Royal London UK Mid Cap Growth Fund

Quarterly Investment Report

31 December 2024

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London UK Mid Cap Growth 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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ROYAL LONDON ASSET MANAGEMENT

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 medium-sized companies listed on the London Stock Exchange. The Fund's performance target is to outperform, after the deduction of charges, the FTSE 250 ex-IT (investment trust) Total Return GBP Index (the "Index") over rolling 5-year periods. 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 250 ex-IT (investment trust) Total Return GBP Index

Fund value

	Total £m
31 December 2024	364.32

Fund analytics

	Fund
Fund launch date	1 June 2006
Base currency	GBP
Number of holdings	51

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(4.78)	(2.41)	(2.37)
1 Year	6.72	8.42	(1.71)
3 Years (p.a.)	(3.77)	(0.91)	(2.87)
5 Years (p.a.)	0.10	1.06	(0.95)
10 Years (p.a.)	5.26	4.99	0.27
Since inception (p.a.)	5.29	4.86	0.43

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 Z Acc GBP. Source: Royal London Asset Management; Net performance; Since inception date of the share class is 6 May 2014.

Performance commentary

UK equity markets declined through the final quarter of 2024, against a backdrop of rising gilt yields and expectations of 'higher for longer' interest rates. Mid and small cap equities exhibited their characteristic aversion to rising bond yields and generally underperformed their larger company peers, while sectors which benefit from higher interest rates (such as banks) outperformed those such as real estate.

The fund underperformed the benchmark during the period. Sector allocation detracted, with the overweight allocation to industrials and the underweight allocation to financials both providing headwinds. Genuit, Safestore and Genus were amongst the larger detractors. Genuit released a reasonable trading update but guided to full year earnings at the lower end of analyst expectations because of subdued conditions. As and when its end markets recover, Genuit should be well positioned to perform strongly as it has undertaken a simplification and lean transformation programme, initiated by the recently appointed management team. Safestore delivered a robust Q4 trading statement given the difficult market backdrop, with improved UK domestic demand being a highlight. Concerns regarding a softer near-term economic outlook and revised interest rate expectations caused the shares to detract, however. Genus saw a decline in its share price despite a reasonable trading update during the period. Their world-leading Porcine business continues to deliver decent results in a tough market, and there is some evidence of better execution in their Bovine division. Weak Chinese consumer data, and concerns regarding a potential delay to the US approval of its PRRSv Resistant Pig, following the Trump election, weighed on the shares. We are taking a longer-term view on Genus as we believe the value of their unique IP will be demonstrated in time.

Auction Technology Group (ATG), Trainline and Watches of Switzerland were amongst the strongest positive contributors. ATG produced full year results which were marginally better than consensus forecasts. The company's success in driving greater revenues from ancillary services (such as payment processing) and stabilising online "conversion" (i.e. the proportion of any auction transacting online versus in person) speaks to a series of small but important improvements in their platform and sets them up well for future growth. Trainline delivered a positive set of interim results and announced upgraded guidance for the full year. The growth in net ticket sales and revenues was particularly strong, and it continues to make good progress growing its European business, particularly in Spain and Italy. 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.

Performance and activity

Top 10 holdings

	Weighting (%)
COATS GROUP PLC	3.37
AJ BELL PLC	3.01
CRANSWICK PLC	3.00
INTEGRAFIN HOLDINGS	2.94
ROTORK PLC	2.92
JTC PLC	2.89
GENUIT GROUP PLC	2.72
HILL AND SMITH PLC	2.71
BODYCOTE PLC	2.61
TELECOM PLUS PLC	2.59
Total	**28.77**

