Royal London UK Equity Fund

Quarterly Investment Report

30 September 2023

Quarterly Report

The fund as at 30 September 2023

The purpose of this report is to provide an update on the Royal London UK Equity 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 capital growth over the medium term (3-5 years) by investing at least 80% in the shares of UK companies included in the FTSE All-Share Index. The fund's performance target is to outperform, after the deduction of charges, the FTSE All-Share Total Return GBP Index (the "Index") over rolling 5-year periods. For further information on the fund's index, please refer to the Prospectus.

Benchmark: FTSE All-Share Total Return GBP Index

Fund analytics

	Fund
Fund launch date	1 May 2012
Base currency	GBP
Number of holdings	63

Fund value

	Total £m
30 September 2023	706.37

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.36	1.88	0.48
YTD	5.62	4.54	1.09
1 Year	15.33	13.84	1.48
3 Years (p.a.)	12.46	11.81	0.65
5 Years (p.a.)	4.40	3.66	0.74
10 Years (p.a.)	6.12	5.56	0.57
Since inception (p.a.)	6.81	6.55	0.25

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 UK Equity M Acc. Source: Royal London Asset Management; Net performance; Since inception date of the shareclass is 1 May 2012.

Performance commentary

The fund outperformed the benchmark index over the quarter.

The holdings in Compass and SSE were a drag on performance as they both reported half year updates which resulted in share price weakness. Compass in particular we believe remains well positioned to deliver attractive growth over time as it wins market share in the contract catering market.

In contrast Standard Chartered and Howden Joinery were greeted with positive sentiment upon their updates, as did Vistry, the housebuilder announcing some ambitious targets regarding completions and potential cash generation which was taken well.

Overall, we manage a balanced portfolio, biased towards quality growth companies with some more lowly valued interesting value opportunities such as banks and oil.

Performance and activity

Top 10 holdings

	Weighting (%)
Shell Plc	8.29
AstraZeneca PLC	7.72
HSBC Holdings Plc	5.14
Unilever PLC	4.98
BP p.l.c.	4.46
Diageo plc	3.20
RELX PLC	3.09
Rio Tinto plc	2.86
Glencore plc	2.76
Compass Group PLC	2.75
Total	**45.25**

Fund activity

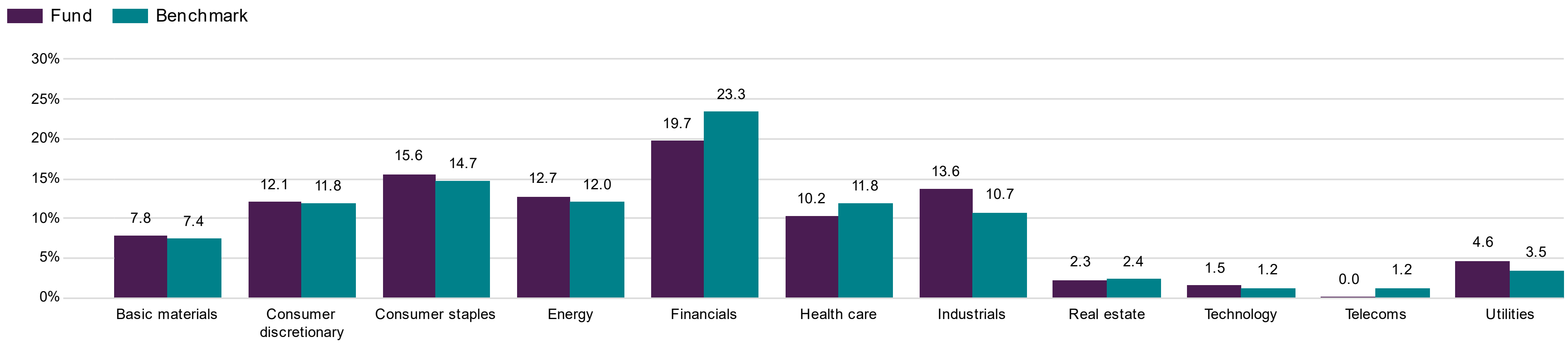
During July transactions were limited, holdings in LSE and Compass were increased and this was funded by the reduction in the Dechra pharmaceutical.

During August, we started a new position in Rolls Royce reflecting the action that management have taken to make the civil aerospace business more profitable. This coupled with an improving outlook for long haul air travel should allow the group to make an improving return on its capital base. We also started a new holding in St James Place post the substantial fall in their shares post their recent figures. The remaining holding in Dechra was sold to provide capital for these transactions.

During September we sold out of CRH as the company prepares to move to a US listing and will drop out of the FTSE All-Share Index. We added to Rolls Royce reflecting the positive outlook for civil aerospace division post a period of restructuring by the company. We also added to Centrica which continues to benefit from strong cash generation post restructuring and the benefits of an elevated gas price.

