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Royal London Sustainable Leaders Trust

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 Sustainable Leaders Trust. 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 listed on the London Stock Exchange that are deemed to make a positive contribution to society. Investments in the Fund will adhere to the Investment Adviser's ethical and sustainable investment policy. The Fund's performance target is to outperform, after the deduction of charges, the FTSE All-Share Index (the "Index") over a rolling 5-year period. The Index is considered an appropriate benchmark for the Scheme's performance, as the Scheme's potential investments will predominantly be included in the Index. In addition to the benchmark for the Scheme'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 Index

Fund value

	Total £m
30 June 2024	3,123.45

Fund analytics

	Fund
Fund launch date	29 May 1990
Base currency	GBP
Number of holdings	40

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.26	3.73	(2.47)
YTD	6.74	7.43	(0.69)
1 Year	11.98	12.98	(1.01)
3 Years (p.a.)	6.10	7.40	(1.29)
5 Years (p.a.)	8.54	5.53	3.01
10 Years (p.a.)	10.14	5.92	4.22
Since inception (p.a.)	9.05	7.88	1.16

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 Sustainable Leaders Trust (C Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 29 May 1990.

Performance commentary

The fund produced positive returns for the quarter, but underperformed its benchmark index.

While global stock markets were being driven by the tech sector, particularly the US, the UK market did not enjoy the same tailwind. The driver of markets was a rotation into financials as market expectations for interest rate cuts from central banks fell significantly – signalling that the ‘higher-for-longer’ environment will play out, leaving banks in a good place to see heightened profits.

A key detractor for the fund was a positive performance for mining firms in the quarter. Anglo American shares did well following an offer from rival BHP which was later rejected, while Glencore shares also improved as commodities did well in this environment. For sustainability reasons we hold no exposure to these firms. Similarly, another detractor was the energy sector after oil major Shell reported stronger-than-expected results.

Despite being a positive contributor in the past, our holding in Sage was a detractor this quarter. Shares of the small business software provider fell following a weak update. The firm helps small businesses with financial software, such as payrolls and accounting, has completed its cloud transition and is seeing a ramp up in demand for its improved AI-related tools giving us confidence in the long-term outlook for the business.

A positive for the fund was Schneider Electric, which continues to benefit from the key trend of electrification, which can be seen in the desire to replace carbon-based energy with more renewable sources. There is also huge demand for power due to the explosion of computation, itself driven by artificial intelligence. Schneider Electric is a leader in electrification and seeing strong demand as businesses look to improve their own electrification processes.

Energy company SSE also contributed during the quarter following a positive set of results released in the period. The firm continues to benefit from decarbonisation efforts. Other high quality companies in the portfolio that saw good results and a subsequent rise in share price included Experian and RELX.

Performance and activity

Top 10 holdings

	Weighting (%)
AstraZeneca PLC	6.33
RELX PLC	5.80
London Stock Exchange Group plc	5.29
Compass Group PLC	4.76
Experian PLC	4.66
SSE plc	4.31
Sage Group plc	4.23
Standard Chartered PLC	4.16
Schneider Electric SE	3.86
HSBC Holdings Plc	3.66
Total	47.06