Fund activity

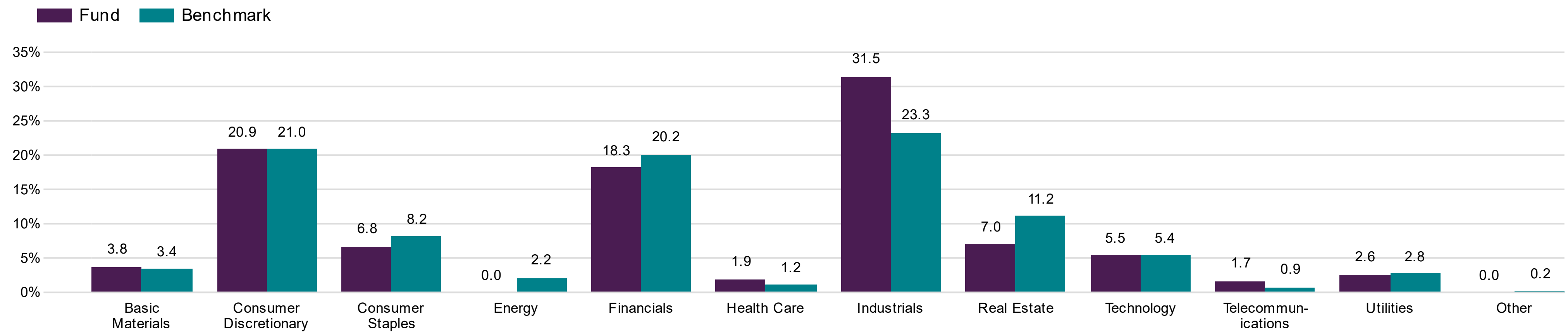
The fund initiated new two positions, **Premier Foods** and **AG Barr**. These holdings were in part funded by the disposal of **Ascential**, following a bid by Informa.

Premier Foods is a food manufacturer and producer, and it owns a number of well-known brands such as Mr Kipling, Sharwoods and Lloyd Grossman. The company has gone through a complete transformation in the last five years under its current management team. From a financial perspective, the balance sheet has been repaired and the pension scheme contributions have now been halted, which leaves the business in an exciting place to pursue growth opportunities organically or inorganically via M&A.

AG Barr is a soft drinks group which operates a portfolio of brands including Irn-Bru, Rubicon, Moma and Boost. While their flagship brand Irn-Bru is already well penetrated in its core markets, their other brands generally operate in faster growth segments of the market and the management team have shown themselves capable of driving revenue growth. With input cost inflation fading and a number of self-help projects underway, the management team have levers to pull to drive operating margins upwards. The net cash balance sheet provides positive optionality to fund further brand acquisitions and boost shareholder returns.

Fund breakdown

Sector weights



Fund Engagement

Engagement definition

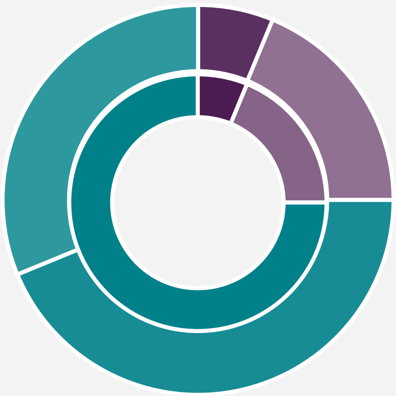
Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence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

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	9	23
Number of engagements	13	43

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



Climate	1
Climate - Transition Risk	1
Diversity	3
Ethnic Diversity	3
Governance	12
Corporate Governance	7
Remuneration	5

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

Chemring Group Plc - Workforce engagement & diversity

Purpose:

The purpose of the meeting was to engage with Chemring Group plc, a global advanced technology company, on the topics of workforce ethnic diversity and employee engagement. The aim was to review the progress made since the previous engagement in 2021, discuss current diversity initiatives, and identify areas for further improvement.

Outcome:

The meeting provided valuable insights into Chemring's current practices and future plans regarding workforce engagement and ethnic diversity. It highlighted the company's commitment to improving data collection and reporting, enhancing the role of Employee Resource Groups (ERGs), promoting diversity in recruitment, and exploring new partnerships to support diversity initiatives.

Integrafin Holdings Plc - Workforce engagement & diversity

Purpose:

The meeting with Integrafin Holdings plc, a UK investment platform company, aimed to review progress on workforce ethnic diversity and employee engagement since 2021, discuss current initiatives, and identify areas for improvement.

Outcome:

The engagement meeting highlighted the company's significant progress, including better data collection, increased female board representation, and participation in diversity programmes. The company improved communication, achieved higher engagement scores, and the development of a Diversity and Inclusion (DI) policy. The company plans to finalise the DI policy, conduct a DI engagement survey, expand mentoring programmes, and enhance its recruitment practices and data disclosure rates. We will continue to monitor for improved disclosures.

Victrex 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.

