

Royal London Asset Management

Equity Funds



Fund Manager Commentary
January 2024

FOR PROFESSIONAL CLIENTS ONLY, NOT SUITABLE FOR RETAIL CLIENTS.

Contents

Royal London Asset Management Equity Performance	1
Royal London UK Equity Income Fund	2
Royal London UK Dividend Growth Fund	3
Royal London UK Mid Cap Growth Fund	4
Royal London UK Opportunities Fund	5
Royal London UK Smaller Companies Fund	6

Royal London Asset Management Equity Performance

	1 month (%)	Rolling 12 Months (%)
RL UK Equity Income M Inc	-0.79	5.40
IA UK Equity Income Sector	-1.29	2.16
FTSE All Share Index	-1.32	1.90
RL UK Dividend Growth Fund M Acc	-0.57	5.31
IA UK All Companies Sector	-0.90	2.13
FTSE All Share Index	-1.32	1.90
RL UK Mid Cap Growth Fund M Acc	-1.57	2.19
IA UK All Companies Sector	-0.90	2.13
FTSE 250 ex-IT Index	-1.48	1.69
RL UK Opportunities Fund M Acc	-1.68	1.44
IA UK All Companies Sector	-0.90	2.13
FTSE All Share Index	-1.32	1.90
RL UK Smaller Companies Fund M Acc	0.39	2.36
IA UK Smaller Companies Sector	-0.38	-2.34
FTSE Small Cap ex-IT Index	-2.20	2.61

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 FE, as at 31 January 2024. Returns quoted are net of fees.

Royal London UK Equity Income Fund

Portfolio Commentary

- During January the fund returned -0.79%, which was better than its benchmark and ahead of the peer group median, ranking 28th percentile.
- Data continues to suggest that inflation is past its peak and that interest rates could be eased at some point this year. However investor expectations continue to be somewhat at odds with policy makers, expecting cuts to be both deeper and sooner than the monetary authorities are guiding to. The month saw a lot of consumer related trading statements. Comments from Marks & Spencer, Sainsbury, Tesco and Cranswick suggested that spending on food was robust over Christmas, but other retail areas were more mixed. JD Sports, Watches of Switzerland and Burberry (none of which is held in the fund) all released notably weak updates and saw their share prices hit.
- The main contributors to the fund's outperformance were the holdings in **Hikma** and **Clarkson**. There was no specific news on Hikma, but Clarkson shares were strong after releasing a strong trading statement. **Close Brothers** shares were a drag performance after regulators announced a review of financing in the motor financing market. This review is likely to drag on, but our view is that the hit to Close Brothers shares represents something of an overreaction.
- During the month the main trades were to trim the holdings **Sage**, **Hikma** and **RELX**.

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



Royal London UK Dividend Growth Fund

Portfolio Commentary

- During January the fund returned -0.57%, which was better than its benchmark and ahead of the peer group median, ranking 32nd percentile.
- Data continues to suggest that inflation is past its peak and that interest rates could be eased at some point this year. However investor expectations continue to be somewhat at odds with policy makers, expecting cuts to be both deeper and sooner than the monetary authorities are guiding to. The month saw a lot of consumer related trading statements. Comments from Marks & Spencer, Sainsbury, Tesco and Cranswick suggested that spending on food was robust over Christmas, but other retail areas were more mixed. JD Sports, Watches of Switzerland and Burberry (none of which is held in the fund) all released notably weak updates and saw their share prices hit.
- The main contributors to the fund's outperformance were the holdings in **Clarkson** and **Cranswick**, both of whom released strong trading statements. **Close Brothers** shares were a drag performance after regulators announced a review of financing in the motor financing market. This review is likely to drag on, but our view is that the hit to Close Brothers shares represents something of an overreaction.
- During the month the fund trimmed the holding **Clarkson**, into the strength in the share price and also exited the small position in the building products company **Marshalls**. Clarkson remains the largest position relative to the stock's index weighting within the fund.

