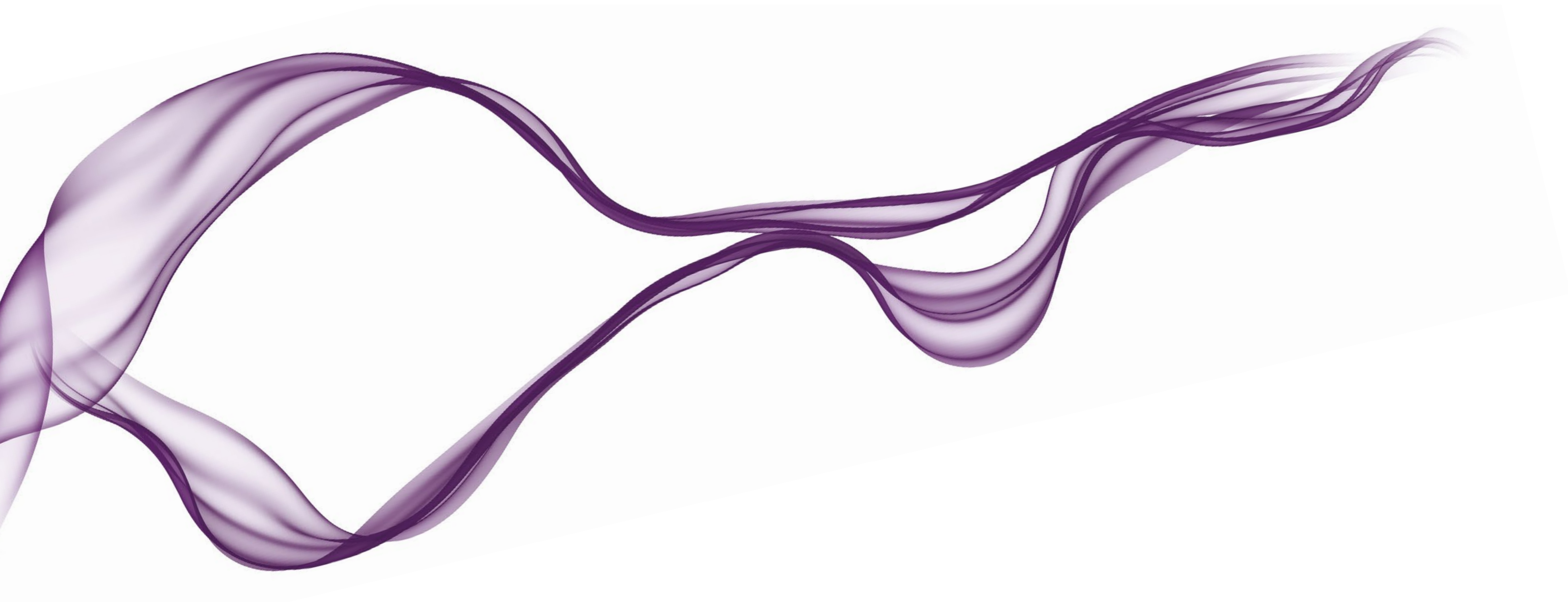
Sustainable quarterly report

Q4 2023

ROYAL LONDON
ASSET MANAGEMENT



Contents

Introduction

Sustainable investing is a modern and inclusive method of embedding values in investing. The conceptual difference compared to responsible investing is that the screening is positive – rather than 'screening out', we 'screen in'. It is about doing good, rather than avoiding bad.