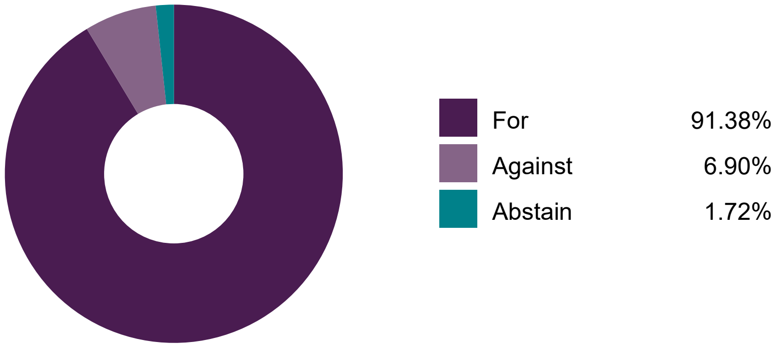
Outcome:

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 Victrex). Immediate actions were taken to address employee feedback, demonstrating a strong commitment to engagement.

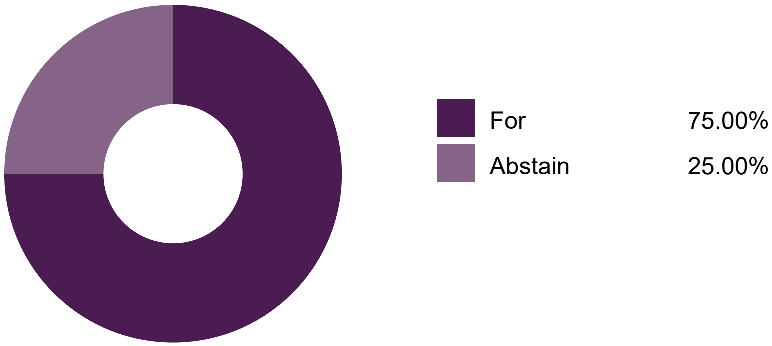
Victrex plans to continue enhancing data collection, setting DEI targets, expanding diversity initiatives, and regularly addressing employee feedback to maintain progress and achieve long-term success.

Fund Voting

Total proxy voting activity



Executive remuneration voting activity



Notable votes

Genus plc

Remuneration Report - abstain: We have some concerns over the bonus outcomes, taking into account share price performance in the past 12 months, as well as the described level of stretch of the strategic measures of the bonus for the former CEO.

Market commentary

Market Review

UK equities moderately declined through the final quarter of 2024, with rising bond yields providing a headwind to risk assets, with small and mid-cap indices slightly underperforming. 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. Ten-year gilt yields rose from around 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 widespread tariffs are introduced, as repeatedly threatened, 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.

The M&A spree continued to be a feature of UK small and mid-cap markets, with a series of bids in the quarter. Notable takeover approaches included Eckoh (held in the UK Smaller Companies fund), TI Fluids, Loungers, Aquis and Windward. There were also two attempts at public-to-public deals in the period, with Direct Line subject to a bid from listed peer Aviva and Volex (held in the UK Smaller Companies fund) announcing an interest in peer TT Electronics.

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 euro zone 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 industrials 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.

As we have written before, we continue to believe UK small and mid-cap equities offer good value in absolute terms and relative to history and other international equity indices. Our portfolio companies have well capitalised balance sheets ready to be deployed on organic investment or acquisitions. Furthermore, share buybacks are playing an ever-important role in capital allocation amongst UK small and mid-cap companies, reflecting their balance sheet strength as well as management's view of equity market valuations. Indeed, at current depressed UK equity market valuations, share buybacks can be highly accretive to equity returns for investors.

Market commentary

Despite the macroeconomic noise, we continue to focus on our consistent long term investment approach. We continue to identify companies with the key fundamental SIMBA attributes (Scaleability, Innovation, strong Management teams, Barriers to entry and unique Assets) that will allow them to take market share and grow profits and cash throughout economic cycles. We continue to believe that it is these fundamental attributes that drive earnings and thus stock prices over the long term and we remain excited by the opportunities currently on offer for UK small and medium company investors.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London voting and engagement

TCFD climate report

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, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

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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.

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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 (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	(4.63)	1.36	7.38	(9.24)	3.68
Fund (net)	(4.78)	1.05	6.72	(10.91)	0.52

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(3.18)	0.72
Fund (net)	(3.77)	0.10

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
Fund (gross)	7.38	8.51	(22.10)	18.48	(3.58)
Fund (net)	6.72	7.84	(22.58)	17.75	(4.18)

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 Mid Cap Growth Fund Z 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.