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 returned -1.57% during the month, broadly performing in line with the benchmark (FTSE 250 ex IT) return of -1.48%.
- Following a strong performance of the UK equity market in November and December last year, January by contrast was somewhat more subdued. Expectations for interest rate cuts by central banks were paired back during the month, following higher-than-expected inflation data in the UK & US, and comments made by the chair of the US Federal Reserve. At a high level, market expectations aren't much changed – multiple rate cuts are still expected through 2024 – but a little later than anticipated a month ago. The usual flurry of January trading updates by companies revealed winners and losers from the Christmas period – the larger grocers, food producers and consumer staples companies generally did better, while fashion retailers, online retailers and luxury goods companies had a tougher time of it including a number of profit warnings. However this appears to be more of a change in consumer spending rather than wholesale reduction, as pubs, restaurants and travel operators all reported sustained demand.
- **Cranswick, Bodycote and Intermediate Capital Group** were contributors to performance during the month. Cranswick issued a robust trading statement, their third upgrade to profits guidance of the financial year, driven by both better sales volumes as well as operating margin improvements. Bodycote announced the acquisition of a US heat treatment business, and kicked off a £60m share buyback programme. Intermediate Capital Group issued its Q3 results which revealed better-than-expected fundraising activity, led by two of its flagship strategies, Senior Debt Partners & Strategic Equity.
- **Watches of Switzerland Group** and **WH Smith** were detractors to performance. Watches of Switzerland downgraded profits guidance for the full year, blaming a deterioration in Christmas trading and particularly within lower to mid-tier luxury watches and jewellery. The UK performance was weaker than that in the US, where they still posted reasonable sales growth, which was somewhat reassuring of the ongoing supply and demand dynamics in their key growth market. While margins compressed, the business remains highly profitable and cash generative, with a significant net cash balance sheet to fund growth or shareholder returns. WH Smith released a mildly disappointing trading update where their InMotion stores in the US – which mostly sell personally technology products such as Apple headphones – showed sales declines. Nevertheless their larger US retail operation, MRG, performed better and results from the UK and Rest of World were robust. They continue to win significant new contracts to operate travel concessions and that will drive sales and profit growth over the medium term.
- Trading activity was quiet during the month. The fund added to a range of holdings including **Genus, Grafton** and **Integrafin**.



**ALPHA
MANAGER 2022**
Henry Lawson

Henry Lawson

Head of UK Alpha Equities

Royal London UK Opportunities Fund

Portfolio Commentary

- The RLAM UK Opportunities fund produced a return of -1.68% during the month, underperforming the benchmark (FTSE All Share) return of -1.32%.
- Following a strong performance of the UK equity market in November and December last year, January by contrast was somewhat more subdued. Expectations for interest rate cuts by central banks were paired back during the month, following higher-than-expected inflation data in the UK & US, and comments made by the chair of the US Federal Reserve. At a high level, market expectations aren't much changed – multiple rate cuts are still expected through 2024 – but a little later than anticipated a month ago. The usual flurry of January trading updates by companies revealed winners and losers from the Christmas period – the larger grocers, food producers and consumer staples companies generally did better, while fashion retailers, online retailers and luxury goods companies had a tougher time of it including a number of profit warnings. However this appears to be more of a change in consumer spending rather than wholesale reduction, as pubs, restaurants and travel operators all reported sustained demand.
- **Intermediate Capital Group** and **Grafton** were contributors to performance during the month. Intermediate Capital Group issued its Q3 results which revealed better-than-expected fundraising activity, led by two of its flagship strategies, Senior Debt Partners & Strategic Equity. Grafton's full year update revealed that operating profits for its full year are expected to be slightly ahead of consensus expectations. This is primarily driven by its cost reduction measures and a positive performance from its Irish division.
- **Watches of Switzerland** and **Lloyds Banking Group** were detractors during the month. Watches of Switzerland downgraded profits guidance for the full year, blaming a deterioration in Christmas trading and particularly within lower to mid-tier luxury watches and jewellery. The UK performance was weaker than that in the US, where they still posted reasonable sales growth, which was somewhat reassuring of the ongoing supply and demand dynamics in their key growth market. While margins compressed, the business remains highly profitable and cash generative, with a significant net cash balance sheet to fund growth or shareholder returns. Lloyds' shares fell as investors grew cautious about the implications of the newly announced FCA review on the historical use of commissions in motor finance arrangements.
- In terms of trading activity, the fund trimmed its exposure to **Lloyds Banking Group** (prior to the FCA announcement) and started a new position in **HSBC**. From a portfolio construction perspective, this maintains the fund's exposure to the banking sector whilst providing additional diversification. From a stock specific perspective, we believe HSBC should benefit from the restructuring of its non-core divisions and it should generate good growth from its wealth management and insurance arms. HSBC also trades on a compelling valuation at below 1x price-to-tangible book value, and a mid-single digit price earnings ratio.

