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Royal London Global Equity Income Fund

Quarterly Investment Report

31 December 2023

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2023

The purpose of this report is to provide an update on the Royal London Global Equity Income 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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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The fund's investment objective is to achieve a combination of income and capital growth (a total return) over the medium term, which should be considered as a period of 3-5 years. The fund's performance target is to outperform, after the deduction of charges, the MSCI World (the 'Index') by 2% p.a. over rolling 3-year periods, whilst delivering an income 20% higher p.a. than the Index's income, after the deduction of any charges, over rolling 3-year periods.

Benchmark: MSCI World

Fund value

	Total £m
31 December 2023	868.99

Fund analytics

	Fund
Fund launch date	25 February 2020
Base currency	GBP
Number of holdings	84
Active share (%)	83.5
Tracking error (%)	5.2

Ex-post tracking error calculated since inception to 31 December 2023. Please refer to the glossary for a description of the tracking error used.

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	6.26	6.67	(0.41)
1 Year	16.69	15.66	1.03
3 Years (p.a.)	14.61	8.34	6.27
5 Years (p.a.)	-	-	-
10 Years (p.a.)	-	-	-
Since inception (p.a.)	14.69	10.40	4.29

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 Global Equity Income Fund M Income. Source: Royal London Asset Management; Net performance; Since inception date of the shareclass is 25 February 2020.

The benchmark in the above performance table shows MSCI All Countries World Net Total Return Index since inception up to 21 August 2023, and the MSCI World Net Total Return Index, when the benchmark changed, thereafter.

Performance commentary

The Fund posted returns broadly in line with the fund's benchmark in Q4. For 2023, the fund outperformed the fund's benchmark and finished in the top 10% of the IA Global Equity Income peer group. On 21 August 2023, the fund's benchmark changed from MSCI ACWI to the MSCI World Index.

The fourth quarter (Q4) was mainly driven by the actions of central banks and their actions impact on the discount rates by which equities are valued. In October, the Federal Reserve (Fed) spoke of the need for tighter monetary policy, causing US 10-year bond to rise to 5% and causing a sharp sell off in early Life Cycle (Accelerating and Compounder) stocks, who because of their quality and growth potential are on high valuation multiples therefore more vulnerable to changes up in discount rates. Softer inflation data in November followed by a December Federal Reserve warning interest rates could be on the horizon, caused US 10-year bonds to fall below 4% and equity markets to finish the year in an almost euphorically positive manner. This positivity stemmed not only from Growth stocks seeing a valuation rebound as their future cashflows were discounted at lower rates (rather than higher ones in October), but also to an even greater rebound in the heavily indebted parts of the benchmark, such as real estate, utilities, banks and airlines.

Defensive stocks underperformed cyclical and neutral stocks, and this was backed up by sector performance with Consumer staples and Healthcare only up slightly in the quarter. Energy, having been strong in Q2, was down 8% in Q3, which highlights how strong the outperformance of non-Energy cyclical sectors was. Despite all this, Technology was the top performing sector, up 12.5%.

Ascential was the biggest contributor to performance, up 40% after the company received bids for its ecommerce analytics business and trends forecasting businesses. Following the sharp move up in the shares, we have made the decision to exit the holding, with the remaining business smaller than we look to invest in and the valuation offering a relatively neutral pay off. Aperam, a Dutch based leader in the production of Green Steel, was up 20% in the quarter, as hopes that the destocking and weak general demand for stainless steel in Europe may be coming to an end. 3i was also strong during the quarter, as its flagship asset, European discount retailer Action, continued to show superb levels of growth as it rolls out stores across 12 countries in Europe and grows existing store sales rapidly due to its superior value proposition for consumers.

