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Royal London GMAP Defensive Fund

Quarterly Investment Report

30 June 2024



Quarterly Report

The fund as at 30 June 2024

The purpose of this report is to provide an update on the Royal London GMAP Defensive 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 course of a market cycle, which should be considered as a period of 6-7 years, by investing at least 80% in other funds, known as collective investment schemes. The Fund aims to achieve a relatively low level of risk and return relative to the other funds in the Royal London Global Multi-Asset Portfolio (GMAP) range. The IA Mixed Investment 0-35% Shares sector and the Fund's custom composite benchmark are considered appropriate benchmarks for performance comparison.

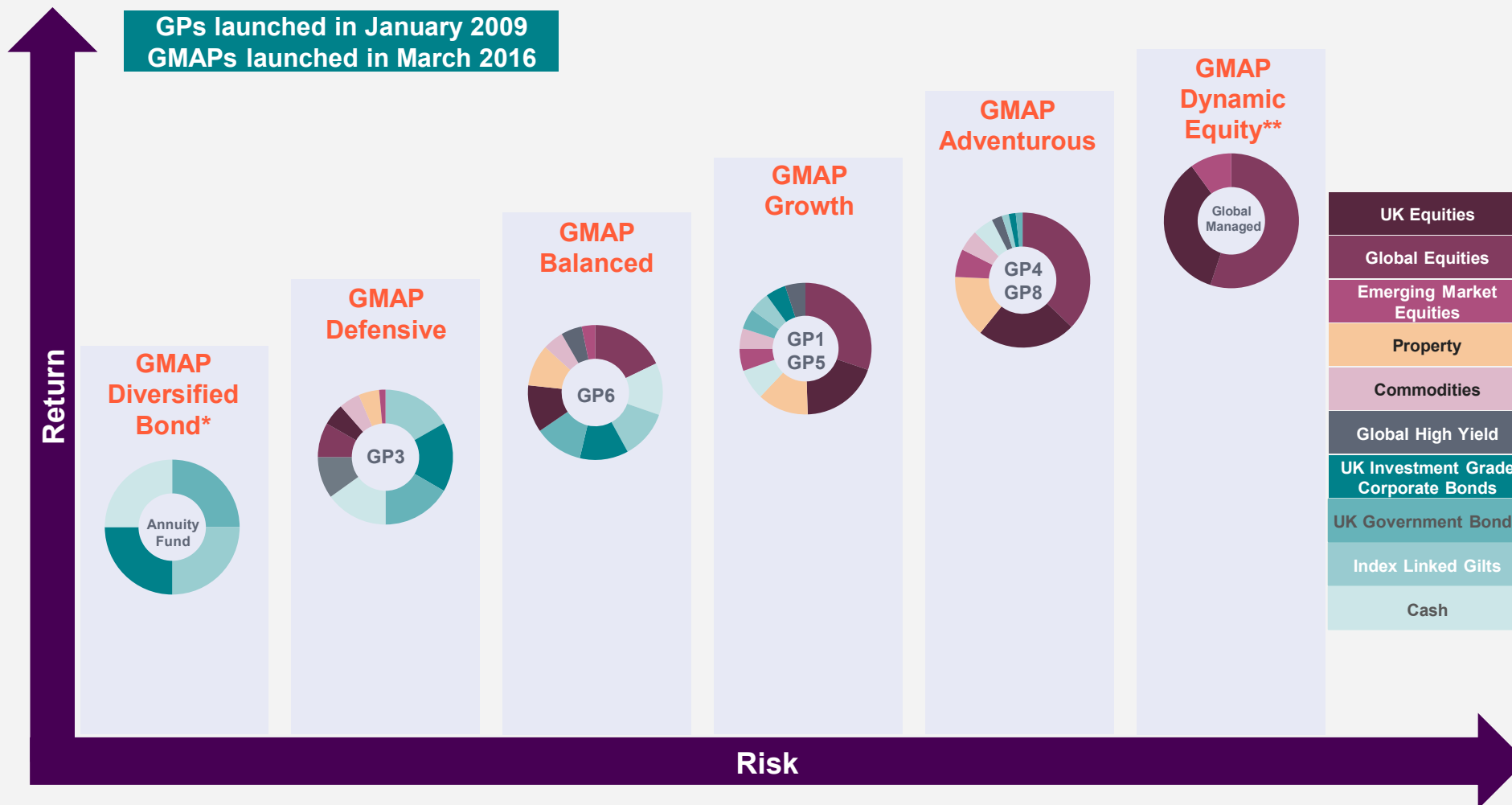
Benchmark: GMAP Defensive Composite Benchmark. The benchmark has been designed with the aim of maximising long run return in excess of inflation for a given level of risk.

