

For professional clients only, not suitable for retail clients.



Royal London Sustainable Managed Growth 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 Managed Growth 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.

Contents

The fund	3
Performance and activity	4
Fund breakdown	6
ESG	7
Market commentary	13
Further information	14
Disclaimers	15
Performance net and gross	17
Glossary	18

The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over the medium term (3-5 years) by investing mainly in sterling-denominated bonds, with some exposure to shares, 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 IA Mixed 0-35% Shares sector is considered an appropriate benchmark for performance comparison.

The IA Mixed 0-35% Shares sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 June 2024	773.84

Asset Mix

	Holdings	Weight
Fixed Income	251	72.95%
Equity	48	25.91%
Cash	62	1.14%

Fund analytics

	Fund
Fund launch date	4 December 2012
Base currency	GBP

Performance and activity

Performance

	Fund (%)	IA Sector (%)	Relative (%)
Quarter	0.56	0.72	(0.16)
YTD	3.38	2.44	0.94
1 Year	13.20	11.63	1.57
3 Years (p.a.)	0.03	(0.62)	0.65
5 Years (p.a.)	3.33	1.87	1.46
10 Years (p.a.)	5.38	4.28	1.10
Since inception (p.a.)	5.68	4.62	1.06

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 Managed Growth Trust (C Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 4 December 2012.

Performance commentary

The fund performed well over the quarter, with positive contributions from both the equity and corporate bond exposure. The corporate bond exposure saw a modest positive return in the period and was ahead of the wider sterling corporate bond market. The main driver of positive performance was stock positioning – notably in the bank and structured sectors. This stock selection impact more than offset the negative effect of our underweight in supranationals, which performed well over the quarter. The additional carry built into the portfolio over the benchmark index was also helpful.

Within the banking sector, our exposure to subordinated bonds remained helpful. Subordinated bonds from the likes of Close Brothers and Santander performed strongly. Structured bonds were the other area of interest, with strong performance from student loan provider ICSL.

Low exposure to the supranational sector was the main negative over the quarter, with this more defensive area performing well in a quarter where yields were slightly higher. We remain comfortable with the low weighting to this area given our belief that yields in the sector are poor value on a risk-adjusted basis compared to other parts of the market. Our bias towards insurance was also a drag on performance, lagging the wider market after a strong run. The market knows that there will be plenty of supply in this area as some business lines, like bulk annuities, required extra funding. This has caused higher initial yields and some changes in prices during the quarter. However, we still find the sector attractive and will maintain an overweight position.

News flow continues on the water sector as the regulator’s draft decision on spending over the next five years was deferred as a result of the snap election being called. While the commentary on the sector remains febrile, there have been no real developments that require portfolio positioning to be changed, and we continue to support the funding of this critical sector.

The fund’s equity performance benefitted from its technology holdings which were the top contributors to performance during the second quarter. In particular, companies enabling and exposed to advancements in AI performed well and were amid the top contributors to performance. The world continues to digitalise, transforming the way we live and work, artificial intelligence is the latest iteration of that long-term trend. Semiconductors companies like TSMC or Texas Instruments also performed well in the quarter – these are the key enablers of AI and the ongoing digitalisation trend. On the negative side, our industrial holdings underperformed, due to overall slowing economic activity data. Examples include high end machinery manufacturer Nordson, specialty chemical distributor IMCD and US water product distributor Core & Main. These names performed well in 2023 and despite the recent cyclical weakness, we believe these remain well positioned over the long term.

Performance and activity

Top 10 holdings

	Weighting (%)
Legal & General Group Plc 5.5% 27-jun-2064	1.46
Hsbc Holdings Plc 8.201% 16-nov-2034	1.45
Aviva Plc 6.875% 20-may-2058	1.32
Prudential Plc 6.34% 19-dec-2063	1.16
Hsbc Bank Capital Funding (sterling 1) Lp 5.844% Perp	0.97
Microsoft Corporation	0.83
ASML Holding NV	0.82
Rothesay Life Plc 3.375% 12-jul-2026	0.82
London Stock Exchange Group plc	0.80
Schneider Electric SE	0.78
Total	10.41

