

Incrementally better: how 'little and often' could lead to better outcomes



Small portfolio tilts can look insignificant in isolation but applied consistently and at scale they can add up to meaningful change. Head of Quantitative Equities Matt Burgess explores how an incremental-gains approach to ESG investing seeks to improve carbon and sustainability outcomes, without sacrificing the core benefits of broad market exposure.

In a market conditioned to think in headlines, grand gestures and binary labels, portfolio shifts away from a benchmark of as little as 0.25% can seem underwhelming. Surely meaningful ESG change must come from bold exclusions, concentrated conviction or dramatic departures from the index?

That instinct is understandable – but in my view, it can be misleading.

In my view, investing in smaller, repeatable improvements can be more effective because portfolios are essentially systems. Tiny adjustments, applied consistently across hundreds of stocks, multiple rebalancing points and years of client inflows, has the potential to compound into something far more substantial.

This is the logic behind our Tilt strategies. Rather than trying to transform a portfolio through a handful of large positions, we aim to improve outcomes through many smaller decisions: trimming exposure to laggards, adding to leaders and maintaining diversification. All while staying mindful of the benchmark, risk budgets and the realities of implementation. The result is benchmark-like market exposure, low active risk and portfolios tilted toward better carbon and broader ESG outcomes.

There is a well-known parallel in sport. Sir David Brailsford, who led British Cycling to repeated Olympic success, built his philosophy around improving every element of training and preparation by as little as 1%. Taken individually, none of these changes was decisive. Together, they produced a step-change in performance.

The same principle can apply in investing. When hundreds of small overweight and underweight positions are applied consistently across a large portfolio – each informed by carbon footprint, governance quality, social metrics and transition trajectory – the cumulative effect can be material, even when each individual tilt is barely visible.

Compounding: the gift that keeps on giving

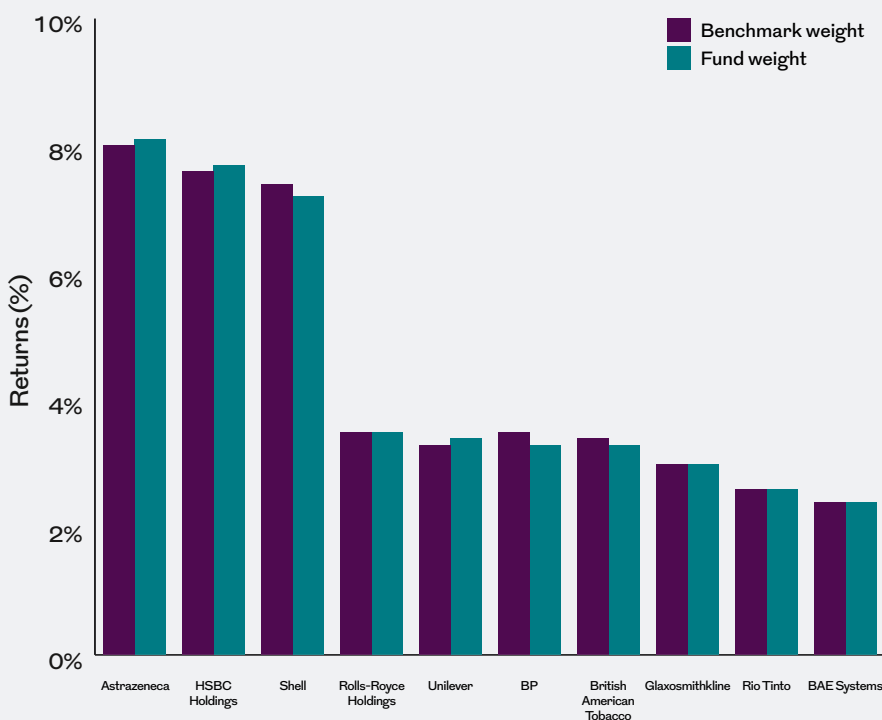
The Tilts funds benefit from compounding in three ways:

1) Carbon outcomes compound mathematically

When the same footprint-reduction process is applied repeatedly over years, it can create meaningful divergence versus the benchmark, even when each individual position change is small. Since our 2021 transition to the tilted approach, the funds have reduced weighted average carbon intensity by roughly 25% relative to benchmarks and met annual reduction targets, while still operating within a controlled tracking-error framework.

The chart below shows the benchmark and fund weights for the ten largest holdings in the Royal London UK Broad Equity Tilt Fund. The deviations are small, but they become significant when multiplied across a portfolio of more than 600 companies. As at March 2026, the fund's carbon footprint is more than 10% lower than the FTSE All-Share benchmark index and since transition it has consistently met its carbon-reduction targets.