Cisco was a notable underperformer, down 9% in the quarter versus the Tech sector +12.5%. Cisco had disappointing results where they revealed that customers were temporarily reducing orders as they put existing inventories to work. The resolution of supply chains from large

Performance and activity

Performance commentary (continued)

backlogs to large deliveries was always likely to cause lumpiness and volatility to earnings and we expect that to continue for Cisco, but ultimately believe the company to be making positive progress on its move into more software. Kinsale Capital, an accelerator in the insurance world, was also a detractor, down 22% in the quarter. As a disruptor within insurance, using data and technology to price risk appropriately in niche parts of insurance, such as injury insurance on construction sites, the company has a wide range of outcomes and large expectation in its valuation. The share price fall came from a slightly disappointing premium growth number in the quarter, but we saw this as a cyclical factor rather than structural and added to the holding.

Performance and activity

Top 10 holdings

	Weighting (%)
Microsoft Corporation	5.39
Gilead Sciences, Inc.	4.02
Steel Dynamics, Inc.	3.19
Shell Plc	3.08
Applied Materials, Inc.	3.00
UnitedHealth Group Incorporated	2.98
3i Group plc	2.91
A.P. Moller - Maersk A/S Class B	2.88
Ashtead Group plc	2.70
Cisco Systems, Inc.	2.45
Total	**32.60**

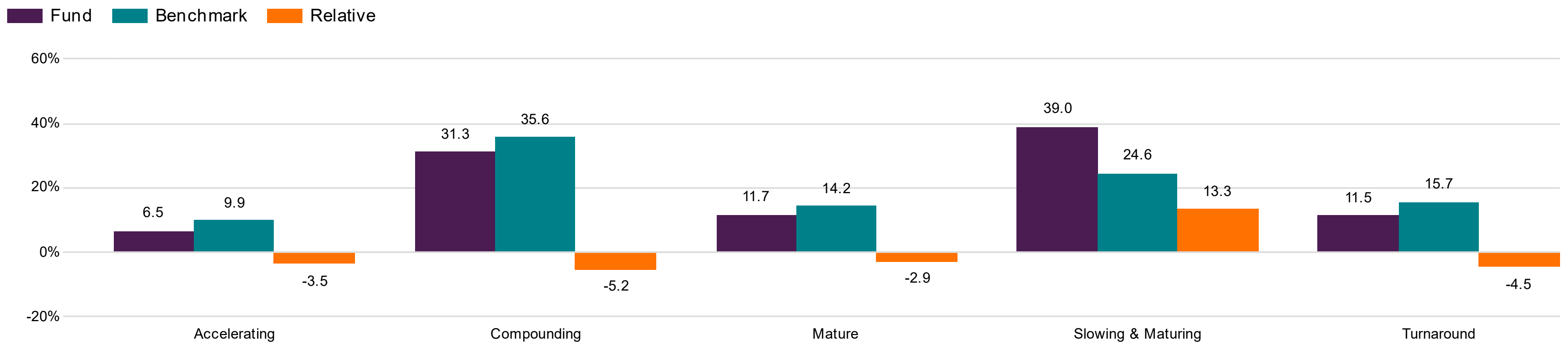
Fund activity

In Q4, we started four new positions. Three of these were part of a deliberate attempt to increase the portfolio's exposure to genuine Compounder stocks with strong wealth creation for that stage of the Life Cycle, in order to maintain balance with the benchmark, so that it is our stock picking rather than macro or style factors which continue to drive our relative performance. The selected stocks were LVMH, Halma and Factset. LVMH is a global luxury conglomerate with significant pricing power within its wide collection of brands and scale advantages in both human capital and advertising. Following relative underperformance of the stock, principally related to weakness in China due to the slow Covid recovery and economic weakness, the valuation payoff came to a level that offered us a positive risk reward. Halma is a UK listed global player within the Fire & Safety, Healthcare and Environmental Analysis industries. Not only do Halma's end markets have strong structural tailwinds from Social and Environmental factors, but Halma's decentralised culture enables a business model which can deliver high returns from organic R&D spend, as well as bolt on M&A across 3 very fragmented end markets. Following a 40% fall since the start of 2022, the valuation offered us the opportunity to start a position in this long duration compounder, at a favourable risk reward. Whilst Halma and LVMH are product companies, Factset is a data service provider to the Asset Management industry. We think that Factset operate in an attractive market that has strong pricing power and operating leverage but are particularly attracted to their differentiated approach to customer data – allowing customers to infiltrate Factset data into their workflows including use across other platforms, an approach which creates far more value for customers and thus adds to stickiness and pricing power long term. We also started a position in Japanese shipping port operator, Kamigumi. Many clients ask us whether governance reform is happening in Japan – in general, we see more words than actions at this stage, but Kamigumi is a positive case. A mature cost of capital operator, who has consistent cashflows and a sensible approach to growth capex (ie not too much of it!), Kamigumi had a large net cash position and a very low valuation. The company has commenced buying back stock in the last 18 months and has so far reduced the share count by close to 10%. We find this combination of strong wealth creation driven by appropriate capital allocation of management, combined with low valuation, highly attractive and have commenced a position. As stated earlier, Ascential was sold following bids for two of its three divisions.

