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Royal London Global Sustainable 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 Global Sustainable 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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The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve capital growth over the medium term, which should be considered as a period of 3-5 years, by predominantly investing globally in the shares of companies listed on stock exchanges that are deemed to make a positive contribution to society. Investments in the Fund will adhere to the Investment Manager's ethical and sustainable investment policy. The Fund's performance target is to outperform, after the deduction of charges, the MSCI All-Countries World Net Total Return Index GBP (the "Index") by 2.5% p.a. over rolling 3-year periods.

Benchmark: MSCI All-Countries World Net Total Return Index GBP

Fund value

	Total £m
30 September 2023	256.07

Fund analytics

	Fund
Fund launch date	25 February 2020
Base currency	GBP
Number of holdings	43

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(0.83)	0.62	(1.45)
YTD	12.08	8.47	3.61
1 Year	16.35	10.48	5.86
3 Years (p.a.)	7.82	8.96	(1.14)
5 Years (p.a.)	-	-	-
10 Years (p.a.)	-	-	-
Since inception (p.a.)	12.04	9.20	2.85

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 RL Global Sustainable Equity Fund (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 25 February 2020.

Performance commentary

Our sustainable strategies invest in companies that are contributing to a cleaner, healthier, safer and more inclusive society. Areas such as healthcare and technology remain at the core of the equity portfolios, complemented by engineering, utilities, selected financial services, and companies that lead their industries in operational ESG performance. This means that we do not invest in some sectors, such as oil & gas, extractive industries or tobacco. We believe that the exposure to those sectors which offer a net benefit to society is consistent with outperformance over the medium term. While the sustainable funds have different mandates, risk profiles, asset mixes and geographical exposures, equity exposure is driven by the same underlying team, philosophy and process. Many of our key stocks will be held across several portfolios.

The fund underperformed the MSCI All-Countries World Index (ACWI) benchmark over the quarter. Sector performance was the main detractor to performance during the period – the fossil fuel energy sector was the best performing sector while information technology was one of the worst. A key contributor was Standard Chartered which gained from resilient underlying growth of the Asian and emerging markets economies it serves, combined with an attractive valuation versus its peers. Intuit – the small business accounting software and consumer tax company – outperformed owing to strong execution from the management team and also being viewed as a beneficiary of the advancements in AI. AIA Group – the Asian focused life insurance company – also detracted during the period due to ongoing macroeconomic weakness in China, amid the expected recovery from the easing of Covid restrictions not translating into a material rebound.

Performance and activity

Top 10 holdings

	Weighting (%)
Microsoft Corporation	4.25
Thermo Fisher Scientific Inc.	3.34
AstraZeneca PLC	3.33
Schneider Electric SE	3.30
Texas Instruments Incorporated	3.18
HDFC Bank Limited Sponsored ADR	3.11
Westinghouse Air Brake Technologies Corporation	3.08
Standard Chartered PLC	3.08
Visa Inc. Class A	3.04
Ferguson Plc	2.80
Total	32.51

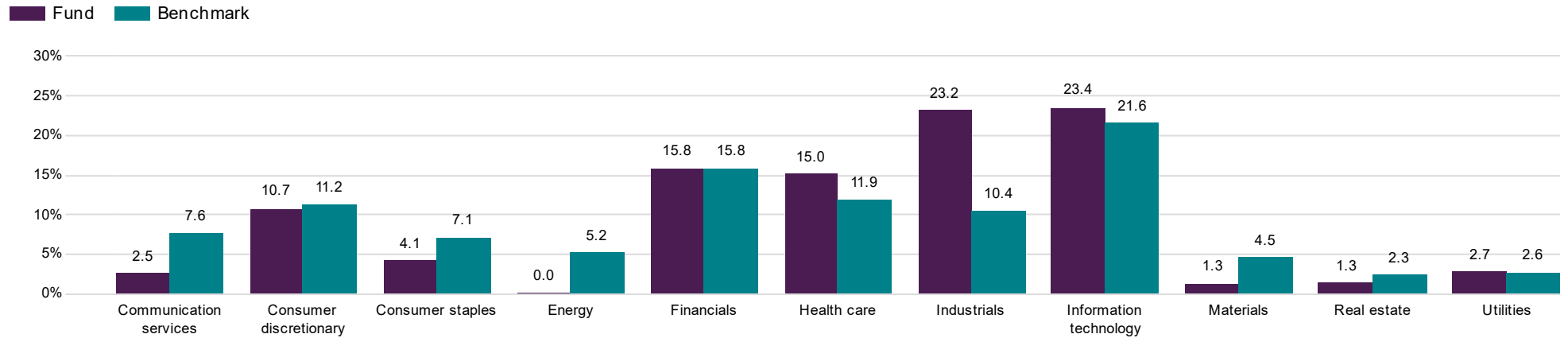
Fund activity

We started a number of new positions in the quarter, also adding to favoured holdings at attractive levels, generally funding these by reducing a number of holdings after strong performance, including German sportswear brand Adidas. We started a position in AGCO – A global leader in the design, manufacture and distribution of agriculture equipment. The combination of a growing global population and climate change mean that producing food efficiently and in a more sustainable way is increasingly important. AGCO's machinery and precision ag technology offerings help farmers do this and to save money over the longer term.

We also added to our position in HDFC Bank, feeling that a recent pull-back in the shares presented a compelling opportunity to get exposure to India's leading retail bank and to benefit from the structural growth trends of the Indian economy.