Fund breakdown

Sector weights



Market commentary

Market review

Despite the flurry of first half corporate results, inflation data and interest rates remained at the forefront of investor mindsets during the third quarter. Data released in July showed that the rate of UK core inflation had slowed to 6.9%, meaningfully lower than most commentators had expected, and softening slightly further in August. As a result, Bank of England policy makers decided to hold base rates steady in September, ending their cycle of 14 sequential rate hikes. The US Federal Reserve also held rates steady in September. Indications are that policy makers will leave rates around current levels for longer than normal (rate cuts are not expected for some time), nevertheless it should not be overlooked that the current monetary policy tightening cycle - which has dominated financial markets for the last two years - is effectively over. Base rates have most likely peaked. This excites us, as in the fullness of time this should reduce pressure on equity market valuations, and should allow more focus on company specific fundamentals, as opposed to macroeconomic data being the primary determinant of returns.

UK equity markets initially rallied in July, with UK small and mid-cap indices leading the way following lower than expected inflation data and supported by a generally upbeat earnings season. However rising 10-year bond yields (as investors anticipated "higher for longer" base rates), and weak PMI and house price data (which raised concerns of a slowing domestic economy), resulted in equity market declines through August and September. The mid-cap FTSE 250 index significantly underperformed its large-cap FTSE 100 counterpart in this environment.

We are not normally avid followers of the minutiae in macroeconomic data, however a slew of revisions to UK GDP data in September did grab our attention. New ONS numbers suggested that the UK economy bounced back from the COVID pandemic significantly faster than initially estimated, with GDP now believed to have grown 1.8% between December 2019 and June 2023 – faster than France or Germany – compared to a previous estimate for a contraction. Figures for GDP growth in the first quarter of 2023 were also revised higher. While it is tempting to dismiss these revisions as another example of the issues with macro data, and why we avoid constructing the portfolio to fit any single macroeconomic outcome, there is an important narrative here. Specifically, that the UK economy has consistently been more resilient than expected through the sequential shocks of the pandemic, supply chain disruption and the cost of living crisis. In our view this speaks to the fact that corporate and consumer balance sheets were significantly repaired through Covid, resulting in less sensitivity to rising interest rates. It also suggests that the economy might be able to better withstand higher interest rates for some time without seeing a destructive economic contraction.

In positive news, the UK's agreement to region the EU's Horizon science program in September is another sign of incrementally improving relationships with our largest trading partner. This follows the "Windsor Framework" in February and speaks to increased political stability, key to unlocking both foreign and domestic corporate investment into the economy.

Outlook

There is considerable uncertainty about the outlook for the rest of 2023, with the risk that elevated interest rates could tip economies into a recession. However, corporate balance sheets remain very robust (meaning that the balance of power is in our hands as equity holders, rather than the debt holders), cost inflation is now receding (freight rates, raw materials and energy prices are materially lower than was the case a year ago) and much of the destocking and supply disruption following Covid appears to be moving into the rear-view mirror.

UK equity market valuations are currently at extreme levels. Indeed, the FTSE 250 is trading at the cheapest levels in 30 years relative to the FTSE 100 on a median 12-month forward dividend yield basis (Berenberg, September 2023). What has been interesting over the recent earnings season is how share prices have reacted to corporate newsflow. In several cases share prices have jumped significantly higher on in-line statements, suggesting investor sentiment has become overly negative. There is a reasonable argument to suggest that we are looking at a tempting combination of companies trading on trough valuations and trough earnings forecasts! It is of course difficult to predict the catalyst for improved UK stock market performance, but a normalisation in macroeconomic conditions and an end to UK equity outflows might just trigger it.

Our focus has always been on the long term and we continue to seek out companies with the valuable fundamental attributes that will allow them to 'control the controllables' in any economic environment. We continue to believe that it is these fundamental attributes that drive stock prices over the long term, and macroeconomic data or technical headwinds such as asset allocation flow can lead to short term mispricing. As such, we are excited by the opportunities currently on offer for UK investors.

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

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. Notable publications in the third quarter include our annual Climate Report, as well as our annual Assessment of Value reports, available from the home page of www.rlam.com.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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Issued in October 2023 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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.

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.

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.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	2.54	2.71	16.10	45.10	28.19
Fund (net)	2.36	2.36	15.33	42.23	24.02

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
13.21	5.09
12.46	4.40

Year on year performance (%)

	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	30/09/2018 - 30/09/2019
Fund (gross)	16.10	(3.02)	28.87	(15.67)	4.76
Fund (net)	15.33	(3.66)	28.02	(16.23)	4.09

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 30 September 2023. All figures are mid-price to mid-price in GBP for the Royal London UK Equity M Acc.

Glossary

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 FTSE ICB (Industry Classification Benchmark) sector relative to the benchmark index.

Top 10 holdings

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