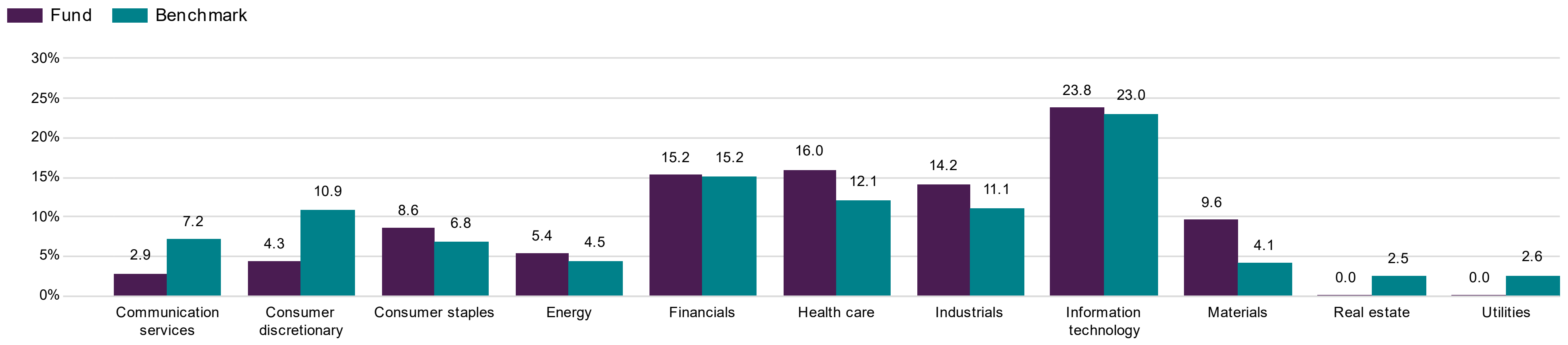
We also trimmed the positions in Steel Dynamics, Glencore and Sylvamo to maintain the balance between cyclicals and defensives within the portfolio.

