Royal London Sustainable Funds

Fund Manager Commentary

October 2023

FOR PROFESSIONAL INVESTORS ONLY, NOT SUITABLE FOR RETAIL CLIENTS.

Contents

Royal London Asset Management Sustainable Performance 1
Royal London Sustainable Managed Income Trust 2
Royal London Sustainable Managed Growth Trust 3
Royal London Sustainable Diversified Trust 4
Royal London Sustainable World Trust 5
Royal London Sustainable Growth Fund 6
Royal London Sustainable Leaders Trust 7
Royal London Global Sustainable Equity Fund 8
Royal London Global Sustainable Credit Fund 9
Royal London Sustainable Short Duration Corporate Bond 11

Royal London Asset Management Sustainable Performance

	1 month (%)	Rolling 12 Months (%)
RL Sustainable Managed Income Trust C Acc	**0.00**	**3.94**
IA Sterling Corporate Bond Sector	0.08	3.53
iBoxx Sterling Non-Gilts All Maturities	-0.02	2.79
RL Sustainable Managed Growth Trust C Acc	**-1.26**	**4.75**
IA Mixed Investment 0-35%	-1.16	0.92
RL Sustainable Diversified Trust C Inc	**-3.17**	**4.09**
IA Mixed Investment 20-60% Shares sector	-1.78	1.57
RL Sustainable World Trust C Acc	**-3.33**	**5.72**
IA Mixed Investment 40-85% Shares sector	-2.39	2.41
RL Sustainable Leaders Trust C Acc	**-6.03**	**4.55**
IA UK All Companies Sector	-4.77	5.33
FTSE All-Share Index	-4.09	5.89
RL Global Sustainable Equity Fund M Acc	**-4.16**	**8.99**
IA Global Sector	-3.05	3.26
MSCI World All Countries Net Index GBP	-2.44	4.85
RL Global Sustainable Credit Fund M Acc USD	**-1.31**	**3.81**
Bloomberg Global Aggregate Corporate Total Return Index	-1.04	4.13
RL Sustainable Growth Fund M Acc	**-3.19**	**5.26**
IA Mixed Investment 40-85% Shares section	-2.39	2.41

Past performance is not a guide to 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.

Source: Royal London Asset Management, correct as of 31 October 2023. returns quoted are net of fees.

All IA sector performance shown is for the median.

Royal London Sustainable Managed Income Trust

Portfolio Commentary

- Net of fees, the fund saw a flat return in October, similar to the returns from the iBoxx Sterling Non-Gilts All Maturities Index and slightly behind the IA sector average.
- UK economic data released in October continued to paint a picture of slowing economic activity and a less tight labour market, while inflation remained high – albeit well below its peak.
- UK government bond yields moved slightly higher in October, while credit spreads widened marginally. The sterling credit market outperformed gilts over the month, with returns broadly flat, while gilt returns were negative.
- The sterling investment grade market (iBoxx) was broadly flat in October, posting a marginally negative return. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) rose from 1.34% to 1.41%.
- During the month, sector allocation was the main negative for the trust. The trust’s underperformance was driven mainly by our overweight insurance and underweight supranational holdings.
- New issuance was again relatively muted over the month. There were noteworthy new issues in the structured sector. We added a new issue of **Stark Financing**, a commercial mortgage-backed security secured against 103 UK property assets, predominantly ‘last mile’ warehouse assets. The floating rate A notes we bought are rated AAA and have an attractive loan-to-value, also paying an attractive premium to SONIA. We also added a five-year new issue from the **RAC**, these bonds yielding over 8%.
- In the secondary market we added selectively to subordinated bank and insurance debt – where yields still remain elevated– buying **HSBC** at attractive levels. The trust was also active in secondary markets, switching in the water sector, where we sold **Wessex Water**, investing the proceeds in **Yorkshire Water**, adding to credit spread but also moving into a higher quality name. We also increased exposure to social housing provider **Haven Funding**, an older style bond with far stronger covenants than more recent sector issuance.