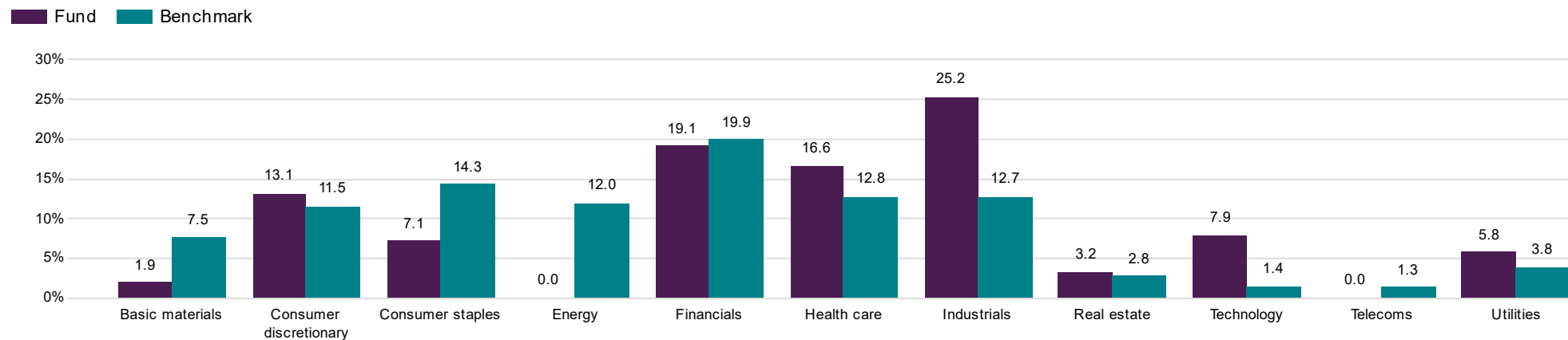
Fund activity

Our sustainable strategies are orientated to those companies that have a net benefit to society and create value for investors through their products and services and the way they manage environmental, social and governance (ESG) issues. Areas such as healthcare and technology remain at the core of the equity portfolios, complemented by engineering, utilities, selected financial services, and companies that lead their industries in ESG performance. This means that we do not invest in some sectors, such as oil & gas, extractive industries, or tobacco. We believe that the exposure to those sectors which offer a positive contribution to society is consistent with outperformance over the medium term.

Activity was limited in the quarter. The main trade during the quarter involved initiating a new position in MercadoLibre, Latin America's leading ecommerce and payment platform.

Fund breakdown

Sector weights



Characteristics and climate

ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at www.rlam.com












ESG characteristics

Royal London Asset Management has a controversial weapons exclusion across all investments. Our full policy can be found on our website: www.rlam.com/globalassets/media/literature/policies/controversial-weapons-policy.pdf

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics		✓
Sustainable fund objective	✓	
Additional exclusions	✓	

Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

 Adult entertainment	✓	 High environmental impact	✓
 Alcohol	✓	 Human rights issues	✓
 Animal welfare	✓	 Nuclear power	✓
 Armaments	✓	 Nuclear weapons	✓
 Fossil fuels	✓	 Tobacco	✓
 Gambling	✓		

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	50,272	n/a	n/a
Financed emissions coverage	100.00%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	12.90	65.06	(80.18)
Carbon footprint coverage	100.00%	93.83%	6.58
Weighted average carbon intensity (tCO2e/\$M sales)	40.70	86.38	(52.89)
Weighted average carbon intensity coverage	97.40%	92.54%	5.25

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	100.00	93.81	6.60
% of portfolio below 2°C ITR	73.47	57.40	27.99
% of portfolio below 1.5°C ITR	31.57	31.22	1.10

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	44.72	38.43	16.39
SBTi Near-Term committed	1.08	4.95	(78.17)
SBTi Near-Term targets set	68.28	47.26	44.47

Fund Engagement

Engagement definition

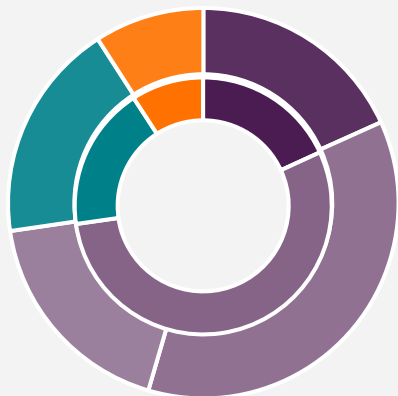
Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence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

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	8	29
Number of engagements	10	79

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	2
Climate - Transition Risk	2
Governance	6
Remuneration	4
Corporate Governance	2
Social & Financial Inclusion	2
Just transition	2
Technology, Innovation & Society	1
Technology & Society	1

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.