Fund breakdown

Holdings and weights

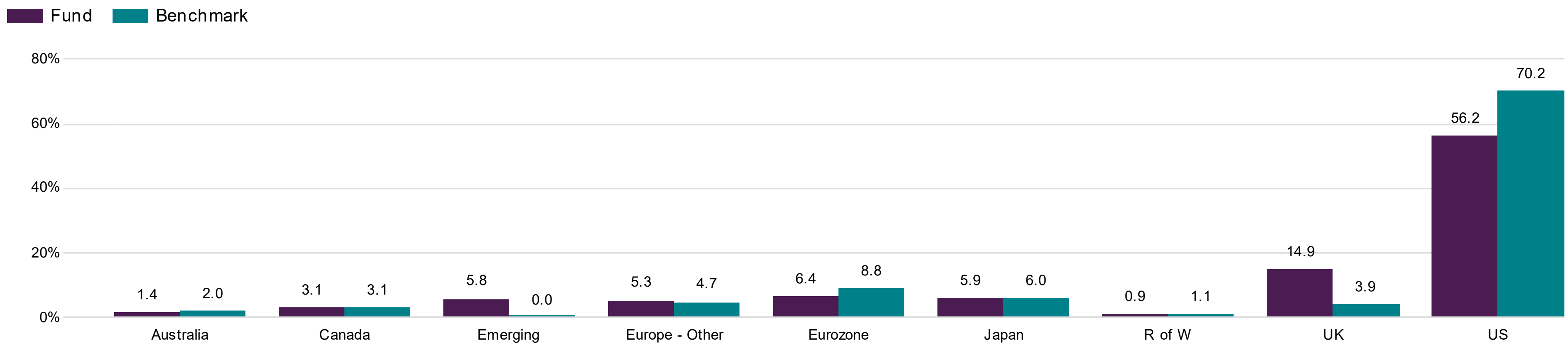


Sector weights



Fund breakdown

Regional weights



Market commentary

Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

Equities saw a significant turnaround over the quarter, rebounding sharply from their October lows as investor sentiment recovered. This was thanks to softer growth and inflation data, that reduced fears of higher for longer rates and raised hopes of early and deep rate cuts in 2024.

For the fourth quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced positive returns in US dollar terms. Looking at national MSCI indices, the strongest market was Sweden, while the weakest was China. In terms of style, the MSCI World Growth Index produced stronger returns than the MSCI World Value Index.

The change in backdrop meant that the fourth quarter has been one of the strongest for global equity markets for a long time. The best performing sectors in the quarter were information technology, real estate and industrials. The tech sector continues to benefit from the excitement around artificial intelligence (AI) and real estate is a sector that stands to benefit from falling interest rates. Industrials experienced a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The only sector that was negative in the quarter was energy, reflecting the weaker tone in the oil market and the plunge in the price of Brent crude oil to just over $77 a barrel.

As in other markets, currency markets saw some significant changes in Q4. The change in expectations of future Fed movements meant that the US dollar fell against the yen, euro, sterling and most other currencies.

Outlook

Whilst there remains significant geopolitical and macroeconomic risk, we remain focused on using our established investment process to generate alpha through bottom-up stock picking. With this volatile background, we believe that our approach of diversifying the strategies across broad range of companies from different sectors and stages of their Life Cycle will allow performance to continue to be driven more by the success of our hunting for superior shareholder wealth creating companies with undervalued long-term cash flows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London voting and engagement

TCFD climate report

Find out more

Royal London Asset Management's Outlook 2024 document and podcasts are both available on our website. In this year's Outlook document, our fund managers assess the challenges and opportunities in their respective asset classes for 2024. With an environment of falling inflation and modest recession, the benefits or risk for equities or credit is not so clear cut and knowing your companies is key. We analyse the areas of concern and potential growth within this environment.

In our Outlook 2024 podcast, Piers Hillier, CIO, looks ahead to 2024 and discusses the issues he believes will be prominent over the next 12 months, and where the key investment risks and opportunities may lie.

Articles, videos and webinars explaining our investment thinking can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

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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.

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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

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.

Liquidity Risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

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.

Charges from Capital Risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Performance to 31 December 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	6.46	10.75	17.53	53.84	74.21
Fund (net)	6.26	10.35	16.69	50.55	69.46

Annualised (%)

3 Years (p.a.)	Since Inception (p.a.)
15.44	15.51
14.61	14.69

Year on year performance (%)

	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019
Fund (gross)	17.53	3.36	26.64	-	-
Fund (net)	16.69	2.62	25.73	-	-

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 December 2023. All figures are mid-price to mid-price in GBP for the Royal London Global Equity Income Fund M Income; Since inception date 25 February 2020.

Glossary

Active share

Active share is a measure used to assess the degree of difference between the portfolio's holdings and its benchmark.

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.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Sector weights

Breakdown of holdings by GICS (Global Industry Classification Standard) sector relative to the benchmark index.

Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.

Tracking error

Tracking error measures how closely a portfolio follows its benchmark. It quantifies the standard deviation of the difference in return between the portfolio and benchmark.