Royal London Equity Funds

Fund Manager Commentary

February 2024

FOR PROFESSIONAL CLIENTS ONLY, NOT SUITABLE FOR RETAIL CLIENTS.

ROYAL LONDON
ASSET MANAGEMENT

Contents

Royal London Asset Management Equity Performance

	1 month (%)	Rolling 12 Months (%)
RL UK Equity Income M Inc	**-1.21**	**1.33**
IA UK Equity Income Sector	-0.39	-0.36
FTSE All Share Index	0.19	0.57
RL UK Dividend Growth Fund M Acc	**-0.37**	**2.37**
IA UK All Companies Sector	0.00	0.44
FTSE All Share Index	0.19	0.57
RL UK Mid Cap Growth Fund M Acc	**-1.95**	**-0.67**
IA UK All Companies Sector	0.00	0.44
FTSE 250 ex-IT Index	-2.14	-1.43
RL UK Opportunities Fund M Acc	**-0.28**	**-0.94**
IA UK All Companies Sector	0.00	0.44
FTSE All Share Index	0.19	0.57
RL UK Smaller Companies Fund M Acc	**-3.38**	**0.16**
IA UK Smaller Companies Sector	-1.70	-3.61
FTSE Small Cap ex-IT Index	-1.43	0.52

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: RLAM and Morningstar, as at 29 February 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically.

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Royal London UK Equity Income Fund

Portfolio Commentary

- During February the fund returned -1.21%, which was behind both its benchmark and the peer group median, ranking 78th percentile.
- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The expectation for interest rate cuts, which was high at the start of the year, has now been pushed out as the rate of inflation remains sticky, with reductions now expected towards the end of the year. In the UK, the FTSE All-Share Index recovered during the month to record a small gain, whilst the FTSE-250 Index was weaker reflecting caution on the rate of growth in the UK economy. At present we are in the midst of the corporate reporting season and despite the UK entering a recession, the general evidence is that corporates are healthy with a range of quality companies reporting attractive growth in profits and cash generation.
- Results in the banking sector were generally well received, and the holding in **NatWest** helped performance. However **Close Brothers** shares continued to be weak after suspending their dividend while they await further clarity on the motor financing regulatory review. **Drax** shares were also weak, although the shares have since rallied sharply, having reported good results at the end of the month.
- During the month the fund trimmed the holding in **Hikma**, after the shares were strong following good results. The fund also exited its holding in **Spirax Sarco**, as we feel the valuation of the shares is up with events for the time being. The holding in **Close Brothers** was added to, as we feel that the sell-off in the shares during the month was excessive.

Investment Outlook

- We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

CITYWIRE +

Richard Marwood
Head of Income Equities

Rayner Spencer Mills RATED FUND

Royal London UK Dividend Growth Fund

Portfolio Commentary

- During February the fund returned -0.37%, which was behind both its benchmark and the peer group median, ranking 66th percentile.
- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The expectation for interest rate cuts, which was high at the start of the year, has now been pushed out as the rate of inflation remains sticky, with reductions now expected towards the end of the year. In the UK, the FTSE All-Share Index recovered during the month to record a small gain, whilst the FTSE-250 Index was weaker reflecting caution on the rate of growth in the UK economy. At present we are in the midst of the corporate reporting season and despite the UK entering a recession, the general evidence is that corporates are healthy with a range of quality companies reporting attractive growth in profits and cash generation.
- Results in the banking sector were generally well received, and the holdings in **Lloyds** and **Barclays** both helped performance. **Close Brothers** shares continued to be weak after suspending their dividend while they await further clarity on the motor financing regulatory review. **Drax** shares were also weak, although the shares have since rallied sharply, having reported good results at the end of the month.
- During the month the fund trimmed the holding in **Hikma**, after the shares were strong following good results. The fund also continued to add to the holding in **Close Brothers**.

Investment Outlook

- We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

Richard Marwood

Head of Income Equities

Niko de Walden

Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio Commentary

- The UK Mid Cap Growth fund outperformed the benchmark (FTSE 250 ex IT) in February.
- February was a relatively uneventful month for macroeconomic news; expectations for interest rate cuts were pushed back a few months by central bankers, although this didn't prevent the Nasdaq in the US hitting all time highs thanks to continued enthusiasm for all things AI related. The FTSE All Share ended broadly flat, while Small and Mid Caps underperformed, reflecting caution about the UK economy. Data released during the month suggested that the UK economy did slip into a mild technical recession at the end 2023, but better PMI data gave cause for optimism that the economy was starting 2024 more positively.
- **Beazley** and **Auction Technology Group** ("ATG") were positive significant contributors. **Beazley** delivered an extremely robust trading update in advance of their full year results, detailing a combined ratio in the "mid 70s" percent (this demonstrates a very profitable underwriting result) and committing to returning at least $300m of capital to shareholders in addition to their dividend. This is particularly impressive given their recent entry into the Property Catastrophe market, as new business lines often carry higher costs and aren't able to benefit from prior year reserve releases**.** **ATG's** update, which released at the end of January, surprised naysayers by holding guidance for the coming year despite operating in markets which have some short term challenges. This is a demonstration of their strategy to grow revenues through greater provision of value added services such as payment processing and logistics.
- **Genus** and **Bytes Technology Group** were detractors to performance. Genus had to reduce earnings guidance due to ongoing weak demand in both their Bovine and Porcine markets in a few territories, but most acutely in China. The executive team are taking action to fundamentally improve the economics of their business model in Bovine, as well as removing some central costs to drive profitability. Within Porcine, despite the weak trading results from China, they're nevertheless making progress winning large Chinese customers and transitioning more customers to predictable royalty contracts; this will be a better business when demand returns, more in the form of their world class European and US operations. **Bytes** announced the sudden departure of their longstanding CEO, who resigned after admitting to trading in the company's shares without regulatory disclosure. While extremely disappointing, the operations of the group remain in good health and the board had an appropriate succession strategy in place.
- The fund initiated a new position in homewares retailer **Dunelm**, funded by the disposal of **B&M** and **Rathbones**. Dunelm is the market leader in most of their homewares categories, having consistently taken share through their value proposition and "Good, Better, Best" range which allows them to address a very wide audience. The founding Adderley family still retain a significant minority stake, but under the current executive team the business has refined and improved their multi-channel offer and significantly grown their addressable market. The business generates significant free cashflow from its capital light operations, which more than covers their careful store expansion plan and ongoing online growth, as well as funding consistent excess returns to shareholders.

