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# Royal London Sustainable Leaders Trust

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 Sustainable Leaders Trust. 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 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 listed on the London Stock Exchange that are deemed to make a positive contribution to society. Investments in the Scheme will adhere to the Manager's ethical and sustainable investment policy. The Scheme's performance target is to outperform the FTSE All-Share Index (the "Index") over a rolling 5-year period. 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 Scheme's performance, as the Scheme's potential investments will predominantly be included in the Index. In addition to the benchmark for the Scheme'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 Index

## Fund value

	Total £m
31 March 2024	3,268.08

## Fund analytics

	Fund
Fund launch date	29 May 1990
Base currency	GBP
Number of holdings	40

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	5.41	3.57	1.84
1 Year	12.39	8.43	3.96
3 Years (p.a.)	8.89	8.04	0.85
5 Years (p.a.)	10.27	5.44	4.83
10 Years (p.a.)	10.05	5.77	4.28
Since inception (p.a.)	9.08	7.83	1.25

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 Sustainable Leaders Trust (C Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 4 December 2012.

## Performance commentary

It was a positive quarter for the fund, which recorded a strong start to the new year, outperforming benchmark and building on gains made over last year.

The same trends that were driving markets during the fourth quarter of 2023 continued into the first quarter of 2024. The technology sector continues to benefit from the excitement around Artificial Intelligence (AI), whilst the industrial sector experienced a tailwind from government stimulus towards infrastructure spending via the Inflation Reduction and CHIPS Acts. This should be a tailwind for some time to come. Another trend driving the portfolio is electrification, which can be seen in the desire to replace carbon-based energy with more renewable sources. There is also huge demand for power due to the explosion of computation, itself driven by artificial intelligence.

Two key beneficiaries of these trends are Schneider Electric and Ferguson. Schneider Electric is a leader in electrification and seeing strong demand as businesses look to improve their own electrification processes. Ferguson gives the fund exposure to enabling the development of a more sustainable and resilient physical world – particularly in waterworks and heating, ventilation, and air conditioning (HVAC) – and is reaping the benefits from the money being spent on physical infrastructure projects in the US.

In the digital world, our holding in Sage was a strong contributor in the quarter. The firm helps small businesses with financial software, such as payrolls and accounting, and is seeing a ramp up in demand for its improved AI-related tools.

The key detractors in the period included Rolls Royce and BAE Systems. The two businesses performed well in the first quarter as they got boost from strong end markets due to rising geopolitical tensions. For sustainability reasons we hold no exposure to these firms as we don't invest in defence and armaments.

Energy company SSE also detracted following a fall in its share price. The firm noted it expects wind output to be lower than previously expected. Despite this, we still expect solid long-term returns from this investment.

# Performance and activity

## Top 10 holdings

	Weighting (%)
AstraZeneca PLC	5.61
RELX PLC	5.60
London Stock Exchange Group plc	5.48
Compass Group PLC	5.21
Sage Group plc	4.97
Experian PLC	4.43
SSE plc	4.04
Standard Chartered PLC	3.95
Schneider Electric SE	3.68
Ashtead Group plc	3.39
<b>Total</b>	<b>46.36</b>

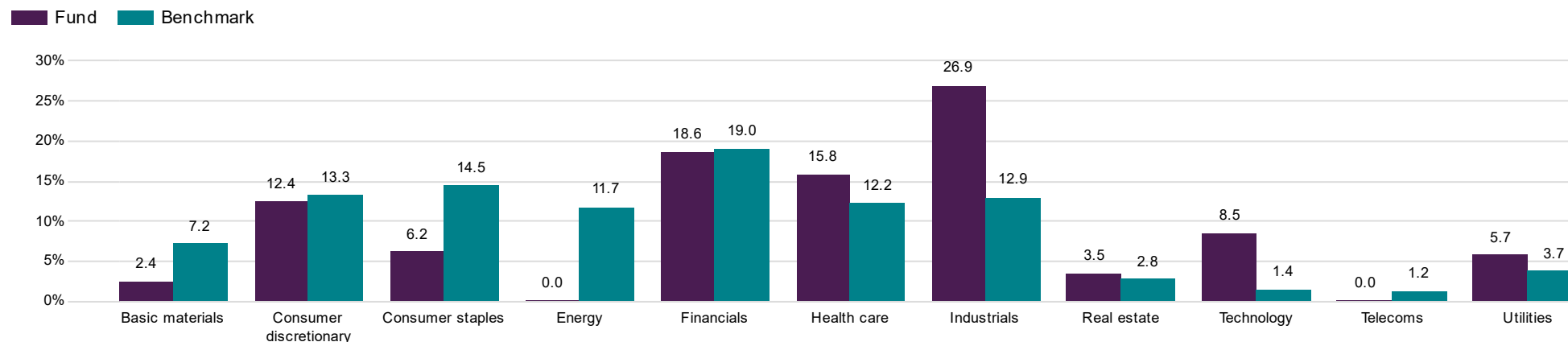
## Fund activity

Our sustainable strategies are orientated to those companies that have a net benefit to society and create value for investors through their products and services and the way they manage environmental, social and governance (ESG) issues. 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 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 positive contribution to society is consistent with outperformance over the medium term.

