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Royal London Global Equity Income Fund

Quarterly Investment Report

31 March 2024

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 March 2024

The purpose of this report is to provide an update on the Royal London Global Equity Income 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 a combination of income and capital growth (a total return) over the medium term, which should be considered as a period of 3-5 years, by predominantly investing in shares of companies globally. The Fund's performance target is to outperform, after the deduction of charges, the MSCI World Net Total Return Index GBP (the "Index") by 2% p.a. over rolling 3-year periods. The Fund also aims to produce an income 20% higher than the Index's income p.a. over rolling 3-year periods (after the deduction of any charges).

Benchmark: MSCI World Net Total Return GBP

Fund value

	Total £m
31 March 2024	1,238.33

Fund analytics

	Fund
Fund launch date	25 February 2020
Base currency	GBP
Number of holdings	61
Active share (%)	84.0
Tracking error (%)	5.2

Ex-post tracking error calculated since inception to 31 March 2024. Please refer to the glossary for a description of the tracking error used.

Performance and activity

Performance

	Fund Official 12pm return (%)	Fund End of day return (%)	Benchmark (%)
Quarter	9.89	10.11	9.88
1 Year	25.34	24.28	21.73
3 Years (p.a.)	16.33	16.61	10.48
Since inception (p.a.)	17.17	19.31	12.28

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

The benchmark in the above performance table shows MSCI All Countries World Net Total Return Index since inception up to 21 August 2023, and the MSCI World Net Total Return Index, when the benchmark changed, thereafter.

Performance commentary

The fund performed in line with the benchmark during the period under review.

Equity markets continued their strong upwards momentum in Q1 2024, as confidence grew that there is a path towards inflation returning to normal without a recession. This scenario would potentially enable central banks to lower current levels of interest rates, benefitting valuations, whilst earnings remain cyclically robust.

In this environment, it has been unsurprising to see Accelerating (+22%) and Compounding (+9.8%) as the top performing Life cycle stages. These stages contain stocks which are most sensitive to changes in (expected) discount rates. When one adds in the still increasing optimism about the transformational impact AI can have in society, and the prominence of stocks benefitting or potentially benefitting from this structural change within the early Life Cycle stages of MSCI World index, the moves are increasingly explainable. Nonetheless, it is a brave person who predicts the direction of travel from here.

Performance by sector was more balanced, as although the tech-heavy communication services and IT Sectors were strongest performers, they were closely followed by financials, energy and industrials. It was the laggards who stand out more, with defensive sectors consumer staples, utilities and real estate particularly weak at a relative level.

The fund managed to keep pace with the AI factor within markets, for whilst we do not hold Nvidia (+84%), we benefitted from some of our semiconductor-related names such as Japanese industrial, Ebara (+55%), US semiconductor manufacturing equipment maker, Applied Materials (+29%), and Taiwanese chipmaker, TSMC (+32%). Australian-based semiconductor design software company, Altium, was up 33% in the quarter when we sold it, after it was bid for by a competitor.

Steel Dynamics was also a strong contributor to performance, up 27%, as investors get more confident on the sustainability of current earnings levels, due to fiscal subsidies around infrastructure in coming years, combined with the ramping up of the company's large Sinton project in 2024. Paper company, Sylvamo, performed strongly as it continues to execute to perfection its strategy of outcompeting high-cost players within the structurally declining paper industry. Fast growing Insurer, Kinsale, continued to take attractive levels of market share as it seeks to disrupt existing players niche areas of insurance through its data and technology expertise, and saw its shares perform strongly. Car insurance giant, Progressive, and Hospital operator, HCA, also performed strongly in the quarter.

Performance and activity

Performance commentary (continued)

Container Shipping company, Maersk, was a notable underperformer in Q1 (-23%), as management warned that the company is likely to be lossmaking in 2024 despite the short-term benefits of higher rates from the disruption in the Red Sea. We had previously taken advantage of optimism surrounding the disruption to reduce our holding. Gilead Sciences and Roche, two of our Healthcare holdings, were down in quarter, both having disappointing pipeline updates. Both holdings have poor momentum, but we feel that the valuation pay-off looks increasingly attractive and the defensive macro characteristics may well be very valuable in different market conditions to today, so we took the opportunity to add to both weightings. Dutch stainless steel company, Aperam, was also weak as European construction activity remains in the doldrums.

