Royal London GMAP Adventurous Fund

Quarterly Report 30 June 2022

Fund data

	Fund
Fund size	£329.3m
Launch date	14.03.2016

Source: RLAM. Based on the M Inc share class.

Fund performance

	Fund (%) (M Acc)	Fund (%) (M Inc)	Benchmark (%)	Relative (%) (as compared to M Inc)
Q2 2022	**-5.71**	**-5.71**	**-4.94**	**-0.77**
Year-to-date	-4.69	-4.71	-4.03	-0.68
Rolling 12 months	2.07	2.02	2.40	-0.38
3 years p.a.	4.89	4.88	6.01	-1.13
5 years p.a.	5.39	5.38	6.33	-0.95
Since Inception p.a. 14.03.2016	7.55	7.54	8.51	-0.97

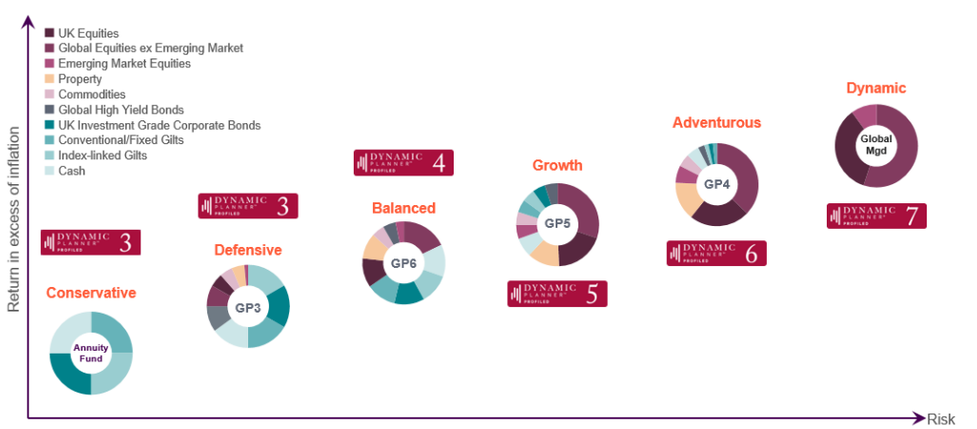
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

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, based on the M share classes. Performance for the fund is calculated on a mid basis with income re-invested.

[1]GMAP Adventurous Composite Benchmark. The benchmark has been designed with the aim of maximising long run return in excess of inflation for a given level of risk.

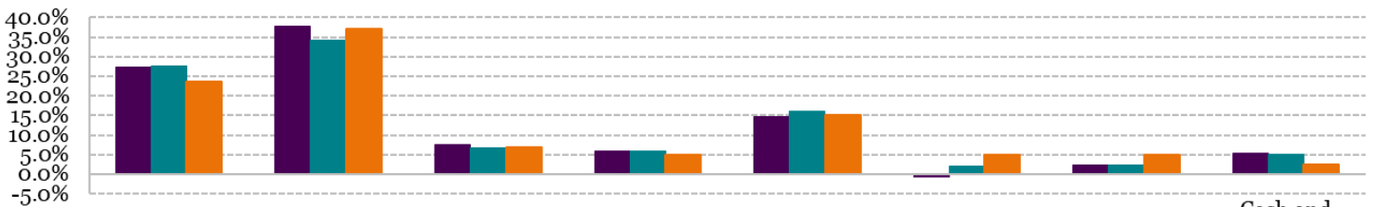
RL GMAP range



Past performance is not a reliable indicator of future results.
For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation. Risk rating is established by Distribution Technology (DT) and is out of 10. Inflation as measured by the Consumer Price Index (CPI).

Our GMAPs fund range is designed to span the risk return spectrum, with each fund aiming to maximise the long-term real return for its given level of risk through a broadly diversified portfolio of investments.

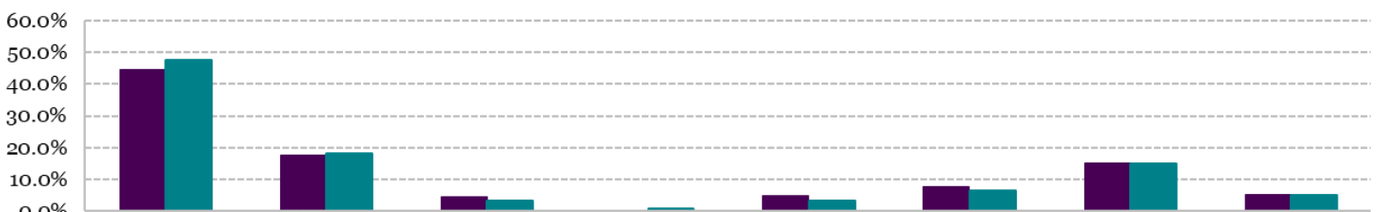
Asset split



	UK Equities	Overseas Equities	Emerging Markets	Commodities	UK Property	UK Fixed Income	Global High Yield	Cash and Absolute Return
GMAP90 Q1	27.3%	37.7%	7.6%	5.9%	14.6%	-0.7%	2.4%	5.3%
GMAP90 Q2	27.7%	34.3%	6.6%	5.8%	16.1%	2.1%	2.4%	5.0%
Benchmark	23.6%	37.1%	6.8%	5.0%	15.0%	5.0%	5.0%	2.5%

Source: RLAM. We take a holistic approach to fixed income management and fund weights relative to their respective benchmarks may not reflect tactical exposures.