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

Royal London Sustainable Managed Growth Trust

Portfolio Commentary

- Net of fees, the fund saw negative returns in October, slightly behind the returns from the IA 0-35% Shares sector average.
- UK economic data released in October continued to paint a picture of slowing economic activity and a less tight labour market, while inflation remained high – albeit well below its peak.
- UK government bond yields saw small moves in October, with shorter dated yields slightly higher and longer dated yields edging lower, while credit spreads widened marginally. The sterling credit market outperformed gilts over the month, with returns broadly flat, while gilt returns were negative.
- The sterling investment grade market (iBoxx) was broadly flat in October, posting a marginally negative return. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) rose from 1.34% to 1.41%.
- October was a weak month forequity markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. In the UK the FTSE All-Share fell by 4.1% while the MSCI World fell by 2.3% in GBP terms, with utilities and information technology the best performing sectors and consumer discretionary and industrials the worst.
- The equity portfolio was a detractor for performance in the month. The top contributors to performance in the month were more defensive names, including global software giant **Microsoft** and **Novo Nordisk**, a pharmaceutical company. Detractors to performance were led by companies which reported weak financial results or downgraded their near-term earnings expectations, including pest control operator **Rentokil** and Asia-focused banking group **Standard Chartered**.
- The fixed income portfolio was also a detractor during the month, with sector allocation negative for the trust. The trust's underperformance was driven mainly by our overweight insurance and underweight supranational holdings.
- New issuance was again relatively muted over the month. There were noteworthy new issues in the structured sector. We added a five-year new issue from the **RAC**, these bonds yielding over 8%. The trust was also active in secondary markets, switching in the water sector, where we sold **Wessex Water**, investing the proceeds in **Yorkshire Water**, adding to credit spread but also moving into a higher quality name. The trust also added to its exposure in social housing, buying **Places for People**, an older style bond with far stronger covenants than more recent issues.

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

Royal London Sustainable Diversified Trust

Portfolio Commentary

- October was a weak month for both equity and fixed interest markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. In the UK the FTSE All-Share fell by 4.1% while the MSCI World fell by 2.3% in GBP terms, with Utilities and Information Technology the best performing sectors and Consumer Discretionary and Industrials the worst. Overall, while the market backdrop remains difficult the fact that markets have broadly held up this year is encouraging. There is growing evidence that inflationary forces are softening in the US and Europe and hope that military conflicts in Ukraine or the Middle East will not escalate. Economic growth also remains reasonable, particularly in the US. We continue to seek those companies with resilient business models, balance sheet strength and management teams that can guide through uncertain times.
- The Sterling credit market recorded a small decline in October, falling by 0.08% and taking year to date returns to 1.08%. This was driven by a small 4bp widening in credit spread, ending the month at 1.35% above government bonds, a little higher than the tightest spreads of 1.29% in August. This widening in spreads was partially offset a small decline in government bond yields, with ten-year gilt yields falling from 4.6% to 4.5% over the period.
- The trust underperformed its peer group in October.
- The trust's top contributors to performance in the month were more defensive names, including outsourced catering firm **Compass Group**, global software giant **Microsoft** and **Novo Nordisk**, a pharmaceutical company. Detractors to performance were led by companies which reported weak financial results or downgraded their near-term earnings expectations, including pest control operator Rentokil and Asia-focused banking group **Standard Chartered**.
- The trust added to its position in **Haleon**, a consumer health business with strong franchises across vitamins and over the counter medicines, funded by a reduction in its exposure to **Unilever**, another consumer staples business. We also continued to build the position in **HDFC**, a leading Indian bank with broad exposure to both the consumer and **SME** economy. Other notable sales in the month included a reduction to the position in US building products distributor **Ferguson**.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Sustainable World Trust

