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ROYAL LONDON
ASSET MANAGEMENT

Stocks in the spotlight

March 2025

These funds are adopting the Sustainability Focus label. We are updating the relevant fund material and will publish these once ready.

Views from the desk

We support the change to a more sustainable society by investing in companies based on what they do and how they do it. This positive contribution can be through the products and services they provide and operationally through ESG leadership i.e. how a company looks after its operational assets, the environment, its stakeholders and the role it plays within its industry.

We look for well-managed sustainable companies that are leaders in their fields with durable competitive advantages and which we believe can deliver more resilient growth and lower operational volatility as a result of strong management of sustainability risks - as well as better bond holder protection where we are buying a company's bonds rather than shares.

Our sustainable stocks in the spotlight showcases holdings across the Royal London Asset Management Sustainable fund range that we deem to be making a positive contribution towards a cleaner, healthier, safer and more inclusive society.

In this edition, we look at two equity stocks, Compass and HCA Healthcare, and two fixed income stocks, African Development Bank and Greater Gabbard Ofto.

EQUITY

Compass Group PLC

Security held	Compass Group PLC shares
Headquarters	UK
Sector	Food Services
Theme	ESG Leadership
Portfolios held	RL Sustainable Global Equity Fund RL Sustainable World Trust RL Sustainable Growth Fund RL Sustainable Diversified Trust RL Sustainable Managed Growth Trust RL Sustainable Leaders

Summary

- Compass is a global leader in food services, providing meals to millions of people across 30 countries.
- The addressable global food services market is worth at least $320 billion, of which Compass has less than 15% market share, providing a significant runway for growth, as nearly three-quarters of the market is still self-operated or in the hands of regional players. The drivers for outsourcing are also growing, due to increased regulation, operational complexity and inflationary pressures.
- Sustainability is a strong focus for the group company given it is a competitive advantage.

Company overview

Compass operates at thousands of locations around the world, from hospitals, schools and oil rigs to corporate headquarters and the world's biggest entertainment venues. It differentiates itself by tailoring its offering to these different customer types. In addition, its size allows it to buy food at scale where it can drive positive change with producers and at a cost advantage to customers. This is particularly relevant now the company has improved the quality of its country portfolio by focusing on core markets. Compass estimates that its scale enables it to be 7-10% cheaper than its nearest two competitors in the US.

The business case for improving sustainability

Compass thinks about decarbonisation in three ways: in its own operations; in its supply chain; and, with respect to consumers. It is working with suppliers on regenerative agriculture and renewable energy. It has introduced initiatives to reduce food waste, is training employees, is introducing reusable solutions and adapting menus and offering low carbon food choices plus utilising eco-labelling. We believe that these initiatives future-proof the business by improving resiliency of supply chains, saving costs and improving employee engagement. In addition, customers are looking for food service providers who take these issues seriously, because in turn it matters to their staff.

Investment thesis

Compass have undergone a transition in senior leadership in the US, its largest market, by refining the team and focusing on people with long tenure and knowledge of the business. The momentum and culture are now right which enables the business to concentrate on sustained execution. As part of their portfolio optimisation plan, Compass have acquired quality businesses that complement their offering and have exited five countries in the past year and plan to exit another four countries in the coming years. Additionally, with the raising of National Insurance contributions in the UK and potential inflationary impacts in the US, outsourcing becomes a more attractive option, and Compass are best positioned to leverage their Group Purchasing Organisation to benefit from this. For these reasons, the company's outlook now for profit and revenue growth are ahead of what they were pre-Covid.

HCA Healthcare

Security held	HCA shares
Headquarters	US
Sector	Health Care Facilities
Theme	Hygiene and Wellbeing
Portfolios held	RL Sustainable Global Equity Fund RL Sustainable World Trust RL Sustainable Growth Fund RL Sustainable Diversified Trust RL Sustainable Managed Growth Trust

Summary

- Given its scale, its network represents important infrastructure in major US cities across the country; it is the number 1-3 by market share in 16 cities and also leads in many mid-sized US cities. 1 in 15 emergency room (ER) patients in the US receive care at an HCA facility.
- It is becoming the largest educator of nurses and establishing a pipeline into the sector through its Galen College of Nurses. Graduate Medical Education at scale is another strategic asset that differentiates HCA.
- HCA provided charity care, uninsured discounts and other uncompensated care at an estimated cost of $3.7 billion in 2023.

Company overview

HCA Healthcare is comprised of 186 hospitals and approximately 2,400 sites of care in 20 US states and the UK. In addition to hospitals, sites of care include surgery centres, freestanding emergency rooms, urgent care clinics, diagnostic and imaging centres, walk-in clinics and physician clinics. It has a workforce of 309,000. As a learning health system, HCA Healthcare analyses data from more than 43 million patient encounters each year, which helps develop technologies and best practices that improve patient care. It also shares learnings with the larger healthcare community and government agencies to improve care everywhere.