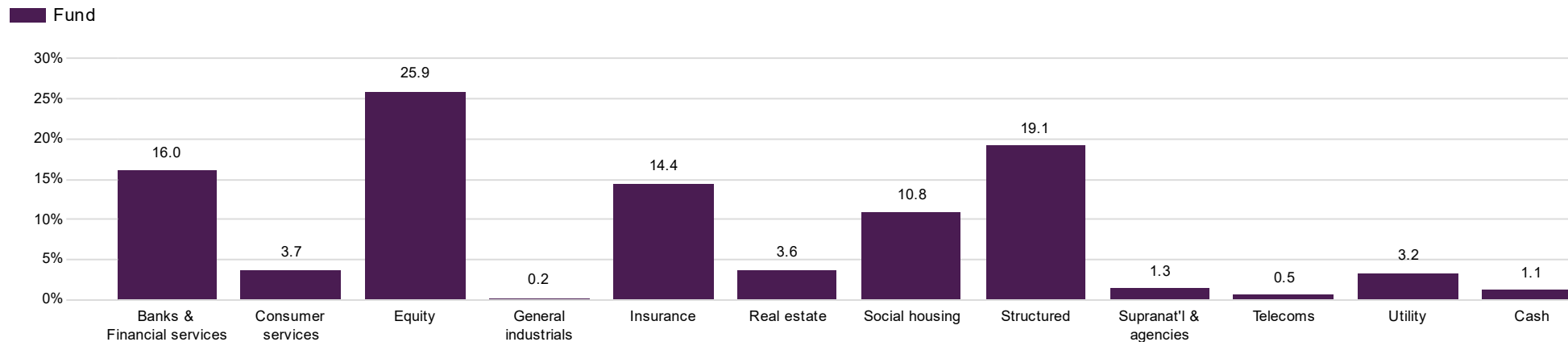
Fund activity

New issue activity provided numerous opportunities for the fund over the quarter. Financials continued to dominate primary market activity. We added AT1 bonds from Coventry Building Society yielding over 9%. We also added a new tier 2 issue from asset manager Schroders, issued with a yield of over 6%. In the insurance sector, we added a new issue from US insurer Protective Life. These bonds rank alongside policyholders, offering strong downside protection and were attractively priced at a yield of over 5%. We also purchased a subordinated bond from specialist UK insurer Pension Insurance Corporation, where we felt the high coupon looked attractive for the risk. In addition, we participated in a new sterling bond from UK bulk annuity provider Rothesay yielding 7%.

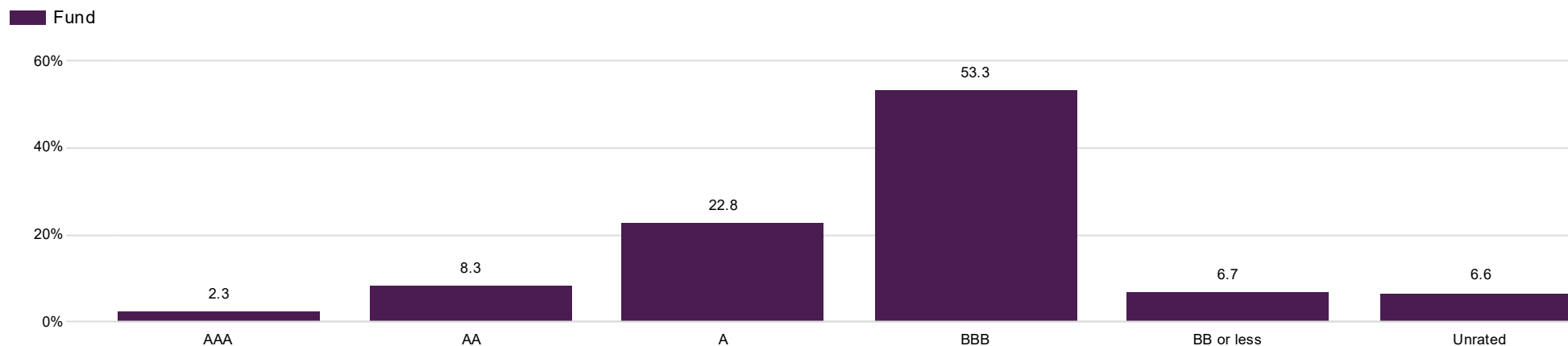
In the structured area, a key component of the portfolio, we continue to believe that the additional security and covenants are underpriced by the wider market. During the quarter we bought a new issue from UK Logistics – a commercial mortgage-backed security FRN, backed by a portfolio of logistics assets mainly in the Greater Manchester area with an attractive loan to value ratio and AAA rating. The assets, which are positioned in a close proximity to urban centres, allow SMEs to reduce their direct emissions as well as transportation costs thanks to being closer to end customers. In more familiar names, we added a new issue from PCL funding, who provide financing for lump sum insurance, professional fees, and school fees.

Fund breakdown

Sector weights



Credit ratings



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)	9,350	n/a	n/a
Financed emissions coverage	54.60%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	9.71	n/a	n/a
Carbon footprint coverage	54.60%	n/a	n/a
Weighted average carbon intensity (tCO2e/\$M sales)	35.24	n/a	n/a
Weighted average carbon intensity coverage	94.01%	n/a	n/a

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	54.60	n/a	n/a
% of portfolio below 2°C ITR	42.73	n/a	n/a
% of portfolio below 1.5°C ITR	21.61	n/a	n/a

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	17.08	n/a	n/a
SBTi Near-Term committed	5.17	n/a	