Royal London UK Smaller Companies Fund

Portfolio Commentary

- The UK Smaller Companies fund returned 0.39% during the month, placing 25th percentile compared to the UK Smaller Companies peer group and significantly outperforming the benchmark (FTSE Small Cap ex IT) by 2.59%.
- Following a strong performance of the UK equity market in November and December last year, January by contrast was somewhat more subdued. Expectations for interest rate cuts by central banks were paired back during the month, following higher-than-expected inflation data in the UK & US, and comments made by the chair of the US Federal Reserve. At a high level, market expectations aren't much changed – multiple rate cuts are still expected through 2024 – but a little later than anticipated a month ago. The usual flurry of January trading updates by companies revealed winners and losers from the Christmas period – the larger grocers, food producers and consumer staples companies generally did better, while fashion retailers, online retailers and luxury goods companies had a tougher time of it including a number of profit warnings. However this appears to be more of a change in consumer spending rather than wholesale reduction, as pubs, restaurants and travel operators all reported sustained demand.
- **Boku** and **Craneware** were contributors to performance during the month. Boku issued its full year update which outlined revenue and profit growth ahead of consensus expectations. Whilst both its Local Payment Method and Direct Carrier Billing divisions grew well, the former grew exceptionally strongly and this was despite very little contribution from its significant new partner, Amazon, which will support revenue growth in future years. Craneware's first half trading update showed accelerating new sales growth, and positive profit growth ahead of analyst expectations. Pleasingly the headwinds which Craneware faced in the US healthcare industry during the last few years seem to be abating as US hospitals re-started investment into system upgrades and software procurement. It also may be the case that Craneware's new sales structure and product portfolio reorganisation is demonstrating early results.
- **Inspeks** and **Focusrite** were detractors to performance during the month. Inspeks revealed weaker-than-expected revenues as a result of lower demand and delayed orders in. Whilst the update was disappointing, the medium to long-term opportunity to take market share remains significant – Inspeks should be able to achieve this as it remains one of few players in the industry who are vertically integrated & have a portfolio of strong brands. Focusrite announced a trading update which highlighted challenging trading conditions in its end markets. Whilst the group did however hold its profit guidance for the full year, this will likely be achieved with a second half weighting.
- The fund initiated a position in **Norcros**. The group owns a portfolio of bathroom & kitchen brands, which are typically the market leader in their niche with a track record of innovation. The new management team have taken significant positive steps to restructure the group, closing loss-making subsidiaries and there remain further 'self-help' opportunities. The business generates good margins and returns on capital, which have scope to significantly improve thanks to the new strategy; the shares currently trade on an attractive mid-single digit price earnings multiple. The position was funded by the disposal **Mattioli Woods**.



ALPHA
MANAGER 2022
Henry Lowson

Henry Lowson
Head of UK Alpha Equities



Henry Burrell
Fund Manager

IMPORTANT INFORMATION

FOR PROFESSIONAL CLIENTS ONLY, NOT SUITABLE FOR RETAIL INVESTORS. THE VIEWS EXPRESSED ARE THE AUTHOR'S OWN AND DO NOT CONSTITUTE INVESTMENT ADVICE.

THIS DOCUMENT IS A FINANCIAL PROMOTION. IT DOES NOT PROVIDE, AND SHOULD NOT BE RELIED ON FOR, ACCOUNTING, LEGAL OR TAX ADVICE, OR INVESTMENT RECOMMENDATIONS. FOR MORE INFORMATION ON THE FUND OR THE RISKS OF INVESTING, PLEASE REFER TO THE FUND FACTSHEET, PROSPECTUS OR KEY INVESTOR INFORMATION DOCUMENT (KIID), AVAILABLE VIA THE FUND INFORMATION PAGE ON WWW.RLAM.COM.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS. 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.

PORTFOLIO CHARACTERISTICS AND HOLDINGS ARE SUBJECT TO CHANGE WITHOUT NOTICE. THIS DOES NOT CONSTITUTE AN INVESTMENT RECOMMENDATION. FOR INFORMATION PURPOSES ONLY, METHODOLOGY AVAILABLE ON REQUEST. INFORMATION DERIVED FROM SOURCES OTHER THAN ROYAL LONDON ASSET MANAGEMENT IS BELIEVED TO BE RELIABLE; HOWEVER, WE DO NOT INDEPENDENTLY VERIFY OR GUARANTEE ITS ACCURACY OR VALIDITY.