Portfolio Commentary

- October was a weak month for both equity and fixed interest markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. In the UK the FTSE All-Share fell by 4.1% while the MSCI World fell by 2.3% in GBP terms, with Utilities and Information Technology the best performing sectors and Consumer Discretionary and Industrials the worst. Overall, while the market backdrop remains difficult the fact that markets have broadly held up this year is encouraging. There is growing evidence that inflationary forces are softening in the US and Europe and hope that military conflicts in Ukraine or the Middle East will not escalate. Economic growth also remains reasonable, particularly in the US. We continue to seek those companies with resilient business models, balance sheet strength and management teams that can guide through uncertain times.
- The Sterling credit market recorded a small decline in October, falling by 0.08% and taking year to date returns to 1.08%. This was driven by a small 4bp widening in credit spread, ending the month at 1.35% above government bonds, a little higher than the tightest spreads of 1.29% in August. This widening in spreads was partially offset a small decline in government bond yields, with ten-year gilt yields falling from 4.6% to 4.5% over the period.
- The Trust underperformed in October and was ranked in the fourth quartile relative to its peer group.
- The Trust's top contributors to performance in the month were more defensive names, including global software giant **Microsoft** and **Novo Nordisk**, a pharmaceutical company. **AIA**, the **Hong Kong** listed insurer, was also strong. Detractors to performance were led by companies which reported weak financial results or downgraded their near-term earnings expectations, including pest control operator **Rentokil** and Asia-focused banking group **Standard Chartered**.
- The Trust added to its positions in **Linde**, a global industrial gases specialist, along with Asia-focused banking group **Standard Chartered**, and agricultural equipment manufacturer **Agco**. We also topped up our position in online search leader **Alphabet**, which had fallen following recent results. Notable sales included further reducing exposure to German sportswear giant **Adidas**, along with slightly trimming our position in obesity and diabetes specialist **Novo Nordisk**.

.

ALPHA
MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Sustainable Growth Fund

Portfolio Commentary

- October was a weak month for both equity and fixed interest markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. In the UK the FTSE All-Share fell by 4.1% while the MSCI World fell by 2.3% in GBP terms, with Utilities and Information Technology the best performing sectors and Consumer Discretionary and Industrials the worst. Overall, while the market backdrop remains difficult the fact that markets have broadly held up this year is encouraging. There is growing evidence that inflationary forces are softening in the US and Europe and hope that military conflicts in Ukraine or the Middle East will not escalate. Economic growth also remains reasonable, particularly in the US. We continue to seek those companies with resilient business models, balance sheet strength and management teams that can guide through uncertain times.
- The Sterling credit market recorded a small decline in October, falling by 0.08% and taking year to date returns to 1.08%. This was driven by a small 4bp widening in credit spread, ending the month at 1.35% above government bonds, a little higher than the tightest spreads of 1.29% in August. This widening in spreads was partially offset a small decline in government bond yields, with ten-year gilt yields falling from 4.6% to 4.5% over the period.
- The fund underperformed in October and was ranked in the fourth quartile relative to its peer group.
- The fund's top contributors to performance in the month were more defensive names, including global software giant **Microsoft** and **Novo Nordisk**, a pharmaceutical company. **AIA**, the Hong Kong listed insurer, was also strong. Detractors to performance were led by companies which reported weak financial results or downgraded their near-term earnings expectations, including pest control operator **Rentokil** and Asia-focused banking group **Standard Chartered**.
- The fund added to its positions in Linde, a global industrial gases specialist, along with Asia-focused banking group Standard Chartered, and agricultural equipment manufacturer **Agco**. We also topped up our position in online search leader **Alphabet**, which had fallen following recent results. Notable sales included further reducing exposure to German sportswear giant **Adidas**, along with slightly trimming our position in obesity and diabetes specialist **Novo Nordisk**.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Sustainable Leaders Trust

