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Royal London UK Equity Funds

Fund Manager Commentary

31 December 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	-2.16	7.36
FTSE All Share Index	-1.16	9.47
IA UK Equity Income Sector	-1.29	8.61
RL UK Dividend Growth Fund M Acc	-2.56	7.89
FTSE All Share Index	-1.16	9.47
IA UK All Companies Sector	-1.30	8.32
RL UK Mid Cap Growth Fund M Acc	-3.06	6.57
FTSE 250 ex-IT Index	-1.08	8.42
IA UK All Companies Sector	-1.30	8.32
RL UK Opportunities Fund M Acc	-2.60	2.94
FTSE All Share Index	-1.16	9.47
IA UK All Companies Sector	-1.30	8.32
RL UK Smaller Companies Fund M Acc	-2.29	3.51
FTSE Small Cap ex-IT Index	0.59	13.78
IA UK Smaller Companies Sector	-1.04	6.11

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 December 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

The fund underperformed both its benchmark and the peer group median, ranking in the fourth quartile. For 2024 the fund trailed the benchmark return and placed 64th percentile in its peer group.

The main contributors to the fund's underperformance were the holdings in Videndum, who continue to see difficult trading in its end markets, DCC and Informa. There was no specific news in DCC or Informa, but the stocks gave back some recent gains. UK domestic companies were also weak in the month, as markets continue to worry about the impact of the recent budget and the stickiness of UK inflation. This meant that the property stocks Land Securities and Segro were relatively weak, as were the housebuilder Taylor Wimpey and the retailer Dunelm.

The most significant trade in the month was to sell some of the holding in NatWest and use the proceeds to buy Lloyds. Holdings in Segro, Croda, Ricardo and New River Retail were also added to.

Going forward there is considerable uncertainty, notably around the policies of the new incoming US President and what that will do to global trade, but equally what the authorities in China can do to resurrect an improved growth outlook and whether Europe will be able to avoid a period of stagnation. UK equities remain out of favour compared to many other markets, and this has left UK stocks at a significant valuation discount. This valuation gap is a driving force behind the large quantity of shares being bought back by companies and also the large amount of corporate activity being seen as UK businesses are acquired.

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 UK and European Equities



Max Newman

Fund Manager

Royal London UK Dividend Growth Fund

Portfolio commentary

The fund underperformed both its benchmark and the peer group median, ranking in the fourth quartile. For 2024 the fund trailed the benchmark return and placed 55th percentile in its peer group.

The main contributors to the fund's underperformance were the holdings in Ashtead, Videndum and Bunzl, all of whom revealed weaker than anticipated trading. DCC was also weak, giving up the gains made in the prior month.

The most significant trades in the month were to start new holdings in BAE and JD Sports and to add to the Ashtead position, post the share price fall. Holdings in Avon Technologies, Imperial Brands and Spirax Sarco were reduced.

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Richard Marwood

Head of UK and European Equities



Max Newman

Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio commentary

The RLAM UK Mid Cap Growth fund returned -3.1% for December, underperforming the benchmark FTSE 250 ex IT index. Stock selection in the Financials & Industrials sectors in particular detracted from performance. A disappointing end to the year for small and medium sized companies meant that whilst the returns generated by the fund were solid in absolute terms, the fund underperformed the IA UK All Companies peer group in 2024.

A number of disappointing updates relating to the health of the UK economy weighed on the performance of the UK equity market in December. Declining GDP, disappointing retail sales data, stronger than expected wage growth and rising CPI figures stoked fears that the UK economy was heading towards a period of 'stagflation'. Improving the performance of the economy will undoubtedly be a focus for the UK government in 2025, and we take some comfort that looking forward, in contrast to a number of other countries, the UK should enjoy a period of political stability with the general election and the Budget announcements behind us.

Watches of Switzerland and Victrex were contributors to performance. Watches of Switzerland delivered a positive set of interim results and maintained guidance for the full year. The company generated strong revenues in Q2, particularly in the US, which helped offset a weaker Q1 caused by increased showroom stock levels to enhance displays and client experience. Encouraging commentary that Q3 trading was off to a strong start was also positive given this covers the important holiday trading period. Victrex delivered a mixed set of full year results but improving trends in fourth quarter volumes and positive commentary about trading in the current financial year was well received by the market. The strong rally in the share price on the day was reflective of how low investor sentiment and expectations were on the company going into results.