ALL RIGHTS IN THE FTSE ALL STOCKS GILT INDEX, FTSE OVER 15 YEAR GILTS INDEX, FTSE A INDEX LINKED OVER 5 YEARS GILT INDEX AND FTSE A MATURITIES GILT INDEX (THE "INDEX") VEST IN FTSE INTERNATIONAL LIMITED ("FTSE"). ALL RIGHTS IN THE FTSE 350, FTSE ALL SHARE, FTSE 100, FTSE 250, FTSE 350 HIGHER YIELD AND FTSE SMALL CAP (THE "INDEX") VEST IN FTSE INTERNATIONAL LIMITED ("FTSE"). "FTSE®" IS A TRADE MARK OF THE LONDON STOCK EXCHANGE GROUP COMPANIES AND IS USED BY FTSE UNDER LICENCE. THE ROYAL LONDON FUNDS (THE "FUNDS") HAS BEEN DEVELOPED SOLELY BY ROYAL LONDON ASSET MANAGEMENT. THE INDEX IS CALCULATED BY FTSE OR ITS AGENT. FTSE AND ITS LICENSORS ARE NOT CONNECTED TO AND DO NOT SPONSOR, ADVISE, RECOMMEND, ENDORSE OR PROMOTE THE FUND AND DO NOT ACCEPT ANY LIABILITY WHATSOEVER TO ANY PERSON ARISING OUT OF (A) THE USE OF, RELIANCE ON OR ANY ERROR IN THE INDEX OR (B) INVESTMENT IN OR OPERATION OF THE FUND. FTSE MAKES NO CLAIM, PREDICTION, WARRANTY OR REPRESENTATION EITHER AS TO THE RESULTS TO BE OBTAINED FROM THE FUNDS OR THE SUITABILITY OF THE INDEX FOR THE PURPOSE TO WHICH IT IS BEING PUT BY ROYAL LONDON ASSET MANAGEMENT.

ALL CONFIDENTIAL INFORMATION RELATING TO ANY ROYAL LONDON GROUP COMPANY MUST BE TREATED BY YOU IN THE STRICTEST CONFIDENCE. IT MAY ONLY BE USED FOR THE PURPOSES OF ASSESSING THE PROPOSAL TO ENGAGE ROYAL LONDON ASSET MANAGEMENT LIMITED (RLAM). CONFIDENTIAL INFORMATION SHOULD NOT BE DISCLOSED TO ANY THIRD PARTY AND SHOULD ONLY BE DISCLOSED TO THOSE OF YOUR EMPLOYEES AND PROFESSIONAL ADVISERS WHO ARE REQUIRED TO SEE SUCH INFORMATION FOR THE PURPOSE SET OUT ABOVE. YOU SHOULD ENSURE THAT THESE PERSONS ARE MADE AWARE OF THE CONFIDENTIAL NATURE OF SUCH INFORMATION AND TREAT IT ACCORDINGLY. YOU AGREE TO RETURN AND/ OR DESTROY ALL CONFIDENTIAL INFORMATION ON RECEIPT OF OUR WRITTEN REQUEST TO DO SO.

ISSUED BY ROYAL LONDON ASSET MANAGEMENT LIMITED, FIRM REGISTRATION NUMBER: 141665, REGISTERED IN ENGLAND AND WALES NUMBER 2244297; ROYAL LONDON UNIT TRUST MANAGERS LIMITED, FIRM REGISTRATION NUMBER: 144037, REGISTERED IN ENGLAND AND WALES NUMBER 2372439; RLUM LIMITED, FIRM REGISTRATION NUMBER: 144032, REGISTERED IN ENGLAND AND WALES NUMBER 2369965. ALL OF THESE COMPANIES ARE AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY. ROYAL LONDON ASSET MANAGEMENT BOND FUNDS PLC, AN UMBRELLA COMPANY WITH SEGREGATED LIABILITY BETWEEN SUB-FUNDS, AUTHORISED AND REGULATED BY THE CENTRAL BANK OF IRELAND, REGISTERED IN IRELAND NUMBER 364259. REGISTERED OFFICE: 70 SIR JOHN ROGERSON'S QUAY, DUBLIN 2, IRELAND.

ALL OF THESE COMPANIES ARE SUBSIDIARIES OF THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED, REGISTERED IN ENGLAND AND WALES NUMBER 99064. REGISTERED OFFICE: 80 FENCHURCH STREET, LONDON, EC3M 4BY. THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED IS AUTHORISED BY THE PRUDENTIAL REGULATION AUTHORITY AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY AND THE PRUDENTIAL REGULATION AUTHORITY. THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED IS ON THE FINANCIAL SERVICES REGISTER, REGISTRATION NUMBER 117672. REGISTERED IN ENGLAND AND WALES NUMBER 99064. FC RLAM PD 0020.