Royal London UK Equity Income Fund

Quarterly Report 31 March 2022

Asset split

	Fund (%)
Royal Dutch Shell plc	5.9
Astrazeneca	5.3
British American Tobacco	4.5
Rio Tinto	3.8
BP Plc	3.4
3i Group	3.1
Relx Plc	3.1
GlaxoSmithKline	3.0
IG Group	2.9
Aviva plc	2.9
Total	**37.8**

Fund data

	Fund
No. of stocks	52
Fund size	£1,233.0m
Launch date	11.04.1984

Source: RLAM, based on the A share class.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q1 2022	**2.45**	**0.49**	**1.96**
Year-to-date	2.45	0.49	1.96
Rolling 12 months	16.74	13.03	3.71
3 years p.a.	6.67	5.31	1.36
5 years p.a.	5.77	4.69	1.07
10 years p.a.	10.26	7.15	3.11
Since inception p.a. 30.06.2000	7.66	5.04	2.62

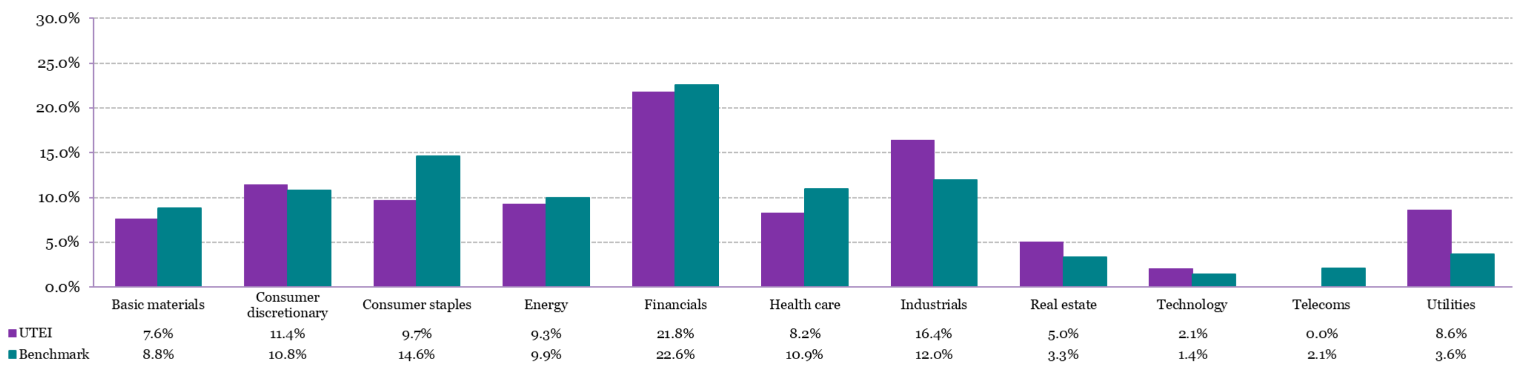
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated.

Source: RLAM, as at 31 March 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

- We entered 2022 with investor concerns focused on inflationary pressures and the likely upward trajectory of interest rates. These concerns are valid, as most companies are reporting upward pressure on costs in almost all areas, for example wages, commodities, energy and transport. These pressures are being evidenced at an aggregate level by elevated data in official inflation reports and monetary authorities have started raising interest rates. This caused a rotation in the markets, with recent trends reversing. Larger companies, particularly financial stocks and commodities, performed strongly, while mid-sized and more highly valued companies fell.
- These concerns about inflation were overtaken by darker worries in February when Russia sent troops into neighbouring Ukraine. Russia claims this is a special military operation, but it is generally being seen as an invasion. The Ukrainian army has put up extremely resolute resistance and the conflict has seen fierce fighting and an appalling human cost. As well as military casualties on both sides, many civilians have been killed and millions of Ukrainian citizens have been displaced from their homes as they seek safety further West. Sadly, at time of writing the conflict shows little sign of resolution.
- Russia has been ostracized by most countries and severe economic sanctions have been imposed and many companies have exited their Russian operations. However, sanctions have yet to extend to Russia energy exports. This situation is complicated in this area by the fact that many countries in Europe are reliant on Russian supplies of commodities – particularly gas. If the supply of gas were cut off countries like Germany would find themselves extremely short of energy. This risk and the high levels of general uncertainty have led to soaring gas and oil prices.
- While the Ukraine situation is predominantly a humanitarian crisis, its impact on financial markets is also profound. The key impact is upward pressure on commodity prices, stoking the existing inflationary pressures and leading to the much-discussed cost of living squeeze. In the UK this is particularly marked by the sharp rise in domestic energy costs.
- Regional equity returns were widely dispersed during the quarter, with the UK the best performing major market, boosted by its notably high exposure to the oil & gas, mining and banks sectors, with the FTSE All-share returning 0.49% over the aurter, when many other major markets saw losses.

Fund performance and activity

- The headline rise in the FTSE All-Share in the quarter masks significant turbulence within the market. With energy and commodity sectors strong, the FTSE 100, of which the oil and mining companies are meaningful components, rose in value over the quarter while the FTSE 250 was down significantly. The split of the fund is tilted to favour medium sized companies over the largest companies, but despite that apparent headwind to performance the fund's equity portfolio outperformed the index. The biggest contributions to performance were in the financial sector. **Investec** was strong after reporting positive results and the wealth management company **Brewin Dolphin** rose sharply after its announcement that it had agreed to a takeover approach at a large premium to its prevailing share price. The heightened national security concerns meant that defence companies were in favour and the holding in **BAE** was also a major position contribution to performance.
- Two stocks which detracted from performance in the quarter were **Spectris** and **ITV**. Spectris launched a bid for Oxford Instruments at a valuation that the market saw as too rich and Spectris shares sold off. The bid has subsequently been called off, but the Spectris management's hitherto strong reputation has been knocked in the near term. In March ITV reported good results but alongside those results announced that it planned to up investment into improving its streaming offer, replacing the ITV Hub with ITVX. The market took the news of the increased spending poorly and the shares sold off very sharply. We felt that this move was completely disproportionate and took the opportunity to add to our position.
- During the quarter the fund also continued to build its holdings in **Unilever**, **Taylor Wimpey** and **Intermediate Capital**. The holding in **Restaurant Group** was also added to, after the shares were weak, despite reporting solid results. Purchases were funded by reducing the position in **BAE** into strength, selling some of the **Brewin Dolphin** holding into the bid and also by proceeds being received from the **DMGT** bid.

Outlook

- The financial uncertainty and commodity market disruption that is a by-product of the appalling situation in Ukraine is rippling across the global economy, manifesting itself in sharp price rises across a wide range of products. Consumers are facing a significant cost of living squeeze, particularly as high gas prices feed through into domestic utility bills. Inflation is currently very high in the UK economy, with the most recent

Consumer Price Inflation data at its highest level for 40 years. Higher inflation is not necessarily bad news for equities, but it will be a test of companies' cost control and pricing power as they seek to mitigate or pass on higher costs.

- 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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