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# Royal London UK Equity Fund

Quarterly Investment Report

31 December 2024



# Quarterly Report

## The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London UK Equity Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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# The fund

## Fund performance objective and benchmark

The Fund's investment objective is to achieve capital growth over the medium term (3-5 years) by investing at least 80% in the shares of UK companies included in the FTSE All-Share Index. The Fund's performance target is to outperform, after the deduction of charges, the FTSE All-Share Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the share-price performance of the approximately 600 largest companies on the London Stock Exchange. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK All Companies sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE All-Share Total Return GBP Index

## Fund value

	Total £m
31 December 2024	763.11

## Fund analytics

	Fund
Fund launch date	11 April 1984
Base currency	GBP
Number of holdings	64

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(1.03)	(0.35)	(0.68)
1 Year	6.45	9.47	(3.02)
3 Years (p.a.)	5.14	5.82	(0.68)
5 Years (p.a.)	4.44	4.80	(0.36)
10 Years (p.a.)	5.97	6.16	(0.19)
Since inception (p.a.)	6.83	6.91	(0.08)

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on M Acc GBP. Source: Royal London Asset Management; Net performance; Since inception date of the share class is 1 May 2012.

## Performance commentary

The fund performed broadly in line with the index in Q4. The biggest news event of the quarter was generated by the US election and the potential implications going forward of President Trump's policies. In contrast, the Budget in the UK had the impact of depressing expectations regards corporate profits and the market sold off before recovering into the year end.

During the quarter the best performing sectors included banks, food & beverage and tobacco, while real estate was the weakest followed by utilities and basic materials. The major change of sentiment during Q4 was that while inflation is expected to fall, the pace of decline will be slower than had been expected. As a result, the speed of cuts to interest rates will be slower than was consensus earlier in the year. The banks sector is seen as a beneficiary of a stable economy and interest rates similar to history as they hedge huge funds at current market rates. Strong positive attribution was generated by holdings in Standard Chartered, Sage and Imperial Brands. Negative attribution resulted from holdings in Vistry, Persimmon and Ashtead.

Overall, for the year the fund held on to a number of holdings that disappointed as a result of weak trading related to the softening in the Chinese economy, notably Burberry, Spectris and Spirax and this impacted performance relative to its benchmark.

# Performance and activity

## Top 10 holdings

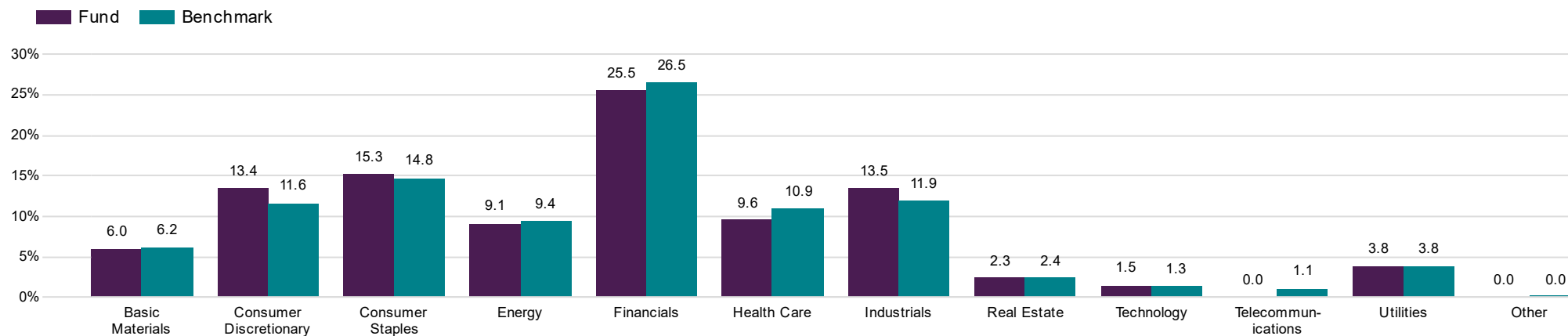
	Weighting (%)
SHELL PLC	6.65
ASTRAZENECA PLC	6.30
HSBC HOLDINGS PLC	5.89
UNILEVER PLC	4.89
RELX PLC	3.68
COMPASS GROUP PLC	3.43
LONDON STOCK EXCHANGE GROUP PLC	3.25
3I GROUP PLC	3.13
LLOYDS BANKING GROUP PLC	2.43
GLAXOSMITHKLINE	2.43
<b>Total</b>	<b>42.07</b>

## Fund activity

During the quarter, we reduced position sizes in BP and Shell and reinvested the proceeds into HSBC. We sold out of a small position in Close Brothers which is implicated by the investigation into the charging of commission on new car sales. The holding was sold reflecting a broad range of possible outcomes, with some significant negative enough to justify selling the holding.

