Royal London UK Equity Income Fund

Quarterly Report 30 September 2022

Asset split

	Fund (%)
Royal Dutch Shell plc	7.9
Astrazeneca	6.1
British American Tobacco	5.5
BP Plc	4.8
Rio Tinto	3.7
Unilever	3.6
Imperial Brands	3.4
Relx Plc	3.3
3i Group	3.0
Spectris	2.7
Total	**44.0**

Fund data

	Fund
No. of stocks	46
Fund size	£935.6m
Launch date	11.04.1984

Source: RLAM, based on the A share class.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q3 2022	**-4.63**	**-3.45**	**-1.18**
Year-to-date	-9.21	-7.87	-1.35
Rolling 12 months	-5.06	-4.00	-1.06
3 years p.a.	0.57	0.80	-0.23
5 years p.a.	2.20	2.17	0.03
10 years p.a.	8.29	6.02	2.27
Since inception p.a. 30.06.2000	6.90	4.52	2.38

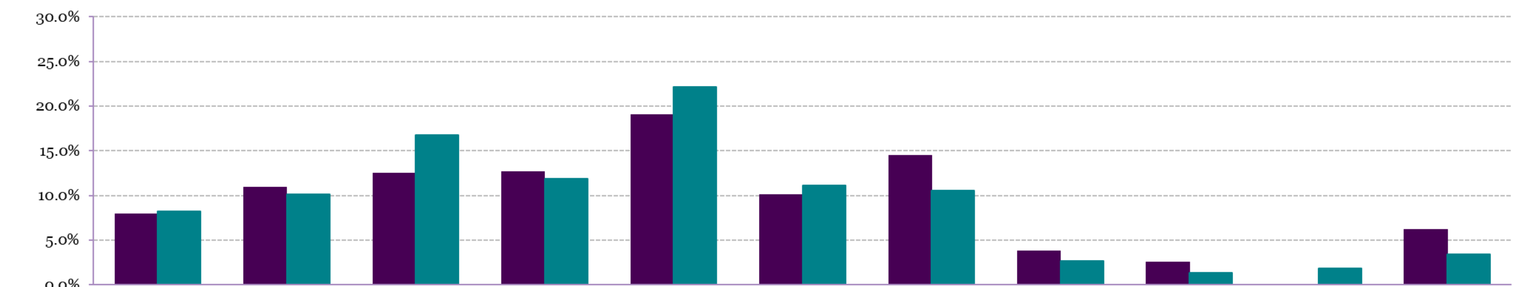
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

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 A Income share class.

[1]Benchmark: FTSE® All Share Index.

Sector breakdown



	Basic materials	Consumer discretionary	Consumer staples	Energy	Financials	Health care	Industrials	Real estate	Technology	Telecoms	Utilities
UTEI	7.9%	10.9%	12.5%	12.7%	19.0%	10.1%	14.5%	3.8%	2.5%	0.0%	6.1%
Benchmark	8.2%	10.1%	16.8%	11.9%	22.1%	11.1%	10.5%	2.7%	1.3%	1.8%	3.4%

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

Market background

- The third quarter saw further weakness in equities as interest rates continued to rise and investors increasingly factored in central bank-induced recession in the next six to 12 months. In local currency terms (i.e., without the impact of the strong dollar), nearly all major stock markets fell globally, although currency movements offset this weakness and boosted the sterling returns from overseas equities. For the third quarter the FTSE-All Share, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned -3.4%, +2.2% and +1.5% to sterling investors, respectively. Regional returns were particularly widely dispersed. According to MSCI regional data, the US and Japan delivered the only positive returns (to sterling investors) at +3.7% and +0.6%, respectively. Otherwise, Europe ex-UK returned -2.0%, while the UK and emerging markets returned -2.9% and -3.6%, respectively. The Far East ex-Japan region was a notable outlier, returning -9.8%.
- Following an acrimonious leadership contest, Conservative party members chose Liz Truss as their leader, making her Prime Minister. In one of her first acts she announced sweeping tax cuts and an ambitious plan to cap domestic energy costs, but these appeared to be fundable only by taking on large amounts of additional government debt, which caused the pound to be very weak and the gilt market to record one of its worst sell-offs.
- Continuing the trend from the first half of the year, the FTSE 250 and FTSE Small Cap indices fared significantly worse than the FTSE 100, reflecting their greater exposure to the UK economy and lower overseas revenues.

Fund performance and activity

- The fund returned -4.8% in the quarter, and while this was behind the FTSE All-Share it was ahead of the peer group median, with the fund ranking 31st percentile (M Acc share class, net of fees).
- Concerns about the squeeze on the consumer meant that **Marshalls** was the biggest drag on the fund's relative performance in the quarter. Similarly stocks that are exposed to the housing market, either directly like the housebuilder **Taylor Wimpey**, or through lending like **Paragon**, were also weak. Higher borrowing costs typically depress property valuations and this meant that the holdings in the real estate businesses **Landsec** and **Segro** were headwinds to performance.
- The biggest boost to performance in the quarter was **IG Group**, who released a solid trading statement. The holding in **Ricardo** also performed well after good results.
- During the quarter the most significant portfolio changes were to sell out of the holdings in **Euromoney** (into the bid for the company), **Tate & Lyle** and **Haleon**. Holdings in the water sector were also reduced on concerns about inflation impacting costs for the business and also the threat of adverse regulation. The main purchase was to start a new position in **HSBC**.

Outlook

- While the government's policy to cap energy prices will bring some relief for consumers, they now face pressure on another front as borrowing costs rise, making loans and mortgages more expensive to service. The sharp rise in inflation that would have come with the step change in energy prices has been averted, but the weak pound brings its own inflationary pressures as imported goods become more expensive. Conversely companies who make the majority of their profits in overseas currencies will see a benefit as the sterling value of those earnings rise and it is possible that the weaker pound may tempt foreign buyers to launch bids for UK companies.

Additional information

- As we highlighted in our Annual Report, RLAM has ambitious targets for the next few years, notably in international growth as well as investment in infrastructure and people. This investment is to make sure that we continue to provide clients with the service they need and positioning us to for future regulation changes and market development.
- As part of that ambition, we are pleased to announce that we are moving to a new investment platform and have selected the industry leading 'Aladdin' platform. This decision has followed months of analysis and pre-implementation planning with the vendor BlackRock. Aladdin will help us improve our service offerings to our clients, as well as delivering operational efficiencies.
- As you would expect, implementation is an extended task, and the project is expected to complete in 2024, but we believe it is important to be transparent about such projects with our clients. Throughout the implementation, the project and management of your client portfolios will

be closely monitored by our Board and Risk functions to ensure that this transition is achieved smoothly, and we will keep you updated on our progress. This is an important part of our long-term strategic goal to ensure that we continue to meet your needs today and into the future.

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