and the rise in interest rates will result in a recession and corporate profits will decline.
- To try to counter the severe pressure on household budgets the UK government announced a series of support measures to tackle fuel affordability. These measures will be part funded by a windfall levy on oil and gas firm profits and there was also suggestion that this could be extended to include electricity generation companies.
- Similarly, to the first quarter of the year, the FTSE-250 fared significantly worse than the FTSE-100.

Fund performance and activity

- The fund returned -7.08% in the quarter, underperforming both the FTSE All-Share and the peer group.
- Concerns about the squeeze on the consumer meant that the household goods retailer **Dunelm** and building materials manufacturer **Marshalls** were among the biggest drags on the fund's relative performance in the quarter. Building materials manufacturer Marshall's share price was also weak as the firm issued new equity to buy the roofing materials business Marley. We believe this deal will create significant longer-term value for Marshalls, so we participated in the equity placing.
- Holdings in **IG group** and **Segro** were also weak. In the case of IG investors are perhaps worried that the recent market sell-off and volatility may reduce the number and trading activity of their retail investment customers. This may be the case, but historically trading activity has tended to increase when markets are volatile. Segro was hit on concerns that as and when consumer spending slows, the online giant Amazon would seek less warehousing growth, reducing what has been high demand for the logistics warehouses that Segro owns.
- Some holdings were boosted by corporate activity. **Johnson Matthey** shares were buoyant as news emerged at the end of the month that a strategic buyer had taken a 5% stake in the company and Euromoney announced a possible bid for the company.
- During the quarter the fund established a new holding, in the pharmaceuticals company **Hikma**. Hikma is a company that we have followed for some time, and we chose to start the position after the shares were weak due to announcing that one of its generic products would be delayed. While the delay means a downgrade to this year's results, the contribution from the product will still occur, just later than originally hoped. We see the current price as an attractive entry point.
- The most significant sale in the quarter was to sell out of **Brewin Dolphin**, who had received an agreed bid offer at the end of March. The holdings in **Halma** and **BAE** were also exited. Proceeds from the sales were used to start the **Hikma** holding and to add to a wide range of existing holdings.

Outlook

- Consumers are facing a significant cost of living squeeze, as inflation is currently at its highest level for decades. Likewise, companies are battling to defend margins, as their own input costs increase significantly. In this tricky background we feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

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