ALPHA MANAGER 2022
Henry Lowson

Henry Lowson

Head of UK Alpha Equities

Royal London UK Opportunities Fund

Portfolio Commentary

- The RLAM UK Opportunities fund performed in line with the benchmark (FTSE All Share).
- February was a relatively uneventful month for macroeconomic news; expectations for interest rate cuts were pushed back a few months by central bankers, although this didn't prevent the Nasdaq in the US hitting all time highs thanks to continued enthusiasm for all things AI related. The FTSE All Share ended broadly flat, while Small and Mid Caps underperformed, reflecting caution about the UK economy. Data released during the month suggested that the UK economy did slip into a mild technical recession at the end 2023, but better PMI data gave cause for optimism that the economy was starting 2024 more positively.
- **Beazley** and **Auction Technology Group** ("ATG") were positive significant contributors. **Beazley** delivered an extremely robust trading update in advance of their full year results, detailing a combined ratio in the "mid 70s" percent (this demonstrates a very profitable underwriting result) and committing to returning at least $300m of capital to shareholders in addition to their dividend. This is particularly impressive given their recent entry into the Property Catastrophe market, as new business lines often carry higher costs and aren't able to benefit from prior year reserve releases. **ATG's** update, which released at the end of January, surprised naysayers by holding guidance for the coming year despite operating in markets which have some short term challenges. This is a demonstration of their strategy to grow revenues through greater provision of value added services such as payment processing and logistics.
- **Genus** and **St James' Place** were detractors during the month. **Genus** had to reduce earnings guidance due to ongoing weak demand in both their Bovine and Porcine markets in a few territories, but most acutely in China. The executive team are taking action to fundamentally improve the economics of their business model in Bovine, as well as removing some central costs to drive profitability. Within Porcine, despite the weak trading results from China, they're nevertheless making progress winning large Chinese customers and transitioning more customers to predictable royalty contracts; this will be a better business when demand returns, more in the form of their world class European and US operations. **St James' Place** surprised investors by taking a provision against future legal claims by clients, which is undeniably disappointing. The new CEO has attempted to draw a line under the issue alongside a new, simpler, fee structure which should provide improved transparency in future.

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Royal London UK Smaller Companies Fund

Portfolio Commentary

- The UK Smaller Companies fund underperformed the benchmark (FTSE Small Cap ex IT) this month.
- February was a relatively uneventful month for macroeconomic news; expectations for interest rate cuts were pushed back a few months by central bankers, although this didn't prevent the Nasdaq in the US hitting all time highs thanks to continued enthusiasm for all things AI related. The FTSE All Share ended broadly flat, while Small and Mid Caps underperformed, reflecting caution about the UK economy. Data released during the month suggested that the UK economy did slip into a mild technical recession at the end 2023, but better PMI data gave cause for optimism that the economy was starting 2024 more positively.
- Wilmington was the top contributor during the month, with the shares rallying after announcing impressive full year results for 2023 as well as a sale process for their non-core Healthcare businesses. This brought to light the quality of earnings in the remaining group, with recurring revenues growing double digit and margins in their Intelligence division approaching 40% - a financial profile which merits a much more generous valuation. **Auction Technology Group** ("ATG") and **Keystone Law** also performed well after encouraging trading updates. **ATG's** update, which released at the end of January, surprised naysayers by holding guidance for the coming year despite operating in markets which have some short term challenges, while **Keystone's** trading update drive earnings upgrades as more fee earners joined the network and existing lawyers generated strong billings.
- There were some disappointments in the month, of which **Gooch & Housego** ("G&H") and **Genus** were the most significant. In both cases these companies have been impacted by challenges not of their own making, which nevertheless had material impacts on their earnings expectations. **G&H** suffered from the US DoD cancelling a new satellite communications program at the last minute, as well as some ongoing destocking from their industrial laser customers. Management are taking appropriate action to manage costs while the recovery in demand from Industrial and Life Sciences customers will, in time, significantly boost their margin potential. Genus struggled to manage weak demand in both their Bovine and Porcine markets, most acutely in China. The executive team are taking action to fundamentally improve the economics of their business model in Bovine, as well as removing some central costs to drive profitability. Within Porcine, despite the weak trading results from China, they're nevertheless making progress winning large Chinese customers and transitioning more customers to predictable royalty contracts; this will be a better business when demand returns, more in the form of their world class European and US operations.

ALPHA MANAGER 2022
Henry Lowson

Henry Lowson

Head of UK Alpha Equities

Henry Burrell

Fund Manager

IMPORTANT INFORMATION