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

Fund Engagement

Engagement outcomes

NatWest Group Plc – Just transition

Purpose:

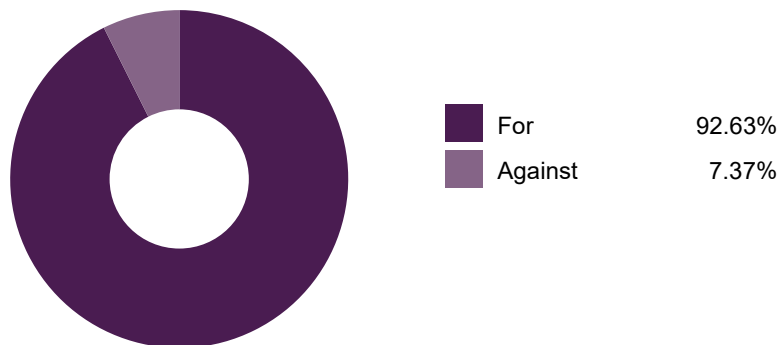
At the 2024 Annual General Meeting, in partnership with Border to Coast and Friend Provident Foundation, we posed a question regarding the company's commitment to integrating the principles of a just transition within its climate transition plan.

Outcome:

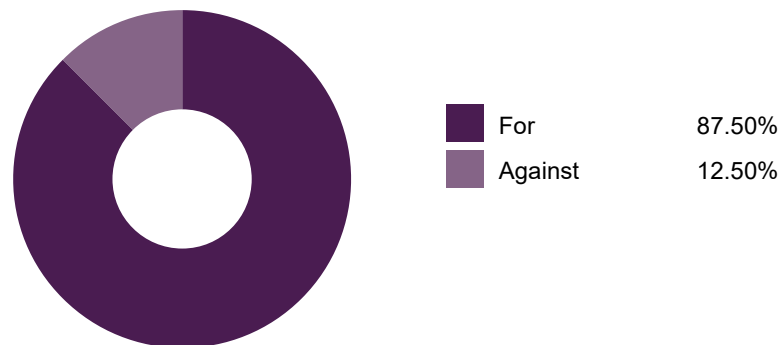
The Chair responded that NatWest is determined to be a leading bank on sustainability in general and just transition specifically. The Chair believes that the bank understands the need for a just transition and continues to consider how it can integrate it into its climate plan and sustainability regularly. The bank's current climate transition approach has been informed by best practice guidance, and it uses partnerships to put into practice some of the principles of a just transition. We appreciated the Chair's response to our question, yet the answer did not provide any commitments beyond what we have discussed with the company in private meetings. We have recently published investor expectations for banks on just transition and we will look to use this to continue our engagement with the bank.

Fund Voting

Total proxy voting activity



Executive remuneration voting activity



Notable votes

Astrazeneca Plc

Elect Sherilyn S. McCoy - against: We welcomed the opportunity to engage with the company, however we maintain a number of concerns with the newly proposed remuneration policy and are unable to support at this time.

Elect Marcus Wallenberg - against: We have long-standing concerns over the additional external time commitments held by the nominee, as he serves as chair at two external companies compounded with three further non-executive's roles, including this company.

Remuneration Policy - against: We welcomed the opportunity to engage with the company, however we maintain a number of concerns with the newly proposed remuneration policy and are unable to support at this time.

Amendment to Performance Share Plan - against: As per the Remuneration Policy.

Authority to issue shares without pre-emptive rights and Authority to issue shares without pre-emptive rights (specified capital investment) - both against: In line with the updated Pre-Emption Group guidelines, the company sought shareholder approval to disapply pre-emption rights up to 20% of the issued share capital in aggregate. We voted against the authorities in line with policy, owing to dilution concerns.

Market commentary

Market overview

The macroeconomic backdrop remain uncertain, and political factors have added another element of volatility this quarter. However, broadly speaking, the scene has been set with steady but slowing growth, sticky inflation, and slow easing by central banks.