Activity was limited in the quarter. We added to our holdings in Ashtead, a leading provider of rental equipment into the US construction market and beneficiary of US infrastructure spend; and GSK, a world leading pharmaceutical company with an improving pipeline of cancer medicines. We sold our remaining Intertek position, in preference for these ideas.

# Fund breakdown

## Sector weights



# Characteristics and climate

## ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at [www.rlam.com](http://www.rlam.com)

## ESG characteristics

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics		✓
Sustainable fund objective	✓	
Additional exclusions	✓	

## Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

Adult entertainment	✓	High environmental impact	✓
Alcohol	✓	Human rights issues	✓
Animal welfare	✓	Nuclear power	✓
Armaments	✓	Nuclear weapons	✓
Controversial weapons	✓	Tobacco	✓
Fossil fuels	✓		
Gambling	✓		

## Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	66,318	n/a	n/a
Financed emissions coverage	100.00%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	16.25	65.75	(75.28)
Carbon footprint coverage	100.00%	95.01%	5.25
Weighted average carbon intensity (tCO2e/\$M sales)	43.52	83.77	(48.05)
Weighted average carbon intensity coverage	97.32%	94.37%	3.12

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

## Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	100.00	95.02	5.25
% of portfolio below 2°C ITR	73.61	56.68	29.87
% of portfolio below 1.5°C ITR	30.54	30.33	0.69

## SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	42.49	34.85	21.90
SBTi Near-Term committed	0.25	7.51	(96.73)
SBTi Near-Term targets set	67.04	42.75	56.84

# Fund Engagement

## Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

## Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	13	34
Number of engagements	17	107

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

## Total engagements by theme and topic



Climate	4
Climate - Transition Risk	3
Climate - Physical Risk	1
Governance	14
Corporate Governance	6
Remuneration	4
Strategy	3
Board	1
Social & Financial Inclusion	4
Just transition	3
Labour & Human Rights	1

## Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.



# Fund Engagement

## Engagement outcomes

### HSBC Bank Plc - Just Transition

#### Purpose:

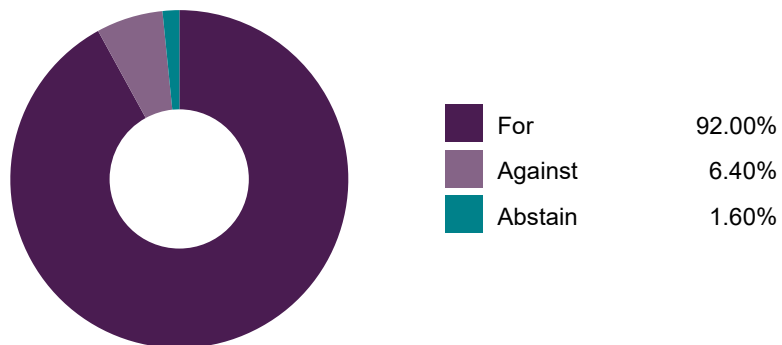
To review and provide feedback on the company's draft Net Zero Transition Plan.

#### Outcome:

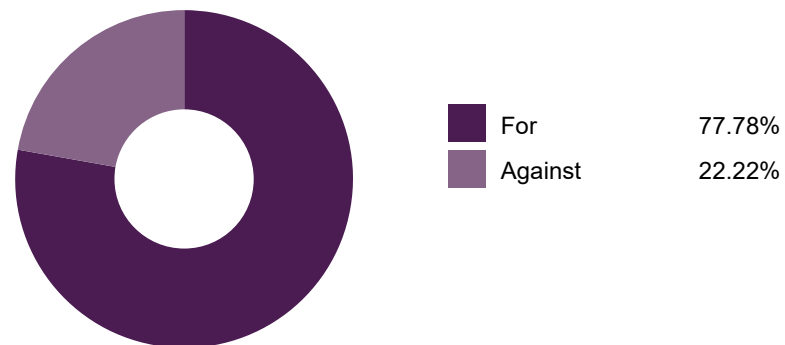
HSBC's Net Zero Transition Plan, informed by GFANZ and TPT, sets a strategic vision for sector specific transitions and an actionable plan. In a feedback session with the Chief Sustainability Officer, the company highlighted its commitment to the real economy decarbonisation, especially in developing markets. The plan details a sectoral approach based on global financing needs, and HSBC's strategies to support decarbonisation and leverage financing opportunities. It also emphasises a fair and inclusive transition, with ongoing efforts to integrate just transition principles. We will continue to engage with the company, placing particular emphasis on the operationalisation of their commitment to a just transition.