Portfolio Commentary

- October was a weak month for both equity and fixed interest markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. In the UK, the FTSE All-Share Index fell by 4.1% thus wiping out the slim year to date gains the market had generated, whilst the Mid-250 Index of more cyclical companies declined by 6.9%. Overall, whilst the backdrop for markets continue to feel difficult, the fact that markets have broadly held up this year is encouraging. There is growing evidence that inflationary forces are softening in the US and Europe and hope that military conflicts in Ukraine or the Middle East will not escalate. Economic growth also remains reasonable, particularly in the US. We continue to seek those companies with resilient business models, balance sheet strength and management teams that can guide through uncertain times.
- During October, the Trust underperformed the FTSE All-Share Index and was ranked in the third quartile relative to its peer group.
- The Trust's top contributors to performance in the month were more defensive names, including outsourced catering firm **Compass Group** and information and risk specialist **RELX**. Detractors to performance were led by companies which reported weak financial results or downgraded their near-term earnings expectations, including pest control operator **Rentokil** and Asia-focused banking group **Standard Chartered**. **Vistry Group**, a housebuilder which is transitioning its business model towards a greater focus on affordable housing, was also weak during the month.
- We began a new position in leading UK supermarket group **Tesco**, where the firm’s focus on tackling sustainability within its supply chain has beginning to bear fruits and the valuation looks attractive relative to other more highly valued names. The Trust added to its position in **Haleon**, a consumer health business with strong franchises across vitamins and over the counter medicines. This was funded by a reduction in exposure to Unilever, another consumer staples business. We also added to Asia-focused banking group **HSBC**. Other notable sales in the month included a reduction to the position in US building products distributor **Ferguson**.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Global Sustainable Equity Fund

Portfolio Commentary

- October was a weak month for both equity and fixed interest markets as the events in the Middle East ratcheted up geopolitical risk. US economic data also continued to remain stronger than anticipated resulting in fears that inflation will take longer to cool. The MSCI ACWI Index fell by 2.4% in GBP terms with Utilities and Information Technology the best performing sectors and Consumer Discretionary and Industrials the worst. Overall, while the market backdrop remains difficult the fact that markets have broadly held up this year is encouraging. There is growing evidence that inflationary forces are softening in the US and Europe and hope that military conflicts in Ukraine or the Middle East will not escalate. Economic growth also remains reasonable, particularly in the US. We continue to seek those companies with resilient business models, balance sheet strength and management teams that can guide through uncertain times.
- During the month the fund underperformed its benchmark and was ranked in the third quartile vs peers. The top contributors to performance included Asian life insurance company **AIA Group** and Japanese bicycle component manufacturer **Shimano**. Both of which gained after reporting better than expected results. Global hygiene and pest control company **Rentokil** Initial was the top detractor following results which showed a surprising weakening in growth in its core US market. Asian an Emerging Market focussed bank **Standard Chartered** was another detractor to performance after reporting results which came in below the markets expectations.
- The main trade during the month included added to our position in leading analogue semiconductor company **Texas Instruments** after a period of share price weakness.

.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Global Sustainable Credit Fund