Integrafin and Moonpig were detractors to performance. Integrafin's full year results were solid, delivering a beat versus consensus expectations for profits. The shares detracted however as investors revised their forecasts to incorporate higher-than-expected costs for the upcoming year and cuts to fee rates. We are not concerned by the latter however as this enables clients to benefit from Integrafin's increasing scale and hence enhances its proposition of being the platform of choice for financial advisors. It is also important to note that whilst the shares disappointed over the month, they have performed strongly over the year, returning 15%. Moonpig delivered a broadly in-line set of interim results. Despite the strong performance of the core Moonpig brand and a raised target for top end outer year margins, an impairment taken on its Experiences division was received poorly by the market. The reaction was in our view unfair given that the tough trading conditions for the Experiences division were well flagged and the impairment was non-cash. However, the company was also a strong performer over the full year and remains a core holding.

In terms of trading activity, the fund trimmed its positions in Games Workshop, following its promotion into the FTSE 100, and OneSavingsBank, to take advantage of recent strength in its share price. The proceeds were distributed across a range of existing holdings, including Premier Foods, AG Barr and Dunelm.



Henry Lowson

Head of UK Alpha Strategies



Henry Burrell

Fund Manager

Royal London UK Opportunities Fund

Portfolio commentary

The RLAM UK Opportunities fund produced a return of -2.6% during the month, underperforming the FTSE All Share benchmark. Stock selection in the Financials & Industrials sectors in particular detracted from performance.

A number of disappointing updates relating to the health of the UK economy weighed on the performance of the UK equity market in December. Declining GDP, disappointing retail sales data, stronger than expected wage growth and rising CPI figures stoked fears that the UK economy was heading towards a period of 'stagflation'. Improving the performance of the economy will undoubtedly be a focus for the UK government in 2025, and we take some comfort that looking forward, in contrast to a number of other countries, the UK should enjoy a period of political stability with the general election and the Budget announcements behind us.

Watches of Switzerland and Auction Technology Group (ATG) were positive contributors to performance. Watches of Switzerland delivered a good set of interim results and maintained guidance for the full year. The company generated strong revenues in Q2, particularly in the US, which helped offset a weaker Q1 caused by increased showroom stock levels to enhance displays and client experience. Encouraging commentary that Q3 trading was off to a strong start was also positive given this covers the important holiday trading period. ATG's share price rallied as Private Equity firm, TA Associates, sold their remaining stake (c13%) in the company. This represented a significant clearing event as the potential disposal by TA Associates had been perceived by the stock market as an overhang and thus a barrier to stock price appreciation.

Ashtead Group and Integrafin were detractors to performance. Ashtead's second quarter profits were lower than consensus expectations due to slower US rental growth, and this resulted in a cut to full year revenue guidance. Whilst the update was disappointing, we do take some comfort that the company can maintain its free cash flow by appropriately managing its Capital expenditure. Integrafin's full year results were solid, delivering a beat versus consensus expectations for profits. However, investors revised their forecasts to incorporate higher-than-expected costs for the upcoming year and a small reduction in fee rates. We are not concerned by the latter however as this enables clients to benefit from Integrafin's increasing scale and hence enhances its proposition of being the platform of choice for financial advisors. It is also important to note that whilst the shares disappointed over the month, they have performed strongly over 2024.

Royal London UK Smaller Companies Fund

Portfolio commentary

The RLAM UK Smaller Companies fund returned -2.3% for December, underperforming the benchmark FTSE Smaller Companies ex IT index. Despite the disappointing end to 2024 for small and medium sized companies, the fund was first quartile over the quarter. It is worth noting that the fund's AIM exposure was a material headwind to performance over the year as the FTSE AIM index substantially underperformed the FTSE Small Cap index. Indeed, the FTSE AIM return was negative in 2024.

