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Royal London UK Equity Fund

Quarterly Investment Report

31 March 2024

Quarterly Report

The fund as at 31 March 2024

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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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. The Index is regarded as a good measure of the share-price performance of the approximately 600 largest companies on the London Stock Exchange. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK All Companies sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE All-Share Total Return GBP Index

Fund value

	Total £m
31 March 2024	763.39

Fund analytics

	Fund
Fund launch date	11 April 1984
Base currency	GBP
Number of holdings	64

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.76	3.57	(0.80)
1 Year	7.62	8.43	(0.81)
3 Years (p.a.)	8.80	8.04	0.76
5 Years (p.a.)	5.81	5.44	0.37
10 Years (p.a.)	5.82	5.77	0.06
Since inception (p.a.)	6.96	6.87	0.09

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 first quarter of 2024 saw another strong performance for risk assets, with several global equity indices reaching an all-time high. Markets were strong driven by hopes that the US economy will continue to experience a soft landing and growing enthusiasm around the opportunities for AI (artificial intelligence). In the US the S&P 500 index was up more than 10% in Q1, meanwhile in Japan, the Nikkei saw its strongest performance since 2009. With that backdrop the FTSE All-Share Index, the UK benchmark rose by 3.6% despite the outlook for domestic growth remaining fairly dull. The best performing sectors included banks and industrials, whilst mining and utilities were the worst.

The Trust outperformed the benchmark during the period under review. The main positive drivers of performance included holdings such as 3i, Next, and Compass. 3i has been a very strong performer over time, reflecting its ownership of the discount chain Action in Europe which continues to grow very strongly. Next and Compass are both good quality corporates and continue to deliver growth and attractive returns for shareholders. The negatives during the quarter included starting the year underweight in GSK which bounced strongly on hopes of improved drug productivity. An exposure to SSE was painful as energy prices fell sharply in January as the winter continued in line with recent trends and was extremely mild and the share price of Close Brothers fell sharply as the FCA initiated a review of historic selling practices in the automotive industry.

Performance and activity

Top 10 holdings

	Weighting (%)
Shell Plc	7.95
AstraZeneca PLC	6.59
HSBC Holdings Plc	4.91
Unilever PLC	4.17
BP p.l.c.	3.74
RELX PLC	3.43
Compass Group PLC	3.04
GSK plc	2.88
Diageo plc	2.70
3i Group plc	2.64
Total	42.05

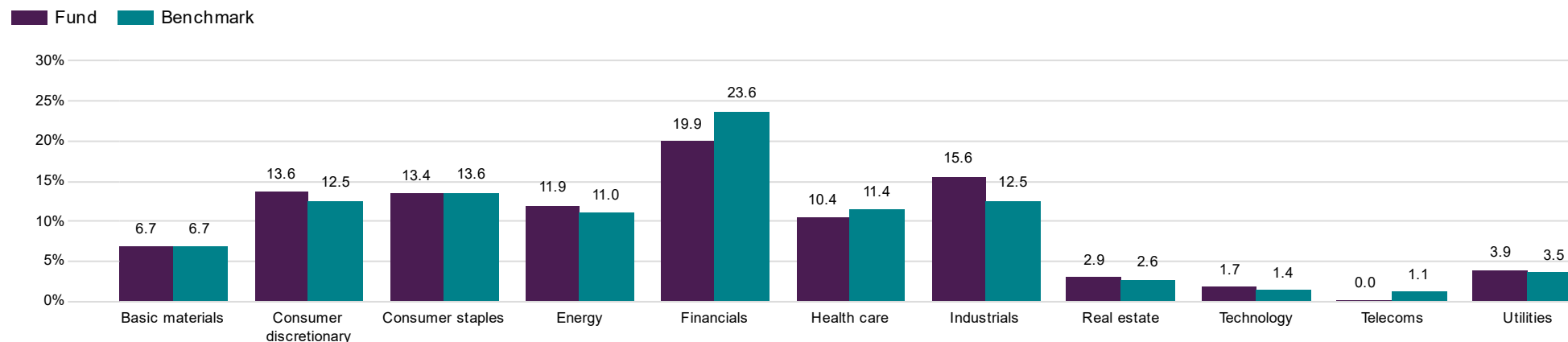
Fund activity

Overall, the portfolio maintains a bias towards growth companies, which we believe are mispriced on a long-term basis coupled with an exposure to sectors such as banks and oil which are demonstrating some improvement returns on capital.

During the quarter we added to GSK, part as risk management and part reflecting a low valuation and some positive traction in developing an attractive drug pipeline. The backdrop to the aerospace and defence sector remains positive with a large backlog of orders and as a result we added to BAE and Melrose. Regarding reductions we reduced the holding size in BATs reflecting poor operation performance and an uncertain outlook for long-term demand for tobacco consumption.

Fund breakdown

Sector 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.

Data continues to suggest that UK inflation is past its peak and that interest rates could ease at some point this year. This has helped to spur UK equities to a relatively strong quarter, with the FTSE All-Share index returning 3.6%. However, investor expectations continue to be somewhat at odds with policy makers, with many expecting cuts to be both deeper and sooner than the monetary authorities are guiding to.

The quarter saw a large amount of corporate reporting which, while mixed, was on balance reassuring. Results from mining companies, housebuilders, building materials companies and more discretionary retailers were relatively weak while financials and industrials made more upbeat reports.

UK market corporate activity has been a notable feature, with a merger between Barratt and Redrow being announced and DS Smith, Wincanton and Spirent among other companies received bid approaches.

Outlook

Inflation data has moderated in the quarter and modest interest rate cuts seem likely at some point in the coming months.

Takeover activity is likely to remain a feature in the UK market as, despite the recent rally, the UK equity market remains relatively lowly valued compared to overseas markets. These relatively depressed valuations also continue to prompt many companies to buy back their own shares.

We believe our approach of investing in a broad range of companies who are in control of their own fates, irrespective of market conditions is the right one. As well as looking for durable businesses, a willingness to look through short-term extremes of sentiment and buy stocks when they are out of favour, or take profits when sentiment becomes exuberant should drive longer term performance.

Further Information

Please click on the links below for further information:



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.

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 April 2024 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 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.

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 31 March 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.93	5.49	8.34	31.42	37.13	9.53	6.51
Fund (net)	2.76	5.14	7.62	28.81	32.64	8.80	5.81

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)	8.34	4.50	16.07	24.36	(16.09)
Fund (net)	7.62	3.81	15.30	23.54	(16.65)

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 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.