

# Sustainable stocks in the spotlight

## Views from the desk

We aim to 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, lower operational volatility, and better bond holder protection as a result of strong management of sustainability risks.

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 clean, healthy, safe and more inclusive society. In this edition, from an equity perspective we look at global pharmaceutical company Diploma and Intuitive Surgical. Fixed income can provide access to sectors not available to equity investors and in this edition we highlight a holding in debt issued by AA Group.

## FIXED INCOME

### Company name: AA Ltd

Security held	Sterling corporate bond
Headquarters	UK
Sector	Transportation
Contributing factor	Cleaner and safer transport
Portfolios held	RL Sustainable Corporate Bond Trust RL Sustainable Short Duration Corporate Bond Fund RL Sustainable Managed Growth Trust RL Global Sustainable Credit Fund RL Sustainable Diversified Trust RL Sustainable Growth Fund

### Summary

- UK provider of roadside assistance
- Committed to reach net zero for operational emissions by 2035
- Bond is backed by the AA's whole business securitisation

### Company overview

AA Bond Co Ltd is a funding vehicle for AA Ltd, a UK provider of roadside assistance with a fleet of 2,700 patrols serving 14 million members. In 2025, the AA attended 3.5 million breakdowns with patrols typically reaching members in under an hour and having them back on the road within about 30 minutes of their arrival.<sup>1</sup> Alongside its core roadside business, the company offers a comprehensive suite of driving-related services, such as driving schools, and serves as a broker and underwriter of motor and home insurance policies.

### The case for reliable roadside support

The AA provides an essential service which improves road safety, giving customers peace-of-mind that they will receive timely assistance in what can be higher-stress situations like roadside breakdowns. The cost of the AA's offering is also relatively affordable, enabling customers to save on potentially very costly breakdown assistance. Operationally, we view positively the company's commitment to addressing its own carbon footprint, with a target to be net zero by 2035.<sup>2</sup> AA demonstrated progress towards this target in 2025, more than quadrupling the number of alternative fuel vehicles in its fleet and launching the UK's first fully electric recovery truck.<sup>3</sup>

1. [The AA FY25 Results](#)  
2. [Planet | The AA](#)  
3. [esg-fy25-final.pdf](#)

## Investment thesis

The nature of the services provided by the AA and its contribution to improving road safety makes it a strong fit for our sustainable funds. Beyond these strong sustainable credentials, we believe AA bonds can offer potentially attractive risk-adjusted returns. Our lending is through a whole business securitisation structure (WBS), giving us a senior secured lending position and improving recovery prospects in a default scenario. In addition, the WBS structure protects bondholders through a series of covenants that limit AA's ability to take actions that would be detrimental to bondholders, such as limits on the issuance of new senior secured debt and restrictions on dividend payments. These covenants serve both to maintain bondholders' position as well as to help align the interests of bondholders and shareholders, potentially disincentivising actions which are unfriendly to bondholders. As WBS structures are less well understood by the market, which is dominated by senior unsecured bonds, these bonds also offer excess spread for the rating.

## EQUITY

### Company name: Diploma

Security held	Diploma
Headquarters	UK
Sector	Industrials
Contributing factor	Social and environmental infrastructure
Portfolios held	RL Sustainable Leaders RL Sustainable Global Equity Fund

### Summary

- Diploma is a value-added distributor of industrial components and medical equipment
- Its products and services enable resource efficiency
- Strong track record of growing revenues and profit margins

### Company overview

Diploma was originally incorporated in 1931 and listed on the London Stock Exchange in 1960. Over the years, through a series of acquisitions Diploma has evolved from a UK-focused collection of cyclical industrial businesses into a global specialist distributor operating in niche markets across controls, seals and life sciences. Approximately 20% of the group's revenues are now generated in the UK, with the balance mostly being generated in North America and Continental Europe.

These niches share several characteristics that in our opinion strengthen Diploma's position:

- Products are mission-critical to their customers' operations, but represent a low proportion of total cost, making demand resilient.
- Diploma provides specialist technical support and valuable after-sales service, embedding it deeply in customer workflows.
- Its decentralised structure allows local businesses to maintain strong customer relationships while benefiting from group-wide procurement and operational expertise.