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DiscoverIE and Gooch & Housego were positive contributors to performance. DiscoverIE delivered a solid set of interim results as a strong margin performance helped offset a weaker top line which has been impacted from industry destocking and lead time normalisation. It was therefore pleasing to see that DiscoverIE's book-to-bill ratio, a forward-looking metric which compares orders received to orders shipped and billed, increased to 1x. Gooch & Housego delivered a set of full year results which were ahead of expectations on profit and cash. Strong organic revenue growth in the second half and a solid order book provides us with confidence that the company should deliver good earnings growth in the upcoming financial year.

Moonpig was a detractor to performance following the release of its interim results. Despite the strong performance of the core Moonpig brand and a raised target for top end outer year margins, an impairment taken on its Experiences division was received poorly by the market. The reaction was in our view unfair given that the tough trading conditions for the Experiences division were well flagged and the impairment was non-cash. However, the company was a strong performer over the full year and remains a core holding. Other significant detractors in the month included Craneware, Renew Holdings and GB Group, despite releasing no news. We note however that these companies are all FTSE AIM listed and their performance may reflect technical selling as a result of the government's changes announced in the October Budget to inheritance tax relief for AIM listed shares.

In terms of trading activity, the fund trimmed a number of positions largely on valuation grounds, including Cohort, Alfa Financial Software and Raspberry Pi. The proceeds of these trades were reinvested into more attractively valued domestic opportunities, including AG Barr, ME Group and Hollywood Bowl.



Henry Lowson

Head of UK Alpha Strategies



Henry Burrell

Fund Manager

Disclaimers

Important information

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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 December 2024

Cumulative (%)

		3 Month	6 Month	1 Year	3 Years	5 Years
RL UK Equity Income M Inc	Gross	-2.59	-0.84	8.13	23.77	29.50
RL UK Equity Income M Inc	Net	-2.77	-1.20	7.36	21.13	24.94
RL UK Dividend Growth Fund M Acc	Gross	-2.49	0.73	8.65	14.94	36.63
RL UK Dividend Growth Fund M Acc	Net	-2.66	0.38	7.89	12.53	31.88
RL UK Mid Cap Growth Fund M Acc	Gross	-4.65	1.37	7.39	-9.25	3.66
RL UK Mid Cap Growth Fund M Acc	Net	-4.83	0.98	6.57	-11.32	-0.24
RL UK Opportunities Fund M Acc	Gross	-3.60	-1.53	3.73	-5.82	8.07
RL UK Opportunities Fund M Acc	Net	-3.79	-1.91	2.94	-7.96	4.00
RL UK Smaller Companies Fund M Acc	Gross	-0.62	-1.19	4.30	-24.07	2.46
RL UK Smaller Companies Fund M Acc	Net	-0.81	-1.58	3.51	-25.79	-1.39

Annualised (%)

	3 Years (p.a)	5 Years (p.a)
	7.36	5.30
	6.59	4.55
	4.75	6.43
	4.01	5.68
	-3.18	0.72
	-3.92	-0.05
	-1.98	1.56
	-2.72	0.79
	-8.76	0.49
	-9.46	-0.28

Year on year performance (%)

		31/12/2023 – 31/12/2024	31/12/2022 – 31/12/2023	31/12/2021 – 31/12/2022	31/12/2020 – 31/12/2021	31/12/2019 – 31/12/2020
RL UK Equity Income M Inc	Gross	8.13	11.04	3.08	22.06	-14.28
RL UK Equity Income M Inc	Net	7.36	10.25	2.35	21.19	-14.89
RL UK Dividend Growth Fund M Acc	Gross	8.65	10.59	-4.34	22.77	-3.17
RL UK Dividend Growth Fund M Acc	Net	7.89	9.81	-5.02	21.90	-3.86
RL UK Mid Cap Growth Fund M Acc	Gross	7.39	8.49	-22.11	18.49	-3.60
RL UK Mid Cap Growth Fund M Acc	Net	6.57	7.66	-22.70	17.59	-4.34
RL UK Opportunities Fund M Acc	Gross	3.73	9.83	-17.33	20.44	-4.73
RL UK Opportunities Fund M Acc	Net	2.94	8.99	-17.96	19.52	-5.46
RL UK Smaller Companies Fund M Acc	Gross	4.30	4.51	-30.34	26.74	6.46
RL UK Smaller Companies Fund M Acc	Net	3.51	3.72	-30.88	25.77	5.65

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