Performance

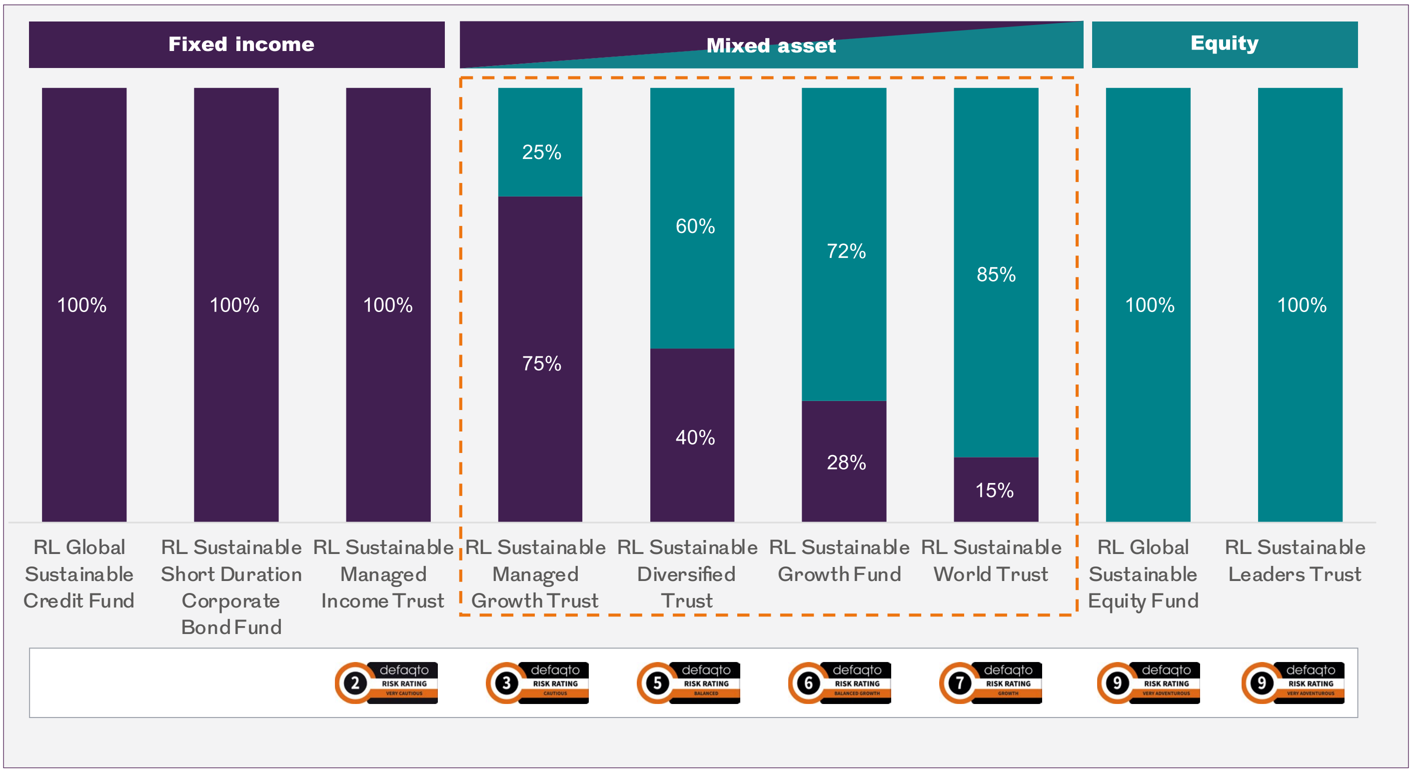
	Q4 2023 (%)	1 year (% p.a.)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)	Fund size (£m)	Inception date
Fixed Income							
Global Sustainable Credit Fund (USD)	**8.13**	**8.78**	**-**	**-**	**-2.95**	USD 468.8m	10.02.21
Lipper Bond Global Corporates USD Median	11.93	8.40	-	-	-3.14		
Relative	-3.80	0.38	-	-	0.19		
Sustainable Short Duration Corporate Bond Fund	**4.64**	**8.09**	**-**	**-**	**7.40**	148.8	23.11.22
IA Sterling Corporate Bond Sector	7.88	9.19	-	-	6.54		
Relative		-	-	-	-		
Sustainable Managed Income Trust	**7.35**	**9.69**	**-3.58**	**1.16**	**2.81**	255.0	07.12.12
IA Sterling Corporate Bond Sector	7.88	9.19	-3.88	0.95	2.52		
Relative	-0.53	0.50	0.30	0.21	0.29		
Mixed Asset							
Sustainable Managed Growth Trust	**7.70**	**11.57**	**-1.20**	**3.79**	**4.94**	828.1	04.12.12
IA Mixed Investment 0%-35% Shares Sector	5.74	6.13	-0.70	2.27	2.69		
Relative	1.96	5.44	-0.50	1.52	2.25		
Sustainable Diversified Trust	**7.70**	**13.23**	**1.89**	**7.94**	**8.76**	3,453.7	24.07.09
IA Mixed Investment 20%-60% Shares Sector	5.83	6.94	1.27	3.92	5.36		
Relative	1.87	6.29	0.62	4.02	3.40		
Sustainable Growth Fund	**7.59**	**14.12**	**-**	**-**	**8.98**	118.4	24.05.22
IA Mixed Investment 40-85% Shares Sector	5.75	8.29	-	-	6.62		
Relative	1.84	5.83	-	-	2.36		
Sustainable World Trust	**7.97**	**15.18**	**4.01**	**11.96**	**11.47**	2,985.6	21.09.09
IA Mixed Investment 40%-85% Shares Sector	5.75	8.29	2.85	5.89	6.44		
Relative	2.22	6.89	1.16	6.07	5.03		
Equity							
Global Sustainable Equity Fund	**9.13**	**21.66**	**7.74**	**-**	**13.01**	287.1	25.02.20
IA Global Sector	6.70	12.72	6.07	-	8.72		
Relative	2.43	8.94	1.67	-	4.29		
Sustainable Leaders Trust	**4.40**	**10.54**	**6.44**	**10.02**	**8.16**	3,144.5	29.05.90*
IA UK All Companies Sector	3.92	7.72	5.71	5.99	7.39		
Relative	0.48	2.82	0.73	4.03	0.77		

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: Royal London Asset Management as of 31 December 2023. All figures supplied are net of fees and of tax. Fund performance shown is based on the C Acc share class, which is the clean share launched post RDR except for RL Sustainable Diversified Trust which is C Inc share class and RL Global Sustainable Equity Fund, RL Global Sustainable Credit Fund which are based on the M Acc share class. All IA Sector performance shown is for the median.

* The inception date of the RL Sustainable Leaders Trust is 29 May 1990, inception figures shown are since 1 January 2004 when we implemented the sustainable investment process.

Range overview



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For illustrative purposes – reflects approximate percentage asset allocation, weightings may vary.
A Risk Rating of 1 indicates that a proposition represents the lowest risk; a Risk Rating of 10 indicates the highest level of risk. Currently, no funds are mapped to level 1. These bands have been created in partnership with Moody's Analytics, and Defaqto have a robust process that reviews funds and the levels that they map to on a quarterly basis. Source: Royal London Asset Management as at 31 December 2023.

