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Royal London UK Equity Funds

Fund Manager Commentary

31 August 2024

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The purpose of this report is to provide an update on the Royal London UK Equity Funds. The report has been produced by Royal London Asset Management. The report starts with a performance summary followed by Fund Manager commentary for each of the Funds. All data within this report is at the report date unless otherwise stated.

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Performance

	1 month (%)	Rolling 12 months (%)
RL UK Equity Income Fund M Inc	-0.54	22.07
FTSE All Share Index	0.45	16.98
IA UK Equity Income Sector	0.16	17.89
RL UK Dividend Growth Fund M Acc	0.04	20.05
FTSE All Share Index	0.45	16.98
IA UK All Companies Sector	0.32	16.70
RL UK Mid Cap Growth Fund M Acc	-1.29	21.50
FTSE 250 ex-IT Index	-1.66	19.65
IA UK All Companies Sector	0.32	16.70
RL UK Opportunities Fund M Acc	-0.26	14.55
FTSE All Share Index	0.45	16.98
IA UK All Companies Sector	0.32	16.70
RL UK Smaller Companies Fund M Acc	-0.88	19.15
FTSE Small Cap ex-IT Index	0.74	24.12
IA UK Smaller Companies Sector	-1.13	19.15

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: RLAM and Morningstar, as at 31 August 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically.

Royal London UK Equity Income Fund

Portfolio commentary

During August the fund underperformed both its benchmark and the peer group median, ranking in the fourth quartile. Year to date the fund is ahead of its benchmark and ranks top quartile in its peer group.

The equity market took on a more defensive feel in August, with sectors like healthcare and consumer staples faring best. Meanwhile, sectors like materials, energy and technology struggled. With inflation seemingly now under control and interest rates on a downward trajectory, concerns have turned to how much economies might slow. The new UK government has also been at some pains to stress how stretched public finances are, leading to concerns that the budget later this year may contain some hard measures to address this.

The main detractors from the fund's performance were the holdings in Sage and Clarkson, both of whom reported results. Sage reported good growth, albeit at a level that was very slightly lower than market expectations, and Clarkson flagged that its results would be more weighted to the second half of the year. The holding in Hikma was the biggest positive contribution after the company released a positive trading update.

During the month the main activity was to reduce the holdings in 3i and IG Group and to sell out of Anglo American. Existing holdings in Glencore, Rio Tinto, and Clarkson were added to and a holding in the engineering company Spirax Sarco re-established after a period of share price weakness.

Investment outlook

We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.



Richard Marwood
Head of Equity Income



Joe Walters
Senior Fund Manager

Royal London UK Dividend Growth Fund

Portfolio commentary

During August the fund underperformed both its benchmark and the peer group median, ranking in the third quartile. Year to date the fund is ahead of its benchmark and ranks top quartile in its peer group.

The equity market took on a more defensive feel in August, with sectors like healthcare and consumer staples faring best. Meanwhile, sectors like materials, energy and technology struggled. With inflation seemingly now under control and interest rates on a downward trajectory, concerns have turned to how much economies might slow. The new UK government has also been at some pains to stress how stretched public finances are, leading to concerns that the budget later this year may contain some hard measures to address this.

The main detractors from the fund's performance were the holdings in Sage and Clarkson, both of whom reported results. Sage reported good growth, albeit at a level that was very slightly lower than market expectations, and Clarkson flagged that its results would be more weighted to the second half of the year. The holdings in Hikma and Bunzl were the biggest positive contribution after the companies released positive trading updates.

During the month the main activity was to reduce the holdings in 3i and IG Group. Existing holdings in Glencore, Clarkson and Informa were added to and a holding in the engineering company Spirax Sarco re-established after a period of share price weakness.

Investment outlook

We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.



Richard Marwood
Head of Equity Income



Joe Walters
Senior Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio commentary

The fund outperformed its benchmark during the month, returning -1.3% relative to the FTSE 250 Ex-Investment Trust return of -1.7%. Pleasingly the fund is up strongly in absolute terms so far this year and is in first quartile, ahead of the peer group.