- FTSE All Share Total Return GBP Index 3.12%
- FTSE World Total Return GBP Index 8.13%
- MSCI Emerging Markets ESG Leaders Net Return Index (expressed in GBP) 1.25%
- Bloomberg Commodity Total Return Index (expressed in GBP) 5.00%
- MSCI/AREF UK All Property Fund Index 5.00%
- FTSE Actuaries UK Conventional Gilts (All Stocks) Total Return GBP Index 9.50%
- FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index 10.00%
- Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index 2.25%
- Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year (GBP Hedged) 5.25%
- iBoxx Sterling Non-Gilt Total Return GBP Index 9.00%
- FTSE Actuaries UK Index Linked Gilts (All Stocks) Total Return GBP 2.50%
- ICE Bank of America Merrill Lynch 1-5 Year Sterling Non-Gilt Index 12.50%
- BoAML BB-B Global Non-Financial High Yield Constrained Index (GBP Hedged) 7.50%
- JPM Global ex-UK Traded Index GBP Hedged 3.00%
- Bloomberg Global Aggregate Corporate Total Return Index GBP Hedged 3.50%
- Bank of England Sterling Overnight Index Average (SONIA) 12.50

Fund value

	Total £m
30 June 2024	72.75
Fund launch date	14 March 2016

RL GMAP range



For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation. Our fund range is designed to span the risk return spectrum, with each fund aiming to maximise the long-term real return for its given level of risk through a broadly diversified portfolio of investments

* Fund name changed from Conservative to Diversified Bond on 15 March 2024

** Fund name changed from Dynamic to Dynamic Equity on 15 March 2024

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.79	0.94	(0.15)
YTD	2.83	2.21	0.63
1 Year	8.83	7.65	1.18
3 Years (p.a.)	2.11	1.44	0.67
5 Years (p.a.)	2.69	2.35	0.34
Since inception (p.a.)	3.35	3.38	(0.03)

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 RL GMAP Defensive Fund (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 14 March 2016.

Performance commentary

Equities

Global equity indices ended the quarter at all-time highs. Resilient macro data, strong corporate earnings results, and expectations of policy loosening this year all contributed to market optimism. While price momentum remains strong, we have taken some profits of late, driven by our Investment Clock moving away from equity-friendly Recovery phase into Overheat. Our overweight position continued to add value over the quarter.

Bonds

Bond yields ended only slightly higher on the quarter, while intra-period moves were very choppy, with yields reacting to any surprises to economic data – like central bankers, bond investors remained data-dependent. While ECB delivered their first interest rate cut of this cycle in June, expectations of rate cuts for other major central banks (Fed and BoE) for rest of the year were dialled back over the quarter. We initiated an underweight position in bonds in the beginning of the quarter but ended up losing a bit of performance in this volatile environment.

Equity regions

US stocks had a strong end to Q2 and have recorded their best first half year performance in an election year since 1976; we moved overweight which added value over the period. We closed our overweight in Japan in Q2; the region started to struggle in relative terms as Japan's Ministry of Finance intervened in currency markets to try to stop the yen from weakening.

Equity sectors

The US technology sector, which led gains last year and in Q1 of this year on the back of high expectations around AI continued to outperform over Q2. We remained broadly overweight the growth sectors, technology and consumer discretionary, funding this primarily from defensives and energy, but took some profits into the quarter end. The recent move higher in the tech sector has been backed by strong earnings growth.

Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. However, in the near term, we see better opportunities elsewhere. We remained tactically underweight property over the period; commercial property rose slightly but underperformed equities over the quarter. Lingering recession fears and the sluggish UK economy have continued to weigh on property relative to other risky assets, while hints of potential BoE rate cuts this year are seen as a positive signal for the asset class.