Why should HCA grow

HCA's strategy for growth is to capitalise on growing demand by expanding its network, unlocking embedded value by transforming its operations and utilising its financial strength to create value. HCA's operations are among the most efficient and profitable in the industry. With its significant and growing market share, HCA can negotiate reasonable rates with key health insurers in local markets. Commercial insurers represented about 30% of inpatient admissions and 49% of total revenue in 2023. Overall, revenue per equivalent admission, a proxy for pricing, has grown 5% on average during the past five years and this is likely to continue. HCA's average length of stay is about 10% lower than the average US hospital, which can equate to about half a day less in the hospital per patient. That efficiency can positively influence payer (and patient) satisfaction with HCA's services, too, as they are likely saving the payer money by reducing the overall hospital day charges.

Investment thesis

HCA Healthcare operates the largest network of hospitals in the US, focusing on attractive geographic locations where it has the potential for leading and increasing market share. Through its scale, HCA has a cost advantage relative to peers (cost structure is 10-15% lower than the average US hospital). The rate of growth in demand for healthcare services has been increasing and HCA expects this to continue. Its market share has been growing over time and the company is targeting 29% by 2030. The company's formula for value creation is the combination of generating consistent earnings growth with a disciplined allocation of capital. Profitability has remained fairly consistent over the past decade, and we believe financial performance should remain steadily and consistently improving. The model is reliable, predictable and effective.

FIXED INCOME

African Development Bank

Security held	US dollar denominated supranational
Headquarters	Ivory Coast
Sector	Financials
Theme	Community funding
Portfolios held	RL Sustainable Short Duration Corporate Bond Fund RL Sustainable Corporate Bond Trust

Summary

- The African Development Bank (AfDB) is a multilateral finance institution promoting the economic and social growth of African countries.
- Plays crucial role in global development by providing support to the world's poorest regions.
- Active in enhancing regional integration and trade. This involves financing cross-border infrastructure projects.

Company overview

The African Development Bank is a multilateral finance institution promoting the economic and social growth of African countries. The bank provides loans and grants to African countries for a wide range of development projects and programs. These include infrastructure development, agriculture, education, health, and water supply.

The case for multilateral development institutions

Multilateral development institutions such as the African Development Bank play a crucial role in global development by providing support to the world's poorest regions. They strengthen institutions, rebuild states, and address the effects of climate change. Additionally, these institutions foster economic growth – which is essential for sustainable development. By pooling resources from multiple countries, these institutions can undertake large-scale projects that emerging market economies might find challenging to finance alone. They also promote economic and social inclusion, helping to reduce poverty and build resilience in vulnerable communities. By pooling resources from multiple countries, these institutions can undertake large-scale projects that emerging market economies might find challenging to finance alone.

Investment thesis

African Development Bank is an enabler of environmental and sustainable development, reflected in its five strategic priorities. These include "Light Up and Power Africa", which is pursued through the financing of projects that increase access to electricity and promote renewable energy sources across the continent. Its "Feed Africa" priority instead involves supporting initiatives that promote food security in regional member countries, such as financing projects that enhance agricultural productivity, improve value chains, and support agribusinesses. Through its activities, the bank is also active enhancing regional integration and trade – including the financing of cross-border infrastructure projects such as roads, bridges, and railways – to facilitate trade and economic cooperation among African countries. Our analysis also reviewed the climate commitment of African Development Bank, with an established Climate Change Action Plan (2021-2025) that aims to enhance climate resilience and promote low-carbon developments across Africa.

Greater Gabbard Ofto

Security held	Sterling denominated secured bond
Headquarters	UK
Sector	Utilities
Theme	Energy transition
Portfolios held	RL Sustainable Short Duration Corporate Bond Fund RL Sustainable Growth Fund RL Sustainable Diversified Trust RL Sustainable Managed Growth Trust RL Sustainable Corporate Bond Trust RL Sustainable World Trust

Summary

- Greater Gabbard OFTO is the high voltage transmission infrastructure connecting the 540MW Greater Gabbard wind farm, with 140 wind turbines, to the onshore network.
- OFTO means Offshore transmission owner. OFTO will own and operate the offshore transmissions assets of the wind farm under a perpetual licence to be granted by Ofgem with a 20-year revenue entitlement period.
- Regulated utility debt is an important contributor to credit portfolios, reflecting the long-term visibility of cash flows and stability of capital structure.

Company overview

Greater Gabbard OFTO consists of two offshore substation platforms which are connected by a single 16km interconnector, with Inner Gabbard connected to the onshore substation at Leiston by three 45.5km 132kv cables. The entities have no employees - when work is needed it is done by contractors, usually those that are the generation asset owners and the companies who installed the transition lines

The case for utilities

The only purpose of an OFTO is to simply transport electricity from the offshore wind farms to the grid. Doing so acts as an enabler to the decarbonisation of the grid which is assisting to meet the UKs net zero target. Through greater interconnectivity ensures stable energy supply, supporting a cleaner and more reliable grid.

Investment thesis

Offshore transmission assets are built and usually maintained by wind farm operators, which due to regulations are however not allowed to own transmission units. This creates the need for companies like Greater Gabbard, which are granted a license by the regulator to own and operate the transmission lines. Due to its role as an enabler of green power generation, we view Greater Gabbard as offering a genuine environmental benefit. When taken in conjunction with their protective security, covenants, and visibility over cash flows, as well as an attractive spread, we believe that Greater Gabbard and other offshore transmission bonds represent an attractive opportunity within our portfolios.

Investment risks

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.

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, fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Interest rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Efficient Portfolio Management (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.

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. Inflation risk: Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

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.

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.

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

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