Fund breakdown

Sector weights



Market commentary

Market overview

Markets made losses over the period under review on fears that interest rates will remain higher for longer than expected, which saw equities drop to their lowest levels since early June. The quarter also saw a market rotation with the best performing sector being the fossil fuel-based energy sector, which had underperformed in prior quarters, and the information technology sector giving back some gains, having been the best performing sector year-to-date. For the third quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced negative returns for the quarter in US dollar terms. Looking at national MSCI indices, the strongest market was Japan, while the weakest was Eastern Europe. In terms of style, the MSCI World Growth Index produced weaker returns versus the MSCI World Value Index.

The price of Brent crude oil soared by 24.7%, to \$92.20 a barrel. Copper futures also declined a further 1.5% in dollar terms on the back of warning signs emerging of a weakening in global demand as China's economic rebound stalls.

The US dollar appreciated by 3.1% against the yen, by 3% against the euro, and by 4% against sterling. On a translational basis, sterling's strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit emerging markets countries and companies that have borrowed in dollars.

The third quarter was characterised by mixed data around the world, with central banks nearing the end of their rate hiking path, but with cuts still seemingly a while away. Economies have been more resilient than was expected at the start of the year, but global growth is spluttering again amid a disappointing bounce in China activity, slow-to-no growth in Europe and against a backdrop of restrictive monetary policy. The US still looks at risk of recession too, even if activity data to date has been fairly robust.

Inflation has fallen significantly and, although higher energy prices threaten a revival in headline inflation, other factors – including a weak economic backdrop – should pull inflation lower still. With taming inflation still the priority for central banks, there is still a possibility of further rate hikes from the Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE), but peak rates look to be near, with real rates now well into positive territory.

Outlook

As fund managers, we create our own investment identity which we imprint on markets. This identity can be a function of objective evidence as to what delivers performance in the long run, beliefs such as the importance of sustainability and the strengths and weaknesses of the people who are enacting it. Done thoughtfully and applied consistently, we believe this is the path to long-term investment success. Alongside this we are market observers. Each day there is messaging from within and across asset classes as to what is occurring in the global economy. Sometimes this is right, and sometimes this is wrong, but it is always worth paying attention to. What are the trends in the global economy markets are pointing to today?

The clearest messages we can see are that we are entering into something of a boom time for both the physical and digital worlds. In the last decade, the physical world has been somewhat left behind by the digitisation of large parts of the economy. This has created many of the technology giants we know so well. Investment in physical infrastructure has lagged, but this is changing.

The key trends in physical infrastructure include electrification, a consequence of a desire to decarbonise, and onshoring, which is a consequence of rising geopolitical tensions and a desire to have industrial and manufacturing capacity at home rather than abroad. We have seen this most prominently in the United States, where the Inflation Reduction Act (climate investment essentially) and CHIPS Act (semiconductor manufacturing) have created material incentives to invest in the physical world and those companies which help build it.

The strength in equity markets this year has been a positive surprise and has been a result of the view that we have reached and (potentially) passed peak inflation and interest rates while not seeing a meaningful slowdown in economic growth. In recent weeks however markets have increasingly priced in a higher-for-longer interest rate scenario as a result of more embedded and structural inflation than was previously expected. This has resulted in a weakness in both bond and equity markets while benefitting commodities. We believe the next six months will be crucial in determining the future path of inflation and whether developed economies such as the US and UK are able to avoid a recession.

Market commentary

Despite more challenging performance in September, we believe that 2023 is on track to be a good year for the Royal London Sustainable funds with our funds ahead of benchmarks and key peers. The macro environment remains complex and confusing, but we continue to have high conviction in the underlying drivers of the companies in which we are invested and in many cases find valuations to be undemanding. We consider our portfolios to be more diversified and lower risk than 18 months ago and would expect them to be relatively more resilient if we do enter a period of slowing economic growth or recession.

There is considerable uncertainty about the economic outlook for the remainder of 2023. In the US, the Federal Reserve has continued to raise interest rates in response to high inflation and many investors fear that this could tip the US into recession, although economic indicators remain broadly positive at this stage. The picture is potentially more problematic in the UK where inflation is higher and growth weaker. Europe is somewhere in the middle of these two outcomes. How inflation progresses from here, and how central banks respond, will be a key determinant of near-term returns.

In the long term, we believe that the trend towards sustainability remains a strong one, with all companies we meet with pointing to an acceleration both in recent years and since the start of the Ukraine war. Whilst this may seem counterintuitive given the strong performance of oil, energy security – as well as increased concerns about climate change – are resulting in an acceleration in the demand for renewable energy. Although innovation may be becoming more incremental in the consumer arena, recent developments in AI are driving significant advances in technology. Within healthcare innovation is accelerating as a greater understanding of the immune system as well as genetics, is resulting in a step change in cancer treatments, amongst other areas. The physical economy is also seeing a renaissance after many years of being overshadowed by the digital world. Electrification is a core part of path to a lower carbon economy and will require a significant investment in infrastructure over many years. These trends make us optimistic about the long-term outlook for sustainable investing.

Further Information

Please click on the links below for further information:



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.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

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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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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

Responsible Investment Risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception		
Fund (gross)	(0.83)	4.86	16.35	25.34	50.55	3 Years (p.a.)	Since Inception (p.a.)
Fund (net)	(1.01)	4.49	15.51	22.66	46.70	7.82	12.04
						7.04	11.24

Annualised (%)

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)	16.35	(12.92)	23.71	-	-
Fund (net)	15.51	(13.55)	22.83	-	-

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 RL Global Sustainable Equity Fund (M Acc); Since inception date 25 February 2020.

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.

Regional weights

Breakdown of holdings by country of risk relative to the benchmark index and grouped using RLAM's proprietary regional classification scheme.

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.

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.