Today, the Diploma group is focused on three principal businesses: controls (approx. 55% of revenue), seals (approx. 30% of revenue) and life sciences (approx. 15% of revenue). The group is still actively seeking further acquisitions to accelerate growth and to build substantial, broader based businesses in the core sectors of life sciences, seals and controls.<sup>4</sup>

### The case for social and environmental infrastructure

In controls, the relevant end markets with clearer societal benefits are renewables, food & beverage and medical. These components are essential to keeping existing equipment operating safely and efficiently, supporting refurbishment and maintenance cycles that extend asset life and reduce environmental impact.

In seals, being a 'one stop shop' can be an under-appreciated positive when it comes to efficiency. For example, if a customer can place one order rather than say five separate ones, the carbon footprint of the deliveries is much lower. The reliability of these sealing solutions is also business-critical for end users. Downtime caused by seal failure can be extremely costly, reinforcing the value of Diploma's technical expertise and service model.

Last but not least, in the life sciences division, Diploma sells components to manufacturers of healthcare instruments and consumable which are sold to hospitals and laboratories. Around half of sales within this division are for diagnostics and the other half go into a surgical setting. Life Sciences operates in a complex regulatory environment, making customer switching costly and strengthening Diploma's long-term positioning.

### Investment thesis

Diploma is a business with a strong track record. It sells critical but low-cost products to a range of high growth end markets and also has exposure to industrial and construction activity, primarily in the US. In our opinion its strategy of acquiring niche businesses and allowing them to continue operating independently still has plenty of runway. The combination of mission-critical components, embedded service relationships and diversified end-market exposure makes the business difficult to disrupt. This has resulted in operating profit margins in the high teens, and strong cash generation, which the company is using to support continued organic and acquisitive growth.<sup>5</sup>

4. Royal London Asset Management 2026

5. [Diploma hails "great year" as Controls unit drives 40% profit rise](#)

## Company name: Intuitive Surgical

Security held	Intuitive Surgical
Headquarters	US
Sector	Healthcare
Theme	Next generation medicine
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

- US pioneer and market leader in minimally invasive approaches to surgery
- Intuitive Surgical's are leading to improved patient outcomes
- Well placed to capitalise on nascent robotic surgery market

### Company overview

Founded in 1995, Intuitive Surgical went public in 2000 and currently employs around 14,000 people worldwide. Intuitive Surgical manages two main robotics systems – da Vinci, now in its 5th iteration, and Ion. These systems are supplemented by advanced instruments, such as a comprehensive suite of stapling, energy and digital solutions for the two systems.

In addition, Intuitive Surgical offers learning platforms for the surgeons and operating room care teams and services such as maintenance, analytics support and consulting. As of September 2025, over 17 million procedures have been performed with da Vinci systems, with over 11,000 systems installed in hospitals globally. Intuitive Surgical is a highly R&D intensive company, having published over 43,000 peer-reviewed articles to date.<sup>6</sup>

## The case for next generation medicine

Surgery is changing, as minimally invasive surgery (MIS) approaches increasingly replace open surgery. Intuitive Surgical designs, manufactures, and markets robotic surgical systems and equipment.

MIS techniques are transforming surgery in every area of therapy, reducing complications, infections, length of hospital stay and rehabilitation time, and lowering the overall cost of treatment.<sup>7</sup> This is particularly true of robotic surgery, where Intuitive Surgical's da Vinci platform dominates the growing demand for robotic assistance.<sup>8</sup>

### Investment thesis

Despite the progress that Intuitive Surgical has made with its da Vinci systems, robotic surgery remains in its infancy. As such, there is a potentially large scope for robotic surgical technology to grow. On top of a strong structural trend towards robotic surgery, as a pioneer and market leader, Intuitive Surgical's investment case is built upon its competitive advantage, relentless innovation and broadening data analytics offerings. In our opinion, this leaves it well placed to capitalise on the multi-year expansion as robotic technology disrupts traditional surgery.<sup>8</sup>

6. [Articles from Intuitive Surgical, Inc. | FinancialContent](#)

7. [Minimally invasive surgery - Mayo Clinic](#)

8. Royal London Asset Management 2026

## 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:** Investing in assets denominated in a currency other than the base currency of the Fund means the value of the investment can be affected by changes in exchange rates.

**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.

**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.

## 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](http://www.rlam.com)

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For more information on the funds or trusts 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).

Issued in March 2026 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.

Ref: PDF RLAM PD 0309