Geographical breakdown



	UK	North America	Europe ex UK	Asia Pacific ex Japan	Japan	Emerging Market	Global	Cash and currency forwards
GMAP90 Q1	44.8%	17.7%	4.4%	0.2%	4.9%	7.6%	15.2%	5.3%
GMAP90 Q2	47.7%	18.3%	3.2%	0.9%	3.4%	6.6%	14.9%	5.0%

Source: RLAM. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

Ten Largest Holdings

	Asset type	Weighting (%)
RL UK Broad Equity Tilt Fund	UK Equities	23.1
RL Property (PAIF) Feeder Fund	Property	14.5
RL US Equity Tilt Fund	Overseas Equities	10.2
RL Emerging Markets ESG Leaders Equity Tracker	Overseas Equities	6.9
RL Global Equity Diversified Fund	Overseas Equities	6.2
Invesco Bloomberg Commodity UCITS ETF	Commodities	4.9
UK Treasury 1.75% 2022	UK Fixed Income	4.5
RL Europe ex UK Equity Tilt Fund	Overseas Equities	3.5
RL Asia Pacific ex Japan Equity Tilt Fund	Overseas Equities	2.0
RL Japan Equity Tilt Fund	Overseas Equities	1.8
Total		**77.7**

Source: RLAM. Information as at 30 June 2022 and correct at that date, unless otherwise stated. Total weight reflects rounding.

Executive summary

- Inflation has been the headline macroeconomic market influence over the quarter. Increasing energy and commodity prices have added to the natural increase seen as the global economy continued to emerge from its Covid-induced slowdown of 2020 and 2021. Geopolitical events continued to weigh on sentiment as well, as Ukrainian resistance to the Russian invasion continued.
- Central banks have responded to rising inflation by tightening monetary policy and indicating that there is more to come. The US Federal Reserve (Fed) has led the way, increasing rates by 1.25% over the quarter – its clear threat to do more has led markets to price in a further 2% of hikes in 2022. The European Central Bank (ECB) was less aggressive – partly due to a more fragmented backdrop with the gap between German and 'peripheral' bonds widening in recent months – but confirmed that it will end its bond buying programme in July and signalled that a 25bps hike in July and even another 50bps in September will both be possible. The Bank of England (BoE) has increased rates by 25bps at every meeting since December 2021 and this continued through the quarter, with the fifth consecutive increase in June taking the UK base rate to 1.25%.

GMAP fund	Q2 2022 performance (M class, Acc – net of fee)	GMAP custom benchmark	IA sector	IA sector average performance
Conservative	-5.73	-5.21%	£ Strategic Bond	-6.88%
Defensive	-3.99%	-3.42%	Mixed Investments: 0-35% shares	-6.06%
Balanced	-4.44%	-3.46%	Mixed Investments: 20-65% shares	-6.47%
Growth	-5.67%	-4.89%	Mixed Investments: 40-85% shares	-7.36%
Adventurous	-5.85%	-4.94%	Mixed Investments: 40-85% shares	-7.36%
Dynamic	-8.02%	-7.22%	IA Global	-10.02%

Market overview

- The key theme of high inflation will continue to be a focus and the cost-of-living squeeze that households are facing. 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.
- Global Covid case numbers increased towards the end of the quarter as China reduced quarantine times for inbound visitors by half. However, President Xi reiterated that China's zero tolerance approach was the most "economic and effective" policy. ONS data showed rates of infection in all UK nations have risen to around 4% (people testing positive for Covid) in the week ending 24 June.
- The FTSE All World Index returned -5.02% to sterling investors in the second quarter. Energy, consumer staples and utilities contributed to performance during the quarter, while IT and materials detracted. Equities struggled as interest rate expectations rose and investors factored in the possibility of a Fed-induced recession in the next six to 12 months. As a result, the first half of 2022 was the worst start to a year for US equities since 1970.
- Bond markets returns were hit hard in the period, as rising interest rates drove government bond yields higher globally (prices move inversely to yields): the UK's benchmark 10-year gilt yield rose by 62bps to 2.23%; the 10-year US treasury yield rose by 67bps to 3.01%. Longer-dated bonds performed worst in the period due to their greater sensitivity to interest rates (duration risk). In the UK, for example, gilt markets returned -7.42% on an all-maturities basis (FTSE Actuaries), whereas gilts with 5 years to maturity or less provided negative returns of just -0.76%.