# Fund Voting

## Total proxy voting activity



## Executive remuneration voting activity



## Notable votes

### Visa Inc

Elect Denise M. Morrison - against: The nominee is chair of the remuneration committee and we have long-standing concerns with the company's remuneration.

Advisory vote on executive compensation - against: We remain concerned over the large area of discretion applied to bonus outcomes. We also take issue with the scale of discretionary awards granted during the year.

Severance Approval Policy (SHP) - against: While we are supportive of the request to seek shareholder approval for severance payments valued at 2.99 times the sum of the salary and target bonus, we note that the company has already adopted such a policy.

# 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.

In the first quarter, the UK equity market saw a strong performance, rising 3.6% (FTSE All-Share index). Expectations remain that as inflation continues to moderate, interest rate cuts are around the corner. The corporate reporting season was generally supportive, particularly in the financials sector where banks reported robust results, with industrials also seeing a strong quarter. Investor enthusiasm was further fuelled by several M&A deals being announced.

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. Copper futures meanwhile gained 2.45% in US dollar terms.

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

## Outlook

Combined with ongoing macroeconomic uncertainty, one thing we see as likely to continue through 2024 is heightened geopolitical tensions around the world. That said, though, these tensions might be a tailwind to some of our construction and infrastructure related investments,

as it will likely serve to only accelerate these trends towards onshoring and near shoring. 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.

Markets have moved significantly over the last six months, pricing in peak interest rates, yet history has taught us the macroeconomic environment can change quickly. We are not macroeconomic forecasters and refrain from predicting the direction of interest rates or inflation but evidence is accumulating that we might be at peak interest rates. We believe longer-term microeconomic trends are more important drivers of investment returns and should be the focus of investors.

There is a narrative that sustainable investing is becoming less relevant given the economic and political changes we have seen over the last few years, however we believe the drive towards a more sustainable society which we define as cleaner, healthier, safer, and more inclusive continues unabated. When looking at markets we see sustainability becoming more, not less relevant and is illustrated by, but not limited to, trends in digitalisation through artificial intelligence, infrastructure through electrification and healthcare through obesity drugs. These trends make us optimistic about the long-term outlook for sustainable investing.

We will continue to follow our process which has served us well over the years and believe our portfolios focused on high quality sustainable and financial companies that are well positioned to drive long-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](http://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](http://www.rlam.com).

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For more information on the Trust 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](http://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.

## 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 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.

## 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 31 March 2024

## Cumulative (%)

## Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
<b>Fund (gross)</b>	5.41	10.26	12.39	29.13	63.13	8.89	10.27
<b>Fund (net)</b>	5.21	9.85	11.55	26.27	57.14	8.08	9.45

## 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
<b>Fund (gross)</b>	12.39	(0.37)	15.33	23.19	2.55
<b>Fund (net)</b>	11.55	(1.11)	14.47	22.27	1.79

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 RL Sustainable Leaders Trust (C Acc).

# Glossary

## Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO<sub>2</sub>e/\$M invested. Financed emissions are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

## ESG Integration

The systematic and explicit inclusion of environmental, social and governance (ESG) factors into investment analysis and investment decisions.

## Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

## Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO<sub>2</sub>e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

## Fund restrictions definitions

**Adult Entertainment:** Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.

**Alcohol:** Companies which have involvement in brewing, distillation or sale of alcoholic drinks.

**Animal Welfare:** Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).

**Armaments:** Companies who manufacture armaments or nuclear weapons or associated products.

**Controversial Weapons:** Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.

**Fossil Fuels:** Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.

**Gambling:** Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.

**High Environmental Impact:** Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.

**Human Rights Risks:** Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.

**Nuclear Power:** Companies who generate energy from Nuclear Power.

**Nuclear Weapons:** Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.

**Tobacco:** Companies which are growing, processing or selling tobacco products.

## 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.

## Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

## 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.

## Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

## Regional weights

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

## SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.



# Glossary

## Sector weights

Breakdown of holdings by FTSE ICB (Industry Classification Benchmark) sector relative to the benchmark index.

## Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

## Top 10 holdings

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

## Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO<sub>2</sub>e / \$M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.