Macroeconomics and market highlights

- The Federal Reserve signalled that higher bond yields and tighter financial conditions were effectively tightening monetary policy and therefore doing some of the work for them. September CPI came in a touch stronger than expected and so-called 'super-core' inflation picked up month-on-month on both CPI and PCE measures of inflation. Activity indicators were relatively robust with Q3 US GDP at 4.9% annualised, while September non-farm payrolls were also much stronger than expected.
- As expected, the ECB kept rates on hold at their October policy meeting. ECB President Lagarde repeated the message that rates will have to remain restrictive for a considerable period, and that it was too early to talk about rate cuts. October CPI came in lower than expected at 2.9% with the fall in core inflation less pronounced. Activity data released over the month were relatively weak again. Q3 GDP saw a small fall, a touch weaker than expected. The October composite PMI fell to 46.5 from 47.2, weaker than expected, driven by services and consistent with falling private sector activity. The European Commission's economic confidence survey-based measure of activity deteriorated a touch further.
- UK economic data released in October continued to paint a picture of slowing economic activity and a less tight labour market, while inflation remained high – albeit well below its peak. Year-on-year September CPI inflation remained at 6.7%, with core inflation a touch lower on the month at 6.1%Y. Pay growth came in a bit weaker than expected, though remains very strong year-on-year. Housing activity indicators generally remained subdued and mortgage approvals declined. September retail sales fell more than expected whilst consumer confidence fell significantly.
- Most government bond yields moved higher in October, although yields in Europe were more mixed., reflecting the bond-friendly combination of weak growth and falling headline inflation. In the US, 10-year yields increased from 4.56% to 4.93%, while in Germany yields fell slightly to 2.81% from 2.85% and in the UK 10-year yields inched higher from 4.45% to 4.52%.
- In credit markets, spreads were generally slightly wider, but rising yields in the US and UK led to small negative returns for investment grade markets, while eurozone investment grade markets saw modest positive returns.

Portfolio commentary

- Net of fees, the fund recorded a return of -1.26% in October (USD, Z, Acc), slightly behind the -1.04% return of its benchmark (Bloomberg Global Aggregate - Corporate USD Hedged).
- New issuance was again relatively muted over the month. Financials continued to dominate primary market activity during the month, where we added senior bonds from **BPCE** and **Santander**. There were noteworthy new issues in the structured sector as well. We added a five-year new issue from the **RAC**, these bonds yielding over 8%
- In the secondary market, we effected a couple of switches from senior to subordinated bonds for substantial yield pick-ups, including **BNP**, **Santander** and **Metropolitan Life**.

Investment outlook

- We expect that inflation has peaked. This is driven by our view that energy prices will moderate and that weaker GDP growth will reduce the tightness of the labour market. Nonetheless, euro zone and UK interest rates are likely to rise a bit further as the ECB and BoE continue to focus on bringing inflation under control.
- Although the economic data remain very mixed, we still believe that higher rates will lead to a slowdown, impacting company earnings and leading to some increase in credit rating downgrades and default rates. Nevertheless, it is our view that with yields higher across the board, there are opportunities across the fixed income universe and credit spread levels mean that investors are being well paid to take credit over government bond risk. Against this background, we will maintain our focus on identifying companies with strong balance sheets and ensuring that portfolios are diversified across issuers and sectors.

Rachid Semaoune
Senior Fund Manager

Khuram Sharih
Senior Fund Manager

Royal London Sustainable Short Duration Corporate Bond

Portfolio commentary

- The fund launched in November 2022 and hence does not yet have a 12-month performance record.
- UK economic data released in October continued to paint a picture of slowing economic activity and a less tight labour market, while inflation remained high – albeit well below its peak.
- UK government bond yields moved slightly higher in October, while credit spreads widened marginally. The sterling credit market outperformed gilts over the month, with returns broadly flat, while gilt returns were negative.
- The sterling investment grade market (iBoxx) was broadly flat in October, posting a marginally negative return. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) rose from 1.34% to 1.41%.
- New issuance was again relatively muted over the month. There were noteworthy new issues in the structured sector. We added a new issue of **Stark Financing**, a commercial mortgage-backed security secured against 103 UK property assets, predominantly 'last mile' warehouse assets. The floating rate A notes we bought are rated AAA and have an attractive loan-to-value, also paying an attractive premium to SONIA. We also added a five-year new issue from the **RAC**, these bonds yielding over 8%.
- In the secondary market we added selectively to subordinated bank and insurance debt – where yields still remain elevated– buying **One Savings Bank** and **HSBC** at attractive levels. In addition, legacy insurance bonds remain attractive, and we added **Legal & General** and Aviva during the month. Outside of financials, we increased exposure to social housing provider **Haven Funding**, an older style bond with far stronger covenants than more recent sector issuance.

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

ROYAL LONDON
ASSET MANAGEMENT