Concerns regarding the US economy and the unwinding of a carry trade with the Japanese yen triggered a sharp sell-off in global equities at the beginning of the month. The sell-off proved short lived however, with markets recovering and rebounding strongly towards the end of the month. In the UK specifically, there was positive macroeconomic news as the Bank of England cut interest rates and the Office for National Statistics announced that the UK economy delivered robust growth in the second quarter. In a rather downbeat and sobering speech, Keir Starmer highlighted the poor state of the public finances and signalled the likelihood for tax rises in the Autumn Budget in October.

Coats and Beazley were contributors to performance as both companies released their interim results during the month. Coats delivered robust earnings growth, driven by higher revenues and margin expansion. The business also flagged improved stocking trends, which is particularly pleasing given this has been a significant headwind to revenues over the last couple of years. Beazley's profits for the first half were significantly higher than analysts' expectations, with the majority of its business lines contributing to the strong performance. The company also upgraded its guidance for its combined ratio for the full year, a key measure for insurers' underwriting performance.

Genuit and Auction Technology Group were detractors to performance. Genuit's interim results revealed lower revenues as a result of subdued activity levels in its end markets. Despite this, the company delivered an impressive margin performance demonstrating the positive progress made by the recently appointed management team to improve its operational efficiency. Auction Technology Group detracted following the release of peer and industry data which showed further weakness in industrial and commercial auction sale prices.

In terms of trading activity, the fund sold its holding in Spirent Communications (following the competitive bid by Keysight) and Rentokil (FTSE 100).



Henry Lowson

Head of Alpha



Henry Burrell

Fund Manager

Royal London UK Opportunities Fund

Portfolio commentary

The fund returned -0.3% during the month, underperforming the FTSE All Share benchmark by 0.7%. The FTSE 250 ex-IT was down sharply in August which was a headwind to fund performance.

Concerns regarding the US economy and the unwinding of a carry trade with the Japanese yen triggered a sharp sell-off in global equities at the beginning of the month. The sell-off proved short lived however, with markets recovering and rebounding strongly towards the end of the month. In the UK specifically, there was positive macroeconomic news as the Bank of England cut interest rates and the Office for National Statistics announced that the UK economy delivered robust growth in the second quarter. In a rather downbeat and sobering speech, Keir Starmer highlighted the poor state of the public finances and signalled the likelihood for tax rises in the Autumn Budget in October.

Beazley and London Stock Exchange Group (LSEG) were contributors to performance as both companies released their interim results during the month. Beazley's profits for the first half were significantly higher than analysts' expectations, with the majority of its divisions contributing to the strong performance. The company also upgraded its guidance for its combined ratio for the full year, a key measure for insurers' underwriting performance. LSEG delivered a robust set of interim results, with revenue growth accelerating in its second quarter compared to the prior quarter. The performance in LSEG's Capital Markets and FTSE Russell divisions were notably strong.

OneSavingsBank (OSB) and Auction Technology Group were detractors to performance. OSB detracted during the month as the bank guided to lower net interest income for the full year predominately as a result of heightened competition for writing mortgage loans. Whilst the update was disappointing, the bank is still expected to generate mid-teens return on tangible equity and the shares remain attractively valued with the bank trading below tangible book value. Auction Technology Group detracted following the release of peer and industry data which showed further weakness in Industrial and Commercial auction sale prices.

Trading activity during the month was quiet. The fund sold its position in Ascential following the bid by Informa in July.

Royal London UK Smaller Companies Fund

Portfolio commentary

The fund returned -0.9% during the month, but performed well relative to its UK Smaller Companies peer group performance by placing 33rd percentile.

Concerns regarding the US economy and the unwinding of a carry trade with the Japanese yen triggered a sharp sell-off in global equities at the beginning of the month. The sell-off proved short lived however, with markets recovering and rebounding strongly towards the end of the month. In the UK specifically, there was positive macroeconomic news as the Bank of England cut interest rates and the Office for National Statistics announced that the UK economy delivered robust growth in the second quarter. In a rather downbeat and sobering speech, Keir Starmer highlighted the poor state of the public finances and signalled the likelihood for tax rises in the Autumn Budget in October.