Performance and activity

Top 10 holdings

	Weighting (%)
Microsoft Corporation	5.86
Gilead Sciences, Inc.	3.38
Applied Materials, Inc.	3.22
Alphabet Inc. Class A	3.01
Steel Dynamics, Inc.	3.00
Shell Plc	2.97
3i Group plc	2.96
Ashtead Group plc	2.89
UnitedHealth Group Incorporated	2.46
Kenvue, Inc.	2.37
Total	**32.12**

Fund activity

Activity levels were high in the Fund in Q1, reflecting our determination to keep the fund filled with strong Wealth creating companies for their stage of Life Cycle with attractive valuation pay-offs, in the face of buoyant markets.

We started new holdings in Tyson Foods, Doosan Bobcat, Alphabet, Dollar General & Broadcom. Tyson Foods is a US producer of poultry, beef and pork products and sits in the Turnaround stage of the Life Cycle, having seen its margins materially lowered through high inflation in input costs. We believe that most of its issues are cyclical, rather than structural, in nature and that the management and industry's actions to take out supply signal suggest attractive wealth creation prospects for a Turnaround. A depressed valuation provides significant upside potential if the margin recovery plan is successful. Doosan Bobcat is a Korean based manufacturer of compact construction equipment, who earn 74% of sales in the US. The company is a cyclical Compounder with an attractive history of innovation to drive market share gains. A net cash balance sheet and very low valuation, particularly relative to Western listed players, makes for an attractive payoff, for all that we expect to be buying at a cyclical peak in earnings.

We also added Alphabet, as we believe its position in Search is far more entrenched than the valuation gives credit for, and that it has huge potential within AI having been developing its own chips and products, through Deep Mind, for close to a decade behind closed doors. Although the stock does not currently pay a dividend, we are hopeful that this may change soon, given the favourable reaction Meta received for a change in policy. We also started a position in Broadcom, who own a diverse portfolio of semiconductor solutions and infrastructure software, including an Accelerating division licensing designs for custom AI chips for hyperscale customers. We see the stock as having an attractive pay-off, and from a portfolio construction point of view, helped maintained the balance of the fund following the sale of Altium, which is in the process of being acquired.

Finally, we have started a position in Dollar General, the largest discount retailer in the US with over 19,500 stores in 47 states. We believe current issues around weak demand and high shrinkage to be temporary, and that their discount model has scale economies which can lead to strong long term wealth creation.

Performance and activity

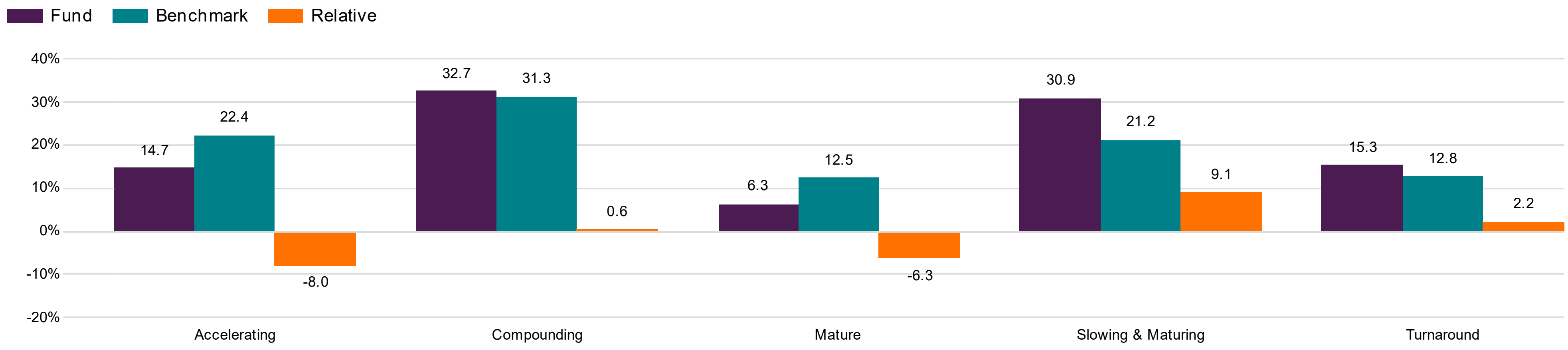
Fund activity (continued)

We sold out of several holdings during the quarter. Pleasingly, only one of these, a small position in Truist, was due to a thesis break. In Truist's case, we bought it initially believing its high-quality insurance business was a true differentiator from other US regional banks and a major source of wealth creation but having made poor investments that put their capital position at risk, the company made the decision to sell their insurance business. Ascential and Altium were sold following bids at attractive valuations for the companies. Nestle, Thor and Accenture were sold as they have been replaced by stocks with superior wealth creation and valuation pay-offs.