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 several times. However, as the year has progressed, those expectations have changed. Inflation data having generally been stronger than expected has left central banks particularly the Federal Reserve to push back against rate cuts. While the European Central Banks cut rates in June, the Federal Reserve and the Bank of England have hold off so far. 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 a demand for change from citizens.

In the second quarter, the UK equity market rose 3.7% (FTSE All-Share index) building on the first quarter's 3.6% growth. In overall terms, UK equities (both FTSE 100 and 250) outperformed the Europe ex UK index. For UK equity markets, financials and healthcare stocks enjoyed a strong quarter, while the basic resources, media, and construction & materials sectors also saw solid returns. Consumer discretionary and utilities underperformed.

Gradually reducing inflation data – with the most recent reading hitting the Bank of England's target – and relative political certainty despite the upcoming elections helped sentiment in the UK. Even before the snap French election announcement dominated headlines, the market impact of the upcoming UK general election had been fairly limited. With polls pointing to a large and stable lead for the Labour party over the Conservatives, markets instead turned their attention to what a potential Labour government would mean for UK assets.

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 depreciated by 5.9% against the yen, by 0.8% against the euro, and was flat against sterling.

Outlook

Markets have moved significantly over the last 12 months, pricing in peak interest rates, yet history has taught us the macroeconomic environment can change quickly. We are not macroeconomic forecasters and refrain from predicting the direction of interest rates or inflation, but evidence is accumulating that we might be at peak interest rates. However, the path to lower interest remains in flux.

While macroeconomics, central bank decisions or politics can have a significant impact on markets in the short term, we believe long-term investors should focus on the microeconomic trends as they will be more important drivers of investment returns over time.

There is a narrative that sustainable investing is becoming less relevant given the economic and political changes we have seen over the last few years, however we believe the drive towards a more sustainable society which we define as cleaner, healthier, safer, and more inclusive continues unabated. When looking at markets we see sustainability becoming more, not less relevant and is illustrated by, but not limited to, trends in digitalisation through artificial intelligence, infrastructure through electrification and healthcare through obesity drugs. These trends make us optimistic about the long-term outlook for sustainable investing.

We will continue to follow our process which has served us well over the years and believe our portfolios focused on high quality sustainable and financial companies that are well positioned to drive long-term performance.

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.

This is a financial promotion and is not investment advice.

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The Trust is an authorised unit trust scheme. The Manager is RLUM Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144032.

For more information on the Trust 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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

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.

Responsible investment risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

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)	1.26	6.74	11.98	19.47	50.74	6.10	8.54
Fund (net)	1.07	6.34	11.14	16.82	45.22	5.31	7.74

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)	11.98	12.37	(5.06)	17.46	7.42
Fund (net)	11.14	11.54	(5.76)	16.59	6.62

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 Sustainable Leaders Trust (C Acc).

Glossary

Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO₂e/\$M invested. Financed emissions are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

ESG Integration

The consideration of environmental, social and governance (ESG) risk as part of the investment process. ESG integration does not mean the fund is trying to achieve a particular positive ESG outcome. Please check prospectus documentation for details on specific fund-level objectives.

Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO₂e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

Fund restrictions definitions

Adult Entertainment: Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.

Alcohol: Companies which have involvement in brewing, distillation or sale of alcoholic drinks.

Animal Welfare: Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).

Armaments: Companies who manufacture armaments or nuclear weapons or associated products.

Controversial Weapons: Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.

Fossil Fuels: Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.

Gambling: Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.

High Environmental Impact: Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.

Human Rights Risks: Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.

Nuclear Power: Companies who generate energy from Nuclear Power.

Nuclear Weapons: Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.

Tobacco: Companies which are growing, processing or selling tobacco products.

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.

Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

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.

Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

Regional weights

Breakdown of holdings by country of risk relative to the benchmark index and grouped using RLAM's proprietary regional classification scheme.

SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.

Glossary

Sector weights

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

Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

Top 10 holdings

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

Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO₂e / \$M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.