Performance and activity

Top 10 holdings

	Weighting (%)
RL Investment Grade Short Dated Credit Fund	12.55
RL Short Duration Gilts Fund	10.03
RL UK Government Bond Fund	9.54
RL Sterling Credit Fund	9.02
RL Short Term Money Market Fund	7.97
Royal London Asset Global High Yield Bond R Acc	7.53
RL Short Duration Global Index Fund	7.52
RL Sterling Liquidity Money Market Fund	4.64
iShares Bloomberg En.Roll Yld Cdy Swap UCITS ETF	4.10
RL Property Feeder Fund (PAIF)	4.07
Total	76.97

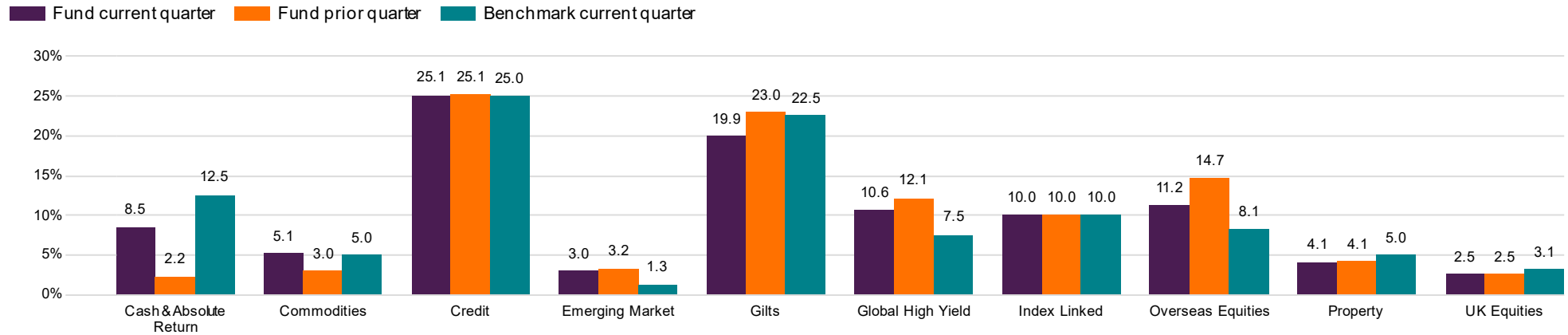
Fund activity

Asset allocation overview

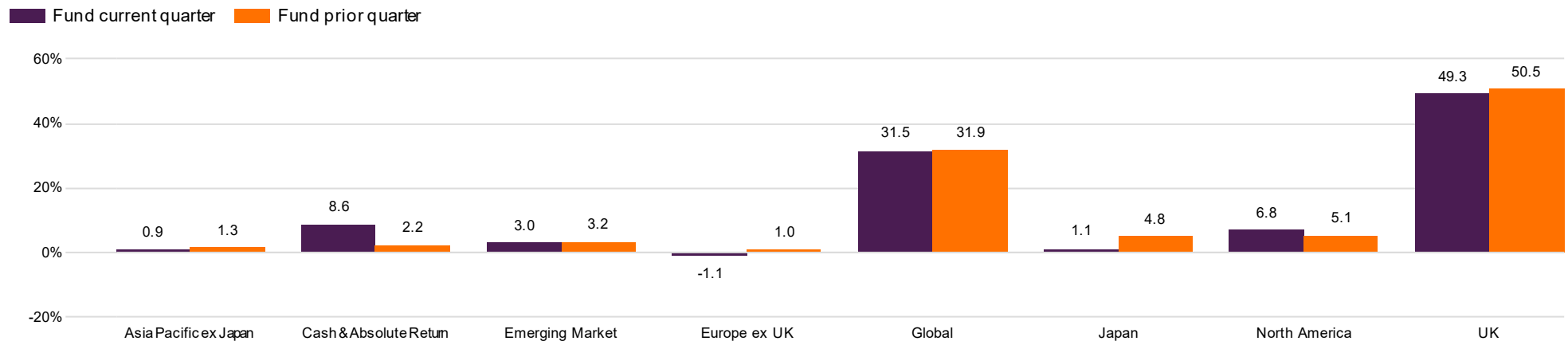
At the tactical asset allocation level, we maintained an overweight position in equities which continued to benefit us as it did for most of 2023. However, as the Investment Clock moved away from the equity-friendly Recovery phase and into Overheat, we reduced the size of our overweight position, acknowledging the macro backdrop has become less favourable as we enter the volatile summer period. At the sector level, we added value from a broad preference towards growth sectors, funded from an underweight in defensives. With much uncertainty around the macroeconomic environment, we continue to see great benefits in a well-diversified multi asset approach which aims to deliver positive risk-adjusted returns over the medium to long term.

Fund breakdown

Asset split



Geographical breakdown



Market commentary

Market overview

The macro backdrop may appear not as worrying as it was a couple years ago but there is plenty of concerning developments below the surface, and political factors added another element of volatility this quarter. However, broadly speaking, the scene has been set with steady growth, sticky inflation and slow easing by central banks.