Key data

Global Sustainable Credit Fund

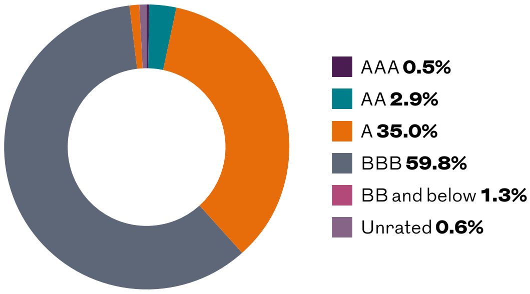
Fund facts

Fund size	USD 468.8m
Inception date	10.02.2021
No. of holdings	266
Gross redemption yield †	5.2%

Ten largest holdings

	Fund (%)
Lloyds Banking Group	1.3
XYLEM	1.0
Lloyds Banking Group	1.0
Republic Services	1.0
HSBC Holdings	0.9
NN Group	0.9
Legal & General	0.9
Prudential	0.9
Ecolab	0.9
Phoenix Group	0.8
Total	**9.6**

Credit rating



Sector breakdown

	Fund (%)	Index (%)
Banks and Financial Services	29.1	28.2
Utilities	14.2	8.4
Insurance	15.0	4.7
Consumer Goods	7.8	14.2
General Industrials	10.5	17.5
Consumer Services	6.7	14.9
Telecommunications	6.3	7.1
Real Estate	5.1	4.3
Structured	4.2	0.3
Social Housing	1.4	0.3

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Source: Royal London Asset Management as at 31 December 2023. Figures may be subject to rounding.

† Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Key data

Sustainable Short Duration Corporate Bond Fund

Fund facts

Fund size	148.8
Inception date	23.11.22
No. of holdings	237
Benchmark index	ICE BofAML GBP Non-Gilt (1-5 Yrs)
Investment association sector	IA Sterling Corporate Bond
Gross redemption yield†	6.1%

Ten largest holdings

	Fund (%)
Aviva Plc 6.125% Vrn 14/11/2036	1.9%
Bazalgette Finance Plc 2.375% 29/11/2027	1.5%
Lloyds Banking Group Plc 6.625% 02/06/2033	1.5%
Legal And General Group 5.375% 27/10/2045	1.4%
Evershot Funding Plc 6.697% 22/02/2035	1.4%
Porterbrook Rail Finance 7.125% 20/10/2026	1.3%
HSBC Holdings Plc 8.201% Vrn 16/11/2034	1.3%
HSBC Bank Funding Sterling LP 5.844% 31/12/2079	1.3%
Western Power Distribution West MI 6% 09/05/2025	1.2%
Principality Building Society 8.625% 12/07/2028	1.2%
Total	**14.0%**

Credit rating

- AAA **4.5%**
- AA **10.1%**
- A **25.9%**
- BBB **53.9%**
- BB and below **5.6%**
- Unrated **0.0%**

Sector breakdown

	Fund (%)	Index (%)
Banks & Financial Services	25.6	31.9
Consumer Goods	-	6.4
Consumer Services	6.8	2.7
Foreign Sovereigns	-	0.9
General Industrials	0.6	3.9
Insurance	17.4	4.2
Covered	1.2	2.8
Real Estate	5.9	2.3
Social Housing	6.3	0.5
Structured	23.2	4.0
Supranationals & Agencies	1.8	34.8
Telecommunications	0.3	1.9
Utilities	10.8	4.1
Total	**100.0**	**100.0**

Denotes sector with element of security, covenant etc

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Key data

Sustainable Managed Income Trust

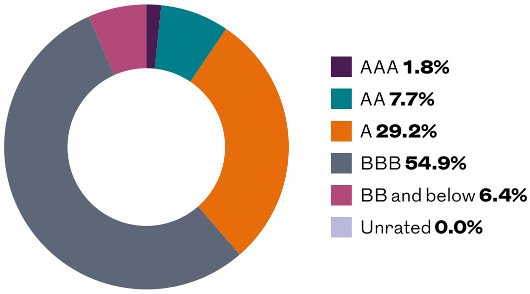
Fund facts

Fund size	£255.0m
Inception date	07.12.12
No. of holdings	268
Benchmark index	Markit iBoxx GBP Non Gilts
Investment association sector	IA Sterling Corporate Bond
Gross redemption yield†	6.3%

Ten largest holdings

	Fund (%)
Aviva 6.875% Vrn 20/05/2058	1.9%
Legal And General Group 5.5% Vrn 27/06/2064	1.9%
HSBC Bank 5.375% Vrn 04/11/2030	1.5%
Prudential Plc 6.34% 19/12/2063	1.3%
HSBC Bank Fund 5.844% Vrn Perp	1.2%
Guiness Trust 7.5% Vrn 19/12/2063	1.2%
Sunderland 6.38% 31/03/2042	1.2%
HAVFND_97 8.125% 30/09/2037	1.1%
Harbour Funding 5.28% 31/03/2044	1.0%
HSBC Holdings Plc 8.201% Vrn 16/11/2034	1.0%
Total	**13.3%**

Credit rating



Sector breakdown

	Fund (%)	Index (%)
Banks and Financial Services	21.3	22.4
Consumer Goods	-	6.0
Consumer Services	4.0	5.3
Foreign Sovereigns	-	0.6
General Industrials	0.4	3.8
Index Linked Bonds	-	-
Insurance	17.7	5.0
Covered	-	1.7
Investment Trusts	-	-
Real Estate	5.1	3.1
Social Housing	16.6	4.7
Structured	28.3	7.3
Supranationals & Agencies	1.3	25.2
Telecommunications	0.4	4.5
Utilities	4.9	10.4
Total	**100.0**	**100.0**

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Key data

Sustainable Managed Growth Trust

Fund facts

Fund size	£828.1m
Inception date	04.12.12
No. of holdings	275
Underlying yield†	2.8%

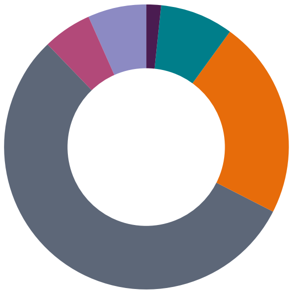
Ten largest holdings

	Fund (%)
Aviva	1.5
HSBC Holdings	1.1
M&G	0.9
AstraZeneca	0.8
Thermo Fisher Scientific	0.8
Santander	0.8
Scottish Widows	0.8
Lloyds Banking Group	0.8
Investec	0.8
Compass Group	0.8
Total	**9.1**