# Fund breakdown

## Sector weights



# Fund Engagement

## Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

## Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	31	55
Number of engagements	47	179

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

## Total engagements by theme and topic



<b>Biodiversity</b>	4	<b>Social &amp; Financial Inclusion</b>	6
<b>Climate</b>	18	Just transition	4
Climate - Transition Risk	18	Social & Financial inclusion	2
<b>Diversity</b>	1	Technology, Innovation & Society	4
Ethnic Diversity	1	Technology & Society	4
<b>Environment</b>	1	<b>Other</b>	2
<b>Governance</b>	18		
Remuneration	11		
Corporate Governance	6		
Strategy	1		
<b>Health</b>	6		
Mental Health	4		
Health - Community	2		

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

## Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

# Fund Engagement

## Engagement outcomes

### Lloyds Banking Group Plc - Just transition

#### Purpose:

We met with Lloyds Banking Group, UK-based financial services group, as part of our collaborative engagement with banks on just transition, aiming for the bank to integrate this issue throughout its climate transition plan and demonstrate implementation at product, sector, and regional levels.

#### Outcome:

Lloyds Banking Group continues to view just transition as integral to the company's purpose and growth strategy. The positive call highlighted several innovative projects, supporting its alignment with just transition principles. Lloyds found our investor expectations helpful but noted that a sector lens might miss interdependencies, advocating for a system-based approach instead. The company provided examples of just transition integration across various systems, such as sustainable farming, greening the built environment, low carbon transport, and energy transition.

Lloyds has launched several innovative products aligned with just transition, including a £500mn social housing retrofit product. Lloyds have developed a roadmap with the Green Finance Institute and NatWest for property-linked finance for retrofit projects. The bank's regional approach to lending addresses challenges in across the UK, with initiatives like working with local authorities to tackle local issues, expected to create jobs and reduce regional inequalities. Combined with balance sheet lending for regional projects, Lloyds' approach appears relatively advanced.

### Rentokil Initial Plc - Mental health & climate

#### Purpose:

We met with Rentokil Initial, a UK business services group that provides pest control, hygiene, and facilities management services, to discuss its corporate mental health performance and various sustainability initiatives, aiming to understand its challenges and progress in these areas.

#### Outcome:

The discussion with Rentokil Initial was positive. The company is open to increasing disclosure on its mental health initiatives, highlighting the success of its resilience training in the UK and the 'RUOK' programme outside in the Asia Pacific region. Rentokil Initial publishes 'Speak up' scores and tracks complaints, and may explore further disclosure to better understand its workforce. The company is focused on improving reporting under the Corporate Sustainability Reporting Directive (CSRD), concentrating on impactful areas while running business programmes, and enhancing customer and employee retention.

The company faces challenges with including Scope 3 emissions in its net zero targets, particularly due to travel by its global workforce. However, environmental efforts, such as adopting low emission vehicles, have been well received and positively impacted company culture. We will continue to monitor the company's disclosures and engagement on these topics, providing feedback and support as needed.



# Fund Engagement

## Engagement outcomes

### Rolls-Royce Holdings Plc - Net zero & just transition

#### Purpose:

We met Rolls-Royce, a UK multinational engineering company, to discuss and share our climate transition assessment, with a particular focus on a full climate transition plan, Scope 3 emissions reduction targets and approach, nature, just transition and offsetting.

#### Outcome:

The meeting provided insights into the company's expected improvements to its climate transition strategy in the 2025 annual report, although we note that not all of our requests from the climate transition assessment will be fully satisfied.

The company is setting Scope 3 targets, which will be disclosed in the following year. Rolls-Royce is preparing to meet Corporate Sustainability Reporting Directive (CSRD) and Transition Plan Taskforce (TPT) disclosure requirements, which may lead to enhancements in just transition and nature disclosures.

The next report will include timelines for other climate solutions technologies, such as Small Modular Reactors (SMRs) and battery storage systems. Although the R&D target on low carbon technologies by 2025 will not be retained, the company will disclose the alignment of its capital expenditure in the reporting period and is considering a forward-looking plan. We will continue to monitor the company and review future disclosures.

### Severn Trent Plc - Biodiversity & community health

#### Purpose:

The meeting aimed to discuss Severn Trent's, a water company, performance based on its 2025-2030 business plans, focusing on areas needing improvement in its environmental and biodiversity strategy, including Sites of Scientific Interest (SSSIs), biodiversity management, and antimicrobial resistance (AMR).

#### Outcome:

The meeting was productive, reassuring us about the company's management of SSSIs and biodiversity. Severn Trent launched its SSSI strategy in 2022, managing 500 hectares and overseeing 720 SSSIs, with a goal of 100% favourable condition by 2030. The company conducts annual assessments, reports to senior management, and has expanded its Biodiversity and Ecology team. The company has collaborated with over 60 organisations and is involved in AMR projects, exploring alternative treatments and working with academics.

# Fund Engagement

## Engagement outcomes

### Vitrex plc - Workforce engagement & diversity

#### Purpose:

The meeting with Vitrex plc, a company specialising in high-performance polymer (plastic) solutions for markets such as automotive, aerospace, energy, electronics, and medical, aimed to review progress on workforce ethnic diversity and employee engagement since 2021, discuss current initiatives, and identify areas for improvement.