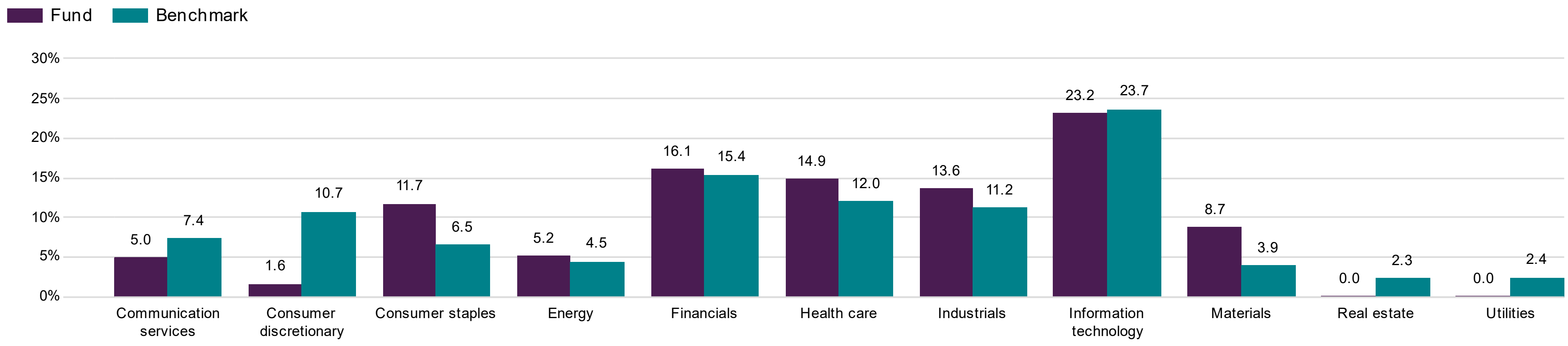
The macroeconomic outlook continues to be highly uncertain, with wars in the Middle East and Ukraine, concern over the health of the Chinese economy, elections in the US and UK on the horizon, and multiple possibilities as to where interest rates lie at the end of the year. The latter is particularly important for equity markets as it helps dictate the discount rates used to value equities, particularly the high-quality ones which dominate global indices. It may be that bad news, as long as it isn't so bad as to decimate earnings, allow markets to gain confidence that inflation is in the past and that a lower interest rate path lies ahead, thus causing equities to climb the wall of worry. We will try to assess the probabilities of different macro outcomes, but only so as to enable our proven approach of balancing portfolios by style (Life Cycle), region and sector to enable our stock picking, rather than macro forecasting, to determine the level of alpha we provide.