Equity sector breakdown

	Equity (%)
Industrials	7.6
Technology	5.2
Financials	3.7
Consumer Discretionary	3.3
Health Care	4.2
Consumer Staples	0.7
Utilities	0.8
Basic Materials	1.2
Real Estate	0.0
Energy	0.0
Telecommunications	0.0
Total	**26.7**

Credit rating



Fixed Income sector breakdown

	Fixed Income (%)
Banks & Financial Services	16.2
Consumer Goods	-
Consumer Services	3.3
General Industrials	0.2
Gilts	-
Index Linkers	-
Insurance	14.6
Covered	0.2
Real Estate	3.5
Social Housing	11.3
Structured	19.0
Supranationals & Agencies	1.7
Telecommunications	0.5
Utilities	3.1
Total	**73.6**

Denotes sector with element of security, covenant etc

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† The underlying yield is for the C Acc share class.

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Key data

Sustainable Diversified Trust

Fund facts

Fund size	£3,453.7m
Inception date	24.07.09
No. of holdings	306
Underlying yield†	1.6%

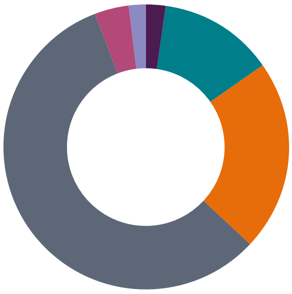
Ten largest holdings

	Fund (%)
Schneider Electric	2.4
London Stock Exchange Group	2.3
Compass Group	2.3
Sage Group	2.3
Nordson	2.1
AstraZeneca	2.1
Visa	2.1
Thermo Fisher Scientific	2.1
Microsoft	2.0
SSE	1.8
Total	**21.5**

Equity sector breakdown

	Equity (%)
Industrials	17.3
Technology	11.3
Financials	10.8
Health Care	8.2
Consumer Discretionary	5.0
Basic Materials	2.4
Utilities	1.8
Consumer Staples	2.4
Real Estate	0.0
Energy	0.0
Telecommunications	0.7
Total	**59.9**

Credit rating



Fixed Income sector breakdown

	Fixed Income (%)
Banks & Financial Services	9.3
Consumer Services	2.1
Index Linkers	0.0
Gilts	0.6
Insurance	7.3
Covered	0.7
Real Estate	1.4
Social Housing	4.3
Structured	7.8
Supranationals & Agencies	0.9
Telecommunications	0.8
Utilities	3.9
Total	**39.1**

Denotes sector with element of security, covenant etc

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Key data

Sustainable Growth Fund

Fund facts

Fund size	£118.4m
Inception date	24.05.22
No. of holdings	214
Underlying yield†	1.4%

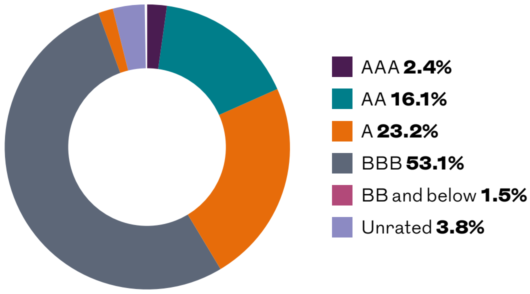
Ten largest holdings

	Fund (%)
Microsoft	3.3
Alphabet	3.2
Visa	3.1
Thermo Fisher Scientific	2.8
Canadian National Railway	2.8
Schneider Electric	2.7
AstraZeneca	2.5
TSMC	2.5
London Stock Exchange Group	2.0
IMCD	2.4
Total	**27.3**

Equity sector breakdown

	Equity (%)
Industrials	19.7
Technology	19.2
Health Care	13.0
Financials	10.9
Consumer Discretionary	6.1
Utilities	1.5
Basic Materials	4.0
Consumer Staples	1.3
Real Estate	-
Energy	-
Telecommunications	-
Total	**75.7**

Credit rating



Fixed Income sector breakdown

	Fixed Income (%)
Banks & Financial Services	5.6
Consumer Goods	-
Consumer Services	1.4
General Industrials	0.2
Gilts	-
Index Linkers	-
Insurance	4.3
Covered	0.3
Real Estate	1.1
Social Housing	2.2
Structured	5.4
Supranationals & Agencies	0.9
Telecommunications	0.2
Utilities	2.9
Total	**24.5**

Denotes sector with element of security, covenant etc

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Key data

Sustainable World Trust

Fund facts

Fund size	£2,985.6m
Inception date	21.09.09
No. of holdings	228
Underlying yield†	1.0%

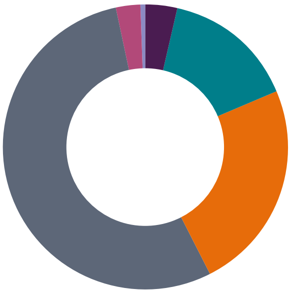
Ten largest holdings

	Fund (%)
Microsoft	3.8
Alphabet	3.7
Visa	3.5
Thermo Fisher Scientific	3.2
Canadian National Railway	3.1
Schneider Electric	3.1
AstraZeneca	2.9
TSMC	2.8
London Stock Exchange Group	2.7
IMCD	2.7
Total	**31.5**

Equity sector breakdown

	Equity (%)
Industrials	20.1
Technology	18.0
Health Care	14.4
Financials	15.7
Consumer Discretionary	4.2
Basic Materials	3.0
Utilities	1.7
Consumer Staples	4.1
Real Estate	0.0
Energy	0.0
Telecommunications	3.5
Total	**84.7**