Data released in the UK in the second quarter confirmed that the country bounced out of technical recession in the first quarter and painted a picture of continued positive economic growth and with inflation falling back to the Bank of England's 2% target. First quarter GDP rose 0.7% quarter-on-quarter in real terms after falling 0.3% in the fourth quarter. The US Federal Reserve continued to keep rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, and the relatively strong (core) CPI inflation seen over January to April. The European Central Bank cut rates 25bps in June, citing progress on inflation and in line with signalling from various ECB speakers. Signals for the outlook beyond June at that meeting were more ambiguous and data dependent. Euro area CPI moved from 2.4% year-on-year in March to 2.6% in May, with core at 2.9% in May after 2.9% in March.

Markets have once again been dominated by interest rates during the quarter, despite little or no movement in this area. 2024 started with expectations that central banks would cut early and cut often. However, as the year has progressed, those expectations have changed. Inflation has generally not come down quite as fast as hoped, with services inflation proving sticky, particularly in the UK, while growth has generally not been as weak as feared - particularly in the US. Interest rates were cut just once across the Federal Reserve, European Central Bank and Bank of England, with the ECB cutting rates in June. Most central bank forecasters now only expect one or two cuts from each of these banks over the course of 2024 as a whole.

Ahead of the US Presidential elections in November, snap parliamentary elections were called in the UK and France, providing reminders that voter dissatisfaction with the seeming consensus on economic policy and ongoing lack of consensus on longer-term issues such as climate change create an uncertain backdrop for businesses and consumers alike.

Global equities continued to rally over Q2, with stronger than expected earnings growth fuelled by AI demand helping markets look through risk of fewer than previously expected 2024 interest rate cuts. US stocks saw the best returns in the first half of an election year since 1976. Meanwhile European shares underperformed amid political risk arising from French snap elections. Emerging markets and Asia Pacific ex Japan were the best performers.

Some of the same trends that were driving markets during the first quarter continued into the second quarter of 2024. While the technology sector has continued to outperform, there has been underneath a rotation in market with sectors like financials or utilities also performed well. The technology sector has remained the best performing sector driven by artificial intelligence (AI) which is triggering significant investments in technology infrastructure particularly semiconductors. The financial sector benefitted from the diminished expectations of interest rates cuts. Finally, utilities benefitted from increased demand for electricity driven by the growth of datacentres. Cyclically sensitive sectors like industrials and consumer discretionary were among the worst performers impacted by deteriorating activity data.

The price of WTI crude oil lost 2.0% over the quarter to \$82 a barrel, stagnating after the strong gains made in the prior quarter. Copper futures meanwhile gained 8.3% in US dollar terms.

The US dollar appreciated by 6.3% against the yen, by 0.7% against the euro, and was flat against sterling.

Outlook

While we expect headline inflation to continue to fall, we are not expecting a return to the previous disinflationary world. We see a more normal new regime characterised by periodic spikes in inflation and short boom-bust cycles. Tactical asset allocation is important when business cycles are shorter given inflation causing more movement in interest rates. Our funds have benefited from an overweight in equities since 2022 as the world economy proved much more resilient than expected to higher interest rates. However, we have taken profits of late, reducing our allocation to stocks as our Investment Clock has moved away from the equity friendly Recovery quadrant. We have now entered the summer months which tend to be more volatile for stock markets and the risk is elevated that macro data could create further challenges.

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, 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.

The portfolio has no index as a comparison.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in July 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058.

The Company is a non-UCITS retail scheme. 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 Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on www.rlam.com.

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.

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

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

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.

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. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

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.

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.

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.

Fund investing in funds risk

The Fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the Fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the Fund itself, may be deferred or suspended.

Liquidity and dealing risk

The Fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the Fund, or receive less than may otherwise be expected when selling your investment.

Performance to 30 June 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	0.79	2.83	8.83	6.47	14.21	2.11	2.69
Fund (net)	0.64	2.53	8.18	4.58	10.85	1.50	2.08

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
Fund (gross)	8.83	(0.93)	(1.24)	9.73	(2.24)
Fund (net)	8.18	(1.53)	(1.83)	9.07	(2.82)

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 30 June 2024. All figures are mid-price to mid-price in GBP for the RL GMAP Defensive Fund (M Acc).

Glossary

Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

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.

Geographical breakdown

Breakdown of assets by geographical regions. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces the return.

Top 10 holdings

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