Fund breakdown

Holdings and weights

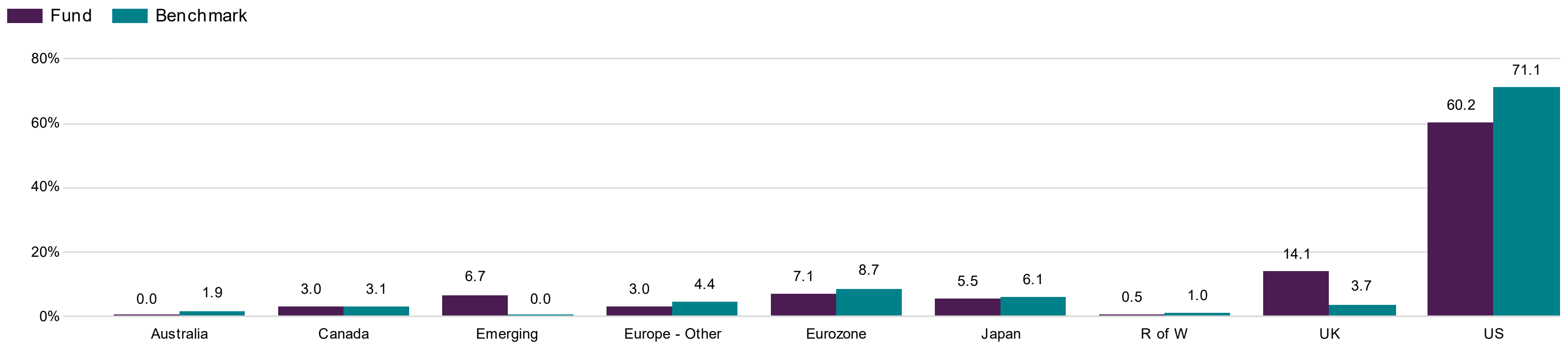


Sector weights



Fund breakdown

Regional weights



Market commentary

Market overview

A key theme to emerge during the quarter was indication of a more favourable global macro backdrop. Despite some mixed signals, the US economy remains resilient, while Europe and the UK show signs of gradually exiting their recessions. Activity in China also seems to be stabilising. At the same time, core central banks are still confident that the disinflation trend remains intact, despite some recent setbacks in inflation prints. Policymakers have often highlighted that they are in no rush to cut rates – with markets now generally pricing the start of the easing cycles to begin this summer. The Federal Reserve, European Central Bank and Bank of England all left interest rates unchanged over the quarter.

One major development over the quarter is that markets have recalibrated their pricing for expected central bank cuts over this year. At the end of last year, markets were pricing in an aggressive rate cutting cycle, but then swiftly move to temper those forecasts. This re-pricing contributed to negative returns for global government bond markets over the quarter. Despite the belief of many that it was the anticipation of a 'Fed-pivot' that contributed to the rally in equity markets in late 2023, equity markets proved to be immune to this bond market sell-off as global growth and business confidence showed signs of resilience and investors focused on the potential offered by AI.

Some of the same trends that were driving markets during the fourth quarter continued into the first quarter of 2024. The tech sector continues to benefit from the excitement around AI and industrials continued to experience a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The energy sector benefitted from higher oil prices though the quarter.

For the first quarter, the MSCI World and MSCI All Country World Index (ACWI – which also includes 26 emerging markets) produced positive returns for the quarter. Looking at national MSCI indices, the strongest market was Ireland, while the weakest was Portugal. In terms of style, the MSCI World Growth Index produced stronger returns versus the MSCI World Value Index.

The price of WTI crude oil gained 17.5% over the quarter to $83.71 a barrel, reversing the losses of the prior quarter amid attacks on Russian refineries and OPEC signalling production cuts.

The US dollar appreciated by 6.85% against the yen, by 2.23% against the euro, and by almost 1% against sterling.

Outlook

Whilst there remains significant geopolitical and macroeconomic risk, we remain focused on using our established investment process to generate alpha through bottom-up stock picking. With this volatile background, we believe that our approach of diversifying the strategies across broad range of companies from different sectors and stages of their Life Cycle will allow performance to continue to be driven more by the success of our hunting for superior shareholder wealth creating companies with undervalued long-term cash flows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

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

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts 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.

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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.

EPM techniques risk

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.

Charges from capital risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Performance to 31 March 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	9.89	16.98	25.34	57.47	91.44
Fund (net)	9.69	16.56	24.44	54.10	85.88

Annualised (%)

	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	16.33	17.17
Fund (net)	15.49	16.33

Year on year performance (%)

	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021	31/03/2019 - 31/03/2020
Fund (gross)	25.34	5.70	18.86	43.34	-
Fund (net)	24.44	4.94	18.01	42.32	-

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 31 March 2024. All figures are mid-price to mid-price in GBP for the Royal London Global Equity Income Fund M Income;Since inception date 25 February 2020.

Glossary

Active share

Active share is a measure used to assess the degree of difference between the portfolio's holdings and its benchmark.

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

Official Fund performance is shown on a mid-to-mid price basis, gross of fees and taxes, with gross income reinvested unless otherwise stated. Supplementary end of day performance has also been provided at fund level in order to show a comparison vs the benchmark which is also priced at end of day.

Sector weights

Breakdown of holdings by GICS (Global Industry Classification Standard) sector relative to the benchmark index.

Top 10 holdings

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

Tracking error

Tracking error indicates how closely a fund follows its benchmark index. It is a measure of the risk in the fund that is due to active management decisions made by the fund manager. It is calculated on an ex-post basis (actual basis, post period end).