Benchmark vs RL UK Broad Equity Tilt Fund exposure to carbon intensity at 31 March 2026



Source: Royal London Asset Management

Reference to any security is for information purposes only and should not be considered a recommendation to buy or sell. Portfolio holdings are subject to change without notice.

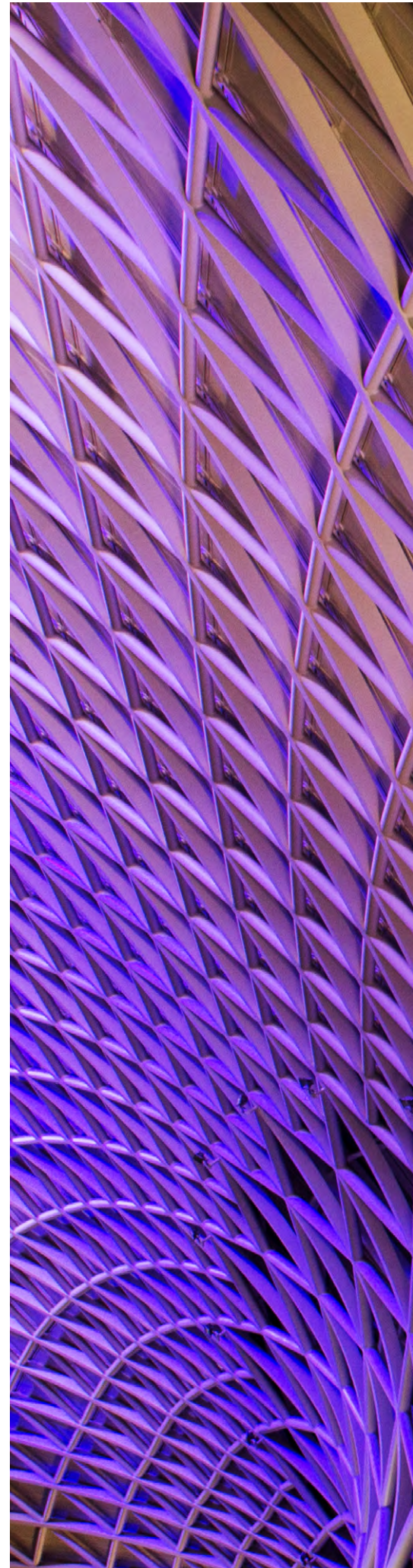
2) Stewardship compounds behaviourally

Small acts of stewardship can compound over time. Companies respond to repeated, credible pressure: boards notice patterns in investor expectations, and management teams learn which disclosures, targets and capital plans attract support. The market rarely changes through one theatrical moment, such as divestment. More often, it changes because thousands of incentives begin pointing in the same direction.

Our process combines quantitative screening with input from the Responsible Investment team, including views on a company's ability and willingness to transition, governance considerations and engagement history. We blend what we learn through engagement with management teams with quantitative analysis, helping us implement Tilt portfolios with a degree of forward-looking insight.

Ultimately, real-world ESG change happens over time – through cost-of-capital signals, engagement, voting, management accountability and the cumulative pressure of capital-allocation choices. We believe a strategy that persistently overweights better-governed companies within sectors and underweights weaker performers can reward improvement and penalise complacency. Better governance can also support stronger long-term risk-adjusted returns, potentially benefiting clients.

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3) Implementation efficiency compounds