Credit rating



Fixed Income sector breakdown

	Fixed Income (%)
Banks & Financial Services	3.6
Consumer Goods	-
Consumer Services	0.7
General Industrials	-
Gilts	0.2
Index Linkers	-
Insurance	2.9
Covered	0.4
Real Estate	0.5
Social Housing	1.5
Structured	2.4
Supranationals & Agencies	0.4
Telecommunications	0.3
Utilities	1.0
Total	**13.9**

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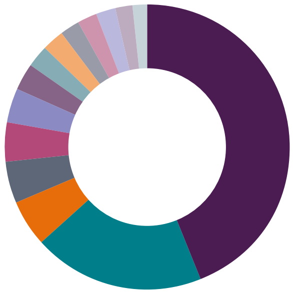
Key data

Global Sustainable Equity Fund

Fund facts

Fund size	£287.1m
Inception date	25.02.20
No. of holdings	44
Historic yield†	0.5%

Country allocation



Ten largest holdings

	Fund (%)
Microsoft	4.3
Schneider Electric	3.3
Texas Instruments	3.2
Wabtec	3.1
Visa	3.0
HDFC Bank	3.0
Thermo Fisher Scientific	3.0
AstraZeneca	3.0
SSE	2.7
TSMC	2.6
Total	**31.2**

Sector breakdown

	Fund (%)	**Index (%)**
Information Technology	25.7	25.3
Industrials	28.5	13.0
Financials	12.1	14.1
Health Care	15.0	11.1
Consumer Discretionary	10.6	13.9
Consumer Staples	2.0	5.8
Utilities	2.8	2.9
Communication Services	-	-
Real Estate	1.5	2.4
Basic Materials	2.0	3.7
Energy	0.0	4.8
Telecommunications	0.0	3.1
Cash	0.0	0.0

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† Historic yield is for the M Acc share class.

The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. Reported yields reflect Royal London Asset Management's current perception of market conventions around timing of bond cash flows.

Key data

Sustainable Leaders Trust

Fund facts

Fund size	£3,144.5m
Inception date	1990 (unit launch date 26.11.12)
Index	FTSE All-share
No. of holdings	40
Underlying yield†	1.9%

Ten largest holdings

	Fund (%)
AstraZeneca	5.8
RELX	5.5
London Stock Exchange Group	5.5
Compass Group	5.1
Sage Group	4.9
SSE	4.8
Standard Chartered	4.2
Experian	4.1
HSBC Holdings Plc	3.7
Schneider Electric SE	3.4
Total	**47.0**

Sector breakdown

	Fund (%)	Index (%)
Industrials	24.7	11.5
Financials	19.7	23.5
Health Care	15.1	11.3
Consumer Discretionary	13.0	12.1
Information Technology	8.3	1.3
Utilities	6.6	3.7
Consumer Staples	6.2	14.2
Real Estate	3.8	2.7
Basic Materials	2.7	7.5
Energy	0.0	11.1
Telecommunications	0.0	1.2
Cash	-	-

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Executive summary

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. While the sustainable funds have different mandates, risk profiles, asset mixes and geographical exposures, equity exposure is driven by the same underlying team, philosophy and process. Many of our key stocks will be held across several portfolios.

A backdrop of positive returns in both equity and fixed income markets was helpful for overall returns during the quarter, although our funds also outperformed these underlying markets over the period, further helping returns.

Performance

Sustainable equity strategies and mixed-asset equity portfolios

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 net benefit to society is consistent with outperformance over the medium term. While the sustainable funds have different mandates, risk profiles, asset mixes and geographical exposures, equity exposure is driven by the same underlying team, philosophy and process.

Combined with ongoing macroeconomic uncertainty one thing 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. We consider our portfolios to be more diversified and lower risk than 18 months ago and would it to be relatively more resilient if we do enter a period of slowing economic growth or recession.

The **Sustainable Leaders** fund outperformed its wider index-based benchmark (FTSE All-Share) over the fourth quarter (net of fees) and during 2023, delivering positive performance. Once it became clear that inflation was on a downward path and the Federal Reserve made a pivot about cutting interest rates, this was positive for equity markets. The consequences were also good for several areas that we invest in, so the fourth quarter transformed the narrative for the overall year.

Contributors to performance in the fourth quarter: It was no surprise that the technology sector did well as this tends to be thought of as a long duration equity sector. Sage saw strong results in the quarter and was up 20% in the month of December alone – our biggest overweight position in the fund. Microsoft, which is a smaller holding, was up over 13% in the quarter also after producing good results. Real estate outperformed in the period under review as another beneficiary of lower interest rates. Real estate is an area that uses a lot of debt to finance itself and our two real estate holdings Segro and Unite, gained 25% and 18% respectively.

We continued to build a holding in Dr Marten's, the well-known shoemaker, which we believe has an interesting sustainability story due to the longevity of their products. As a sustainable fund, we are against fast fashion and for products that last a long time. Dr Marten's boots, looked after well, can last over 10 years. Ashtead is another name that we added to in the fourth quarter. The company is in the construction equipment rental business, so plays well into US infrastructure investment, which is increasing markedly in the coming years.

For Global Sustainable Equity, the fund outperformed the MSCI All-Countries World Index (ACWI) benchmark during the fourth quarter. Generally supportive macroeconomic data, and more recently in December, the first signs of a pivot by the US Federal Reserve in terms of the interest rate narrative have meant that the fourth quarter has been one of the strongest for global equity markets for a long time. The best performing sectors in the quarter were information technology, real estate and industrials. The tech sector continues to benefit from the excitement around artificial intelligence (AI) and real estate is a sector that stands to benefit from falling interest rates. Industrials experienced a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The only sector that was negative in the quarter was energy, where we have zero exposure given our sustainable approach.