Restore and GlobalData were contributors to performance following the release of both company's interim results at the end of last month. Restore's results revealed stable revenues and positive margin progression, with the latter due to a solid performance in its Records Management division and lower group overheads. Pleasingly the headwinds which the business has faced in its Datashred and Technology divisions are easing, following improving trends in recycled paper prices and recycled IT equipment sales. GlobalData's results revealed resilient earnings growth despite the tougher backdrop of weaker corporate spending. Following the sale of a minority stake in its Healthcare division to private equity at the end of last year, the company has a substantial net cash balance sheet which will likely be used to deliver growth both organically and through acquisitions.

OneSavingsBank (OSB) and Auction Technology Group were detractors to performance. OSB detracted during the month as the bank guided to lower net interest income for the full year predominately as a result of heightened competition for writing mortgage loans. Whilst the update was disappointing, the bank is still expected to generate mid-teens return on tangible equity and the shares remain attractively valued with the bank trading on a below 1x price to tangible book value. Auction Technology Group detracted following the release of peer and industry data which showed further weakness in Industrial and Commercial auction sale prices.

The fund recently disposed of its position in Big Technologies as a result of significant insider selling and concerns we have around governance and recent contract momentum.



Henry Lowson
Head of Alpha



Henry Burrell
Fund Manager

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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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 funds 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.

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Risk 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.

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.

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.

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.

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.

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.

Smaller companies risk

The Fund invests in smaller companies, the prices for which can be less liquid and be more volatile than those of larger companies and therefore may have a greater impact on the value of the Fund.

Performance to 31 August 2024

Cumulative (%)

		3 Month	6 Month	1 Year	3 Years	5 Years
RL UK Equity Income M Inc	Gross	4.35	15.95	22.95	33.49	50.08
RL UK Equity Income M Inc	Net	4.16	15.54	22.07	30.65	44.79
RL UK Dividend Growth Fund M Acc	Gross	3.78	14.53	20.90	21.79	58.98
RL UK Dividend Growth Fund M Acc	Net	3.59	14.12	20.05	19.23	53.46
RL UK Mid Cap Growth Fund M Acc	Gross	4.71	16.82	22.43	-6.56	24.94
RL UK Mid Cap Growth Fund M Acc	Net	4.51	16.37	21.50	-8.69	20.24
RL UK Opportunities Fund M Acc	Gross	2.52	11.22	15.43	0.05	31.00
RL UK Opportunities Fund M Acc	Net	2.33	10.79	14.55	-2.22	26.07
RL UK Smaller Companies Fund M Acc	Gross	1.31	11.87	20.07	-23.04	27.27
RL UK Smaller Companies Fund M Acc	Net	1.12	11.44	19.15	-24.79	22.48

Annualised (%)

	3 Years (p.a)	5 Years (p.a)
	10.10	8.45
	9.31	7.67
	6.79	9.71
	6.03	8.93
	-2.24	4.55
	-2.98	3.75
	0.02	5.54
	-0.75	4.74
	-8.35	4.94
	-9.05	4.13

Year on year performance (%)

		30/06/2023 – 30/06/2024	30/06/2022 – 30/06/2023	30/06/2021 – 30/06/2022	30/06/2020 – 30/06/2021	30/06/2019 – 30/06/2020
RL UK Equity Income M Inc	Gross	19.10	10.10	1.64	25.22	-13.98
RL UK Equity Income M Inc	Net	18.25	9.32	0.91	24.32	-14.60
RL UK Dividend Growth Fund M Acc	Gross	15.83	12.00	-6.41	31.00	-6.72
RL UK Dividend Growth Fund M Acc	Net	15.02	11.21	-7.07	30.08	-7.38
RL UK Mid Cap Growth Fund M Acc	Gross	14.87	3.99	-19.06	31.66	-8.38
RL UK Mid Cap Growth Fund M Acc	Net	13.99	3.19	-19.68	30.65	-9.08
RL UK Opportunities Fund M Acc	Gross	12.01	9.70	-16.69	32.96	-10.32
RL UK Opportunities Fund M Acc	Net	11.15	8.87	-17.33	31.95	-11.01
RL UK Smaller Companies Fund M Acc	Gross	14.48	-6.03	-25.06	50.57	0.99
RL UK Smaller Companies Fund M Acc	Net	13.61	-6.75	-25.63	49.42	0.22

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 August 2024. All figures are mid-price to mid-price in GBP unless otherwise stated.