#### Outcome:

Significant improvements were noted, including better data collection, adding an Asian board member, setting Diversity, Equity, and Inclusion targets, and expanding the company's Race 4 Equality group to the UK (the aim to create a more diverse and inclusive working environment across Vitrex). Immediate actions were taken to address employee feedback, demonstrating a strong commitment to engagement.

Vitrex plans to continue enhancing data collection, setting DEI targets, expanding diversity initiatives, and regularly addressing employee feedback to maintain progress and achieve long-term success.

# Market commentary

## Market Review

UK equities declined moderately through the final quarter of 2024, with rising bond yields providing a headwind to risk assets. There were clearly some significant political events including the first budget announcement by the new UK government, as well as the conclusion of the US election. The initial equity market reaction to both events was positive, but both drove bond yields higher albeit for different reasons.

UK equities had been weak before the budget amid concerns about potential tax rises and spending initiatives; at a headline level the outcome was better than feared and equities initially rallied. The UK's AIM market in particular surged strongly following news that inheritance tax relief on AIM shares was only partly abolished and not totally eliminated. However, the overall impact of the budget was seen to be inflationary with higher costs (especially for companies with large UK workforces) to businesses and more government borrowing both driving up gilt yields, with little change to expectations for economic growth. 10-year gilt yields rose from some 4% at the start of October, to over 4.6% by the end of December and expectations for interest rate cuts in 2025 reduced.

Global equity markets were heavily influenced by the US election result, following a clean sweep by the Republican party. Equity markets overall responded positively to the expectation that the Trump victory will result in tax cuts, deregulation, and improvements in US productivity. Equally if, as repeatedly threatened, widespread tariffs are introduced this could increase consumer price inflation, and clearly would have a detrimental impact on global trade. For the time being, positive sentiment prevailed within equities although bond yields have also risen as investors adjust expectations for higher inflation and 'higher for longer' interest rates.

While markets are clearly focused on the risks of inflation remaining higher than expected through 2025, it is worth reminding ourselves that the Bank of England did cut interest rates for the second time in November. Investors are understandably preoccupied about whether there are two rather than four interest rate cuts in 2025, but the downward path remains, and this should support corporate and consumer confidence through the coming year.

## Outlook

After a year where political uncertainty and continued inflation were constant risks to equity investors, it is somewhat disappointing to have come through all the elections and still be talking about politics and macroeconomics. The narrative remains dominated by whether interest rates are falling more or less quickly than previously expected. US and UK 10-year yields are more

than 50 basis points higher than they were three months ago, and other eurozone or developed market benchmark rates have seen meaningful increases also. Some of this is predicated on market expectations of an inflationary impulse from the new US government's approach to global trade, while core CPI has also remained stubbornly high.

Despite all of the known risks from wars to trade wars, GDP growth is still expected to improve in the UK, the US and most G7 economies in 2025. While the number of rate cuts is likely to be lower than expected, the path of central bank interest rates remains on a downward trajectory. In the UK, consumer, corporate and bank balance sheets are robust, and all signs point to modest growth but an improving picture through the year; even with unnecessary headwinds provided by the recent budget. Furthermore, the UK economy is still expected to outperform its euro zone counterparts. This should be a generally supportive backdrop for corporate profitability and equity investing.

Industrial PMIs have remained stubbornly low across the US and euro zone, with destocking still a headwind through the final quarter of 2024. However, inventory to order ratios appear to have bottomed and a number of early cycle industrial companies suggest that pipelines and orders are once again improving. Therefore, we do not expect de-stocking in 2025 to remain the material headwind that it has been over the last two years.

We continue to believe UK equities offer good value in absolute terms and relative to history and other international equity indices. Share buybacks are playing an important role in capital allocation for UK companies, reflecting their balance sheet strength as well as managements' views of equity market valuations. Indeed, at current depressed UK equity market valuations, share buybacks can be highly accretive to equity returns for investors. Low valuations are also fuelling a steady stream of corporate transactions, with UK companies being acquired.

## Further Information

Please click on the links below for further information:



### Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of [www.rlam.com](http://www.rlam.com), including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# 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 Fund is a sub-fund 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](http://www.rlam.com).

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# Risks 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.

## **EPM techniques risk**

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.

# Performance to 31 December 2024

## Cumulative (%)

## Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
<b>Fund (gross)</b>	(0.86)	0.55	7.16	18.60	28.53	5.85	5.14
<b>Fund (net)</b>	(1.03)	0.22	6.45	16.25	24.31	5.14	4.44

## 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
<b>Fund (gross)</b>	7.16	8.79	1.73	21.15	(10.54)
<b>Fund (net)</b>	6.45	8.06	1.06	20.34	(11.14)

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. All figures are mid-price to mid-price for the Royal London UK Equity Fund M Acc GBP share class.

# Glossary

## Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

## Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

## Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

## Sector weights

Breakdown of holdings by FTSE ICB (Industry Classification Benchmark) sector relative to the benchmark index.

## Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.