Our top contributor to performance was **TopBuild** which provides insulation to the US residential housing sector. This company has benefited from strong execution by the management team, accretive acquisitions and from US housing being seen as a key beneficiary of a resilient economic backdrop and falling interest rates in 2024. Dutch distributor of specialty chemicals **IMCD** had been facing headwinds due to its customers holding excess inventory and we saw evidence in the quarter that those inventory levels were now starting to normalise, benefitting the company's share price. A key detractor during the quarter was **Rentokil**, the global leader in pest control and hygiene, where its share price declined after it reported a surprising slowdown in growth in its US business.

We exited our position in Agilent, which is a US life science tool provider and started a position in Hologic, a diagnostics company that focuses on Women's Health. Hologic was a big beneficiary of the Covid-19 pandemic as it saw growth accelerate as it placed a greater number of its diagnostics machines and has since seen its core growth accelerate too. We believe its valuation underappreciates higher growth going forwards. We also started a position in Core and Main, a leading distributor of water infrastructure products in the United States.

Sustainable mixed-asset equity portfolios – Sustainable World, Sustainable Diversified and Sustainable Growth funds

The funds performed well during the quarter, helped by strong gains in global equity markets. Generally supportive macroeconomic data, and more recently in December, the first signs of a pivot by the US Federal Reserve in terms of the interest rate narrative have meant that the fourth quarter has been one of the strongest for global equity markets for a long time. The best performing sectors in the quarter were information technology, real estate and industrials. The tech sector continues to benefit from the excitement around artificial intelligence (AI) and real estate is a sector that stands to benefit from falling interest rates. Industrials experienced a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The only sector that was negative in the quarter was energy, where we have zero exposure given our sustainable approach.

Within our equity exposure, our top contributors to performance included **Microsoft**, which was up over 13% in the quarter also after producing good results. It was no surprise that the technology sector did well as this tends to be thought of as a long duration equity sector. Dutch distributor of specialty chemicals **IMCD** had been facing headwinds due to its customers holding excess inventory and we saw evidence in the quarter that those inventory levels were now starting to normalise, benefitting the company's share price.

The credit exposure for the funds produced positive absolute returns for the quarter, with the impact of rising gilt yields mitigated by a narrowing in credit spreads and the income on the portfolios. On a relative basis, our credit exposure outperformed the market (iBoxx Sterling Non-Gilt index). The main positive driver of performance was our sector positioning, notably our underweight position in supranationals, which continued to lag the wider market.

Sustainable sterling credit strategies

Our credit-only fund **Sustainable Managed Income** and the credit exposure within our **Sustainable Managed Growth** strategy produced a positive absolute return for the quarter, thanks to the impact of falling gilt yields, narrower credit spreads and the income on the portfolios. On a relative basis, the portfolios performed broadly in line with the iBoxx Sterling Non-Gilt index. The credit-only fund **Sustainable Short Duration Corporate Bond fund** also produced a positive absolute return for the quarter, thanks to the impact of falling gilt yields, narrower impact of falling gilt yields, narrower credit spreads and the income on the portfolios. On a relative basis, the fund outperformed its benchmark index.

The main positive driver of performance was our sector positioning, notably our underweight position in supranationals, which continued to lag the wider market having done so in the third quarter. Stock selection effects were mixed: we saw positive selection in insurance bonds, notably longer dated subordinated bonds from **M&G** and **Legal & General**, but this was outweighed by negative selection effects in structured bonds, which generally have a lower sensitivity to wider market moves.

Our sterling credit fixed income strategies are generally positive on the banking sector, particularly subordinated bonds. Whilst most banks will be well resourced to meet the needs of external ESG rating providers, and will look very attractive on a scope 1 and 2 emissions basis, we think there is no substitute for in-house primary sustainability analysis. Our more rigorous sustainable approach has led to more selective financials exposure than other funds, although with banks performing in line with the benchmark in the fourth quarter, this had little impact on performance.

In addition, our holding in Thames Water was also a detractor from performance over the quarter. We maintained exposure to Thames Water as part of a diversified portfolio, based on the attractiveness of the overall blended yield across holdings in operating company and holding company debt. Whilst structurally junior holding company debt underperformed and was downgraded, our larger exposure to the operating company debt was beneficial for performance over the quarter. We continue to believe that the sector remains attractively valued – largely based on our view that spreads in the sector overcompensate when compared to other regulated infrastructure assets such as UK electricity distribution.

The equity exposure within our mixed-asset fund **Sustainable Managed Growth** saw positive returns over the quarter. Generally supportive macroeconomic data, and more recently in December, the first signs of a pivot by the US Federal Reserve in terms of the interest rate narrative have meant that the fourth quarter has been one of the strongest for global equity markets for a long time. The best performing sectors in the quarter were information technology, real estate and industrials. The tech sector continues to benefit from the excitement around artificial intelligence (AI) and real estate is a sector that stands to benefit from falling interest rates. Industrials experienced a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The only sector that was negative in the quarter was energy, where we have zero exposure given our sustainable approach.

It was no surprise that the technology sector did well as this tends to be thought of as a long duration equity sector. Sage saw strong results in the quarter and was up 20% in the month of December. Dutch distributor of specialty chemicals IMCD had been facing headwinds due to its customers holding excess inventory and we saw evidence in the quarter that those inventory levels were now starting to normalise, benefitting the company's share price. A key detractor during the quarter was Rentokil, the global leader in pest control and hygiene, where its share price declined after it reported a surprising slowdown in growth in its US business.

Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

In tune with the other major central banks, and potentially marking the high point in the UK interest rate cycle, the Bank of England left interest rates unchanged over the period. The Monetary Policy Committee continued to be split – at the December meeting three of the nine members were still voting for a rate hike. UK inflation has fallen significantly, with the annual inflation rate falling to 3.9% in November. This is the lowest rate of increase in over two years. However, this remains well above the BoE 2% target, with core and wage inflation significantly higher than the headline rate. Going into December, equities had sharply rebounded from their October lows as investor sentiment recovered thanks to the goldilocks scenario of falling inflation combined with generally resilient growth, with the fall in inflation and a change in narrative from the US Federal Reserve leading to hopes of rate cuts in 2024.

The sterling investment grade credit market (iBoxx non-gilt index) returned 7.35% over the quarter, helped by lower government bond yields and tighter credit spreads. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightened from 1.38% to 1.15% (iBoxx).

The US dollar appreciated by 5.85% against the yen, by 4.34% against the euro, and by 4.44% against sterling. On a translational basis, sterling's strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit any emerging markets countries and companies that have borrowed in dollars.

Outlook

As fund managers, we create our own investment identity which we imprint on markets. This identity can be a function of objective evidence as to what delivers performance in the long run, beliefs such as the importance of sustainability and the strengths and weaknesses of the people who are enacting it. Done thoughtfully and applied consistently, we believe this is the path to long-term investment success. Alongside this we are market observers. Each day there is messaging from within and across asset classes as to what is occurring in the global economy. Sometimes this is right, and sometimes this is wrong, but it is always worth paying attention to. What are the trends in the global economy markets are pointing to today?

One message we've been giving consistently through 2023 has been that whilst the macro-outlook for the economy and markets is unclear, the micro-outlook for industries and companies is much more certain. There are many definable societal and investment trends (the two often go hand in hand) which we believe will occur regardless of whatever path interest rates, inflation and the economic cycle take.

The first of these is digitisation. This is an area which was supercharged by the pandemic as working from home and hybrid working became more embedded in society. As this has lessened as a driver of future digitisation, generative artificial intelligence has come along to increase investor interest in this area again. Like all forms of new technology, hype and fact need to be carefully separated, but it seems likely to us this form of AI will be transformative.

The first reason for this is the speed in which it has been released. It took seven years to reach 100 million internet users, while it has taken two months for generative AI. Never has such a powerful piece of technology been scaled so fast. Although there will inevitably be concerns about this, the productivity and skills improvement that will come along with it could solve many of the problems, including inflation and shortage of labour, that we see today.

The second area is decarbonisation. On some levels this has seen something of a setback as the war in Ukraine and subsequent withdrawal of Russian gas has meant more coal has had to be burnt to create the energy will all need. The recent roll back of net zero initiatives by some governments has also increased the sense that decarbonisation is being put on hold. At the corporate level though, nothing could be further from the truth.

Carbon is an expensive commodity. Most corporates see this through the energy they use. Energy efficiency, and cheaper forms of energy such as solar, are effective cost saving mechanisms regardless of the environmental implications of carbon burning. Also, many companies will only deal with other companies which are committed to their own decarbonisation, due supply chain carbon emissions impacting calculations of the carbon intensity of their own businesses. These factors and others are creating a strong drive to decarbonisation whatever the political backdrop.

Finally, healthcare outcomes are on a defined and improving trend. This is not new, but there are new disease categories, such as obesity and Alzheimer's, which are now becoming treatable. This adds to the increasing treatability of other areas such as cancer, which could lead to this disease becoming a chronic, rather than fatal one, within the next decade or so.

Perhaps the only certainty for 2024 is it will turn out differently to how we expect. Our solution is to follow the greater certainty of industry and company trends, which should remain robust whatever happens to broader economic trends.

Within credit markets, as we came into November 2023, we felt that the all-in yield on sterling investment grade credit was looking very attractive, having risen significantly since the start of the year. The falls in gilt yields since then have largely reversed those rises. We focus on three sources of return: gilt yields, market credit spreads, and the additional credit spread we generate over credit benchmarks. Whilst ten-year gilt yields of 3.5% are not as attractive as the 4.5% seen in October, we feel that the excess yield available on investment grade credit overcompensates for default risk. Further, the additional yield embedded in our strategies, over that available from credit benchmarks, gives us confidence in our ability to deliver long-term outperformance.

Sustainable fund themes

When looking at our portfolios, certain themes emerge. It is important to remember that themes come out of stock selection rather than the other way around. Each stock or bond in our sustainable funds has to meet our sustainable and financial criteria – we will not buy because a stock or bond represent a theme. We think it important to have the flexibility to evolve as society evolves, ensuring that at all times we are investing in the most relevant themes and those most likely to deliver strong investment returns. Our current themes are as follows.

- Circular Economy & Environmental Efficiency
- Cleaner & Safer Transport
- Community Funding
- Digital World
- Energy Transition
- ESG Leadership
- Financial Inclusion & Resilience
- Hygiene & Wellbeing
- Industry 4.0
- Knowledge & Learning
- Next Generation Medicine
- Social & Environmental Infrastructure
- Social Housing

Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

Source: Royal London Asset Management internal sustainable themes, for illustrative purposes only. As at 31 December 2023.

Risk mapping

	Defaqto Risk	Dynamic Planner	EValue‡	FinaMetrica	Oxford Risk	Defaqto Diamonds
Global Sustainable Credit Fund	Fund launched February 2021.					
Sustainable Short Duration Corporate Bond Fund	Fund launched November 2022.					
Sustainable Managed Income Trust	Risk Rating 2 defaqto	Dynamic Planner Profiled 4	ev 6	FinaMetrica Score Range 0-32	Oxford Risk 1 /5 2 /7	defaqto Expert Rated Multi-Asset Return Focused 2022
Sustainable Managed Growth Trust	Risk Rating 3 defaqto	Dynamic Planner Profiled 4	ev 6	FinaMetrica Score Range 34-46	Oxford Risk 2 /5 2 /7	defaqto Expert Rated Multi-Asset Return Focused 2022
Sustainable Diversified Trust	Risk Rating 5 defaqto	Dynamic Planner Profiled 5	ev 8	FinaMetrica Score Range 53-64	Oxford Risk 3 /5 4 /7	defaqto Expert Rated Multi-Asset Return Focused 2022
Sustainable Growth Fund	Risk Rating 6 defaqto	Dynamic Planner Profiled 6	ev 9	FinaMetrica Score Range 61-73	Oxford Risk 4 /5 5 /7	Fund launched May 2022.
Sustainable World Trust	Risk Rating 7 defaqto	Dynamic Planner Profiled 7	ev 9	FinaMetrica Score Range 68-84	Oxford Risk 4 /5 5 /7	defaqto Expert Rated Multi-Asset Return Focused 2022
Global Sustainable Equity Fund	Risk Rating 9 defaqto	Dynamic Planner Profiled 8		FinaMetrica Score Range 80-100		Fund launched February 2020.
Sustainable Leaders Trust	Risk Rating 9 defaqto	Dynamic Planner Profiled 8	ev 10	FinaMetrica Score Range 80-100	Oxford Risk 5 /5 6 /7	defaqto Expert Rated Multi-Asset Return Focused 2022

Defaqto Risk Rating as at December 2023. The Dynamic Planner Risk Profile assessment of the fund is correct as at Q4 2023 and is reviewed independently by Dynamic Planner on an ongoing quarterly basis; and, if necessary, may change in future. Dynamic Planner is the brand name of the software system powered by Distribution Technology (DT). Copyright© Distribution Technology Ltd 2018 onwards.

‡ EValue Q4 2023 Report. Risk Ratings (Scale 1-10) data generated by Fund Risk Assessor on a 10-year time horizon.

The FinaMetrica Risk Tolerance Toolkit™ helps advisors and enterprises create lifetime relationships, through better advice that results in clients who refer more, invest more and remain suitably invested through market highs and lows. At Q4 2023. Finametrica scores are for each of the funds considered in isolation and are based on "OK Risk". Please refer to the Finametrica Risk Tolerance Score Mapping document on the Royal London Asset Management website.

Oxford Risk Rating as at December 2023.

Defaqto 5 Diamond rating as at December 2023.

Platform availability

nucleus	Zurich	James Hay Partnership	Standard Life	Old Mutual Wealth	ascentric
Aviva	novia	Aegon	transact take control	FundsNetwork	interactive investor

Please note not all trusts are available on all platforms.

Share class availability may vary from platform to platform, please contact your preferred platform for details. Adding funds to platforms is a demand driven process, so should your chosen RL fund not be available via your preferred platform, we would encourage you to contact your platform representative to request access.

Investment risks

Past performance is not a guide to future performance.

The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally 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.

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.

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.

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.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

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.

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.

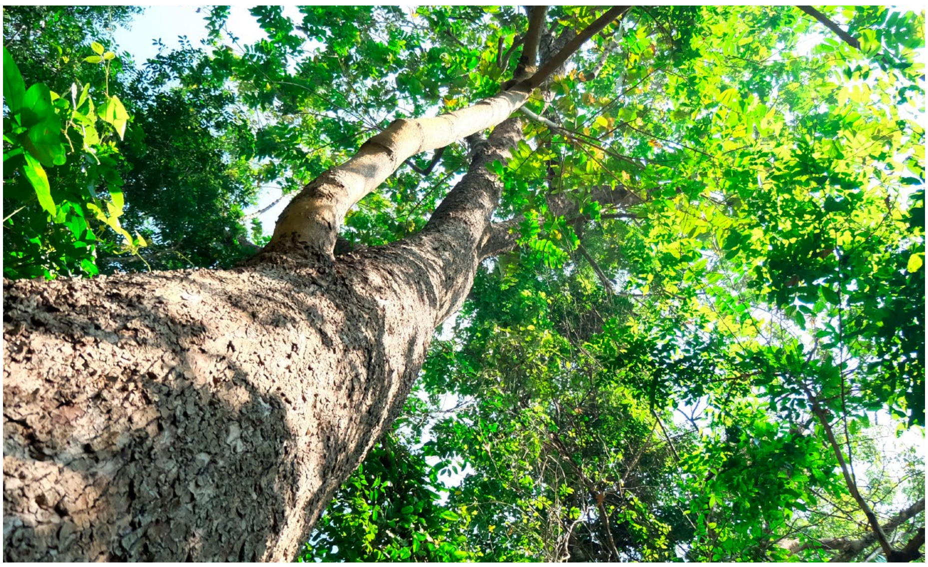
Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

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.

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.

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.

Charges from Capital Risk: Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.



RL Sustainable Leaders Trust, RL Sustainable World Trust, RL Sustainable Diversified Trust, RL Sustainable Managed Growth Trust, RL Managed Income Trust

The Trusts are authorised unit trust schemes. The Manager is RLUM Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144032. 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.

RL Global Sustainable Equity Fund

The Funds are sub-funds 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.

RL Global Sustainable Credit Fund

The Fund is a sub-fund of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000. The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L – 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Investment Manager is Royal London Asset Management Limited. 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. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

RL Sustainable Short Duration Corporate Bond Fund

The Fund is a sub-fund of Royal London Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

All information is correct at December 2023 unless otherwise stated.

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