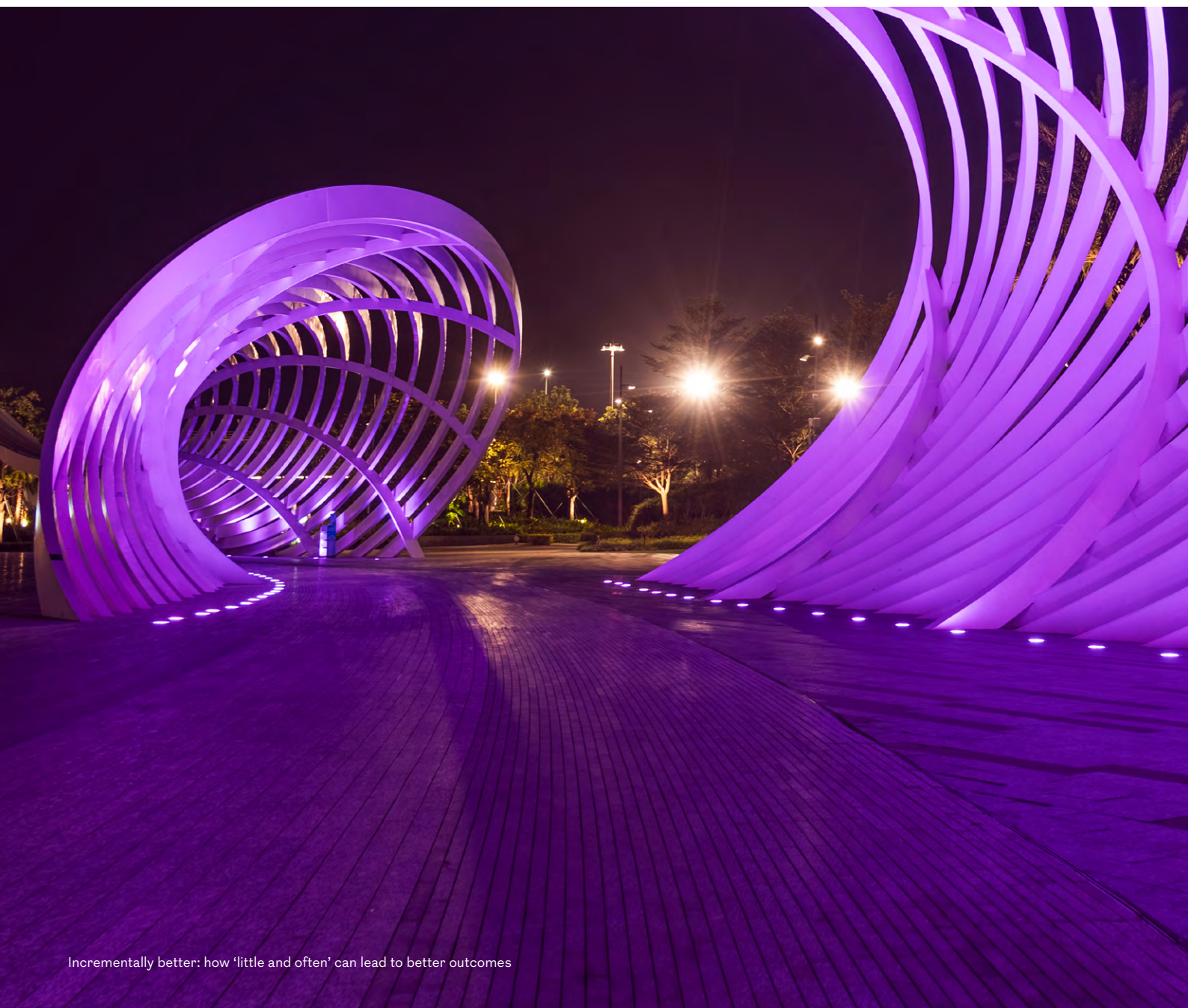
Unlike passive funds, which are obligated to replicate index changes at quarter-end rebalancing dates, Tilt funds can rebalance with discretion. Our quantitative equities team trades when conditions are most appropriate, typically using program trading at more liquid times of day and at discounted commissions. Over time, this can translate into potentially more efficient implementation and lower transaction costs.

A comparison of actual transaction costs across our UK equity strategies between 2022 and 2024 illustrates the difference:

Strategy	Fund	Transaction costs (2022–2024)
Passive	Royal London UK Equity Tracker Trust	0.046%
Active	Royal London UK Equity Fund	0.090%
Tilt	Royal London UK Broad Equity Tilt Fund	0.000%

While the passively managed portfolio incurred around 0.05% of transaction costs, and the active portfolio roughly double that, the Tilt fund's reported transaction costs over the same period were effectively zero. This illustrates the value of smarter implementation within our Tilt funds.

Incremental gains sound small when viewed in isolation. But in portfolios, as in markets, what matters is not just the size of each move – it is the discipline, repeatability and scale with which those moves are applied. In my view, that is how many small tilts can translate into meaningful real-world outcomes.



Investment risks

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.

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.

EPM Techniques: 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.

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.

Responsible Investment Style 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.

Environmental, social and governance: A list of pre Environmental, social and governance: defined criteria that determines how a company operates in terms of sustainability and overall corporate governance.

Contact us

For more information about our range of products and services, please contact us.

Royal London Asset Management
80 Fenchurch Street,
London EC3M 4BY

For advisers and wealth managers
bdsupport@rlam.co.uk
+44 (0)20 3272 5950

For institutional client queries
institutional@rlam.co.uk
+44 (0)20 7506 6500

For further information, please visit www.rlam.com

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