- Currency swings were notable in the quarter, following the volatility of the first quarter. The sharp rise in US interest rate expectations meant that the US dollar was the strongest global currency: it appreciated significantly against the Swiss franc, euro and sterling, and rose over 11% against the yen. These movements will impact global trade and overseas earnings over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in dollars. The broad commodity index fell 5.7% over the quarter, in dollar terms, on fears of recession and renewed Covid restrictions in China. This was driven by base metals, with copper futures falling 21.9%. Oil prices continued to rise, however, with price of brent crude oil rising by 6.4% to nearly $112 a barrel.

Asset allocation overview

- Our proprietary Investment Clock model remained in its 'Stagflation' phase during the quarter reflecting a fall in the pace of growth but with significant inflationary pressures present. Our tactical asset allocation added value over the quarter. Our overweight in commodities detracted value but this was more than offset by added value from overweighting the more resilient UK equity market and cheaper defensive sectors versus the US and its consumer discretionary sector. The benefits of the diverse multi asset approach used in our funds continued to show during the second quarter of the year. The inclusion of real assets such as property, in addition to a greater exposure to UK equities than our peers, helped to provide resilience over a volatile quarter.

What we thought	What we did	What happened	Effect on portfolio
With inflation high and central banks tightening policy, we remained underweight bonds, expecting yields to rise. Our Investment Clock is in Stagflation (slowing growth with inflation), a phase that historically is not supportive for bonds. We reduced our underweight position in June however, taking profits, as weaker economic data pointed to rising recessionary risk.	We held an underweight position in bonds over the quarter. We reduced the size of this underweight closer to neutral over June.	Over the second quarter bond returns were again negative as high inflation and hawkish rhetoric from central banks saw bond yields continue to rise. Yields did drop over June, however, on recessionary fears.	We continued to benefit from our continued underweight position in bonds.
With central banks raising rates to combat inflation, we expected bond yields could continue to move higher which would relatively benefit regions that have lower weights to interest rate sensitive sectors. After equity markets sold off over the first quarter, we expected volatility could remain high and more defensive regions could outperform.	We remained tactically overweight the UK, given its more defensive sectoral composition and improving relative earnings picture. We maintained an overweight Japan, which benefitted from a weaker currency. We moved underweight US equities which have struggled this year given high exposure to expensive growth stocks.	UK and Japanese equities proved to be more resilient as global equity markets continued to drift lower.	Our regional tactical allocations in equities were positive contributors to performance – our UK and Japan overweight positions proved particularly beneficial.
In an environment of higher real yields, we expected that expensive growth sectors would face continued headwinds. Our Investment Clock is in Stagflation (slowing growth with inflation), a phase that historically is more supportive for defensive sectors such as utilities.	We remained tactically underweight expensive growth sectors such as technology and consumer discretionary. We instead preferred more defensive sectors such as healthcare and utilities.	Although growth sectors did experience a rally towards the end of the quarter, technology, and consumer discretionary still ended the worst performing sectors over Q2. Defensive sectors outperformed on a relative basis.	Our tactical allocations in US sectors were positive contributors to performance.
With inflation high and the continuation of supply chain issues, we believed that commodities were set to appreciate over the quarter. Furthermore, with geopolitical tensions high, we believed commodities could offer resilience. However, we reduced our position to neutral as economic data started to surprise on the downside.	We were overweight commodities at the start of the quarter before moving to a neutral position towards the end of the quarter.	Commodities rallied over the first two months of the quarter, continuing their impressive year to date rally. However, the asset class sold off in June to finish lower over the quarter (in USD terms).	Having added value over the previous quarter, a late but sharp fall in commodity prices saw our overweight position detract value over the quarter.

What we thought	What we did	What happened	Effect on portfolio
With our property team buying high quality assets, we remain positive on long-term prospects for the sector despite some areas (such as retail) being challenged currently. Property gives diversification and inflation resilience benefits to the portfolios.	Given post-Covid challenges, we have remained neutral to property in diversified portfolios.	Commercial property performed well over the quarter as global activity and confidence continued to improve.	Our exposure to property had a positive impact on performance.

Please note: This table details our main asset allocation decisions for the quarter across the GMAPs funds. Not all tactical allocations are relevant to the Conservative fund (fixed income-only) and Dynamic Fund (equity-only).

Outlook

- The Investment Clock has been in Stagflation for the last nine months, a stage of the cycle that is bad for both stocks and bonds. At some point, possibly quite soon if recent commodity price weakness persists, we may swing around to the next stage of the cycle: bond-friendly Reflation. We're expecting stocks to see a second phase of bear market driven by earnings weakness, with a trough likely only when unemployment rates are close to peaking, which could still be a year or more away. Broad diversification, active tactical asset allocation and disciplined downside risk management will be key to navigate the bumpy road ahead.
- Please see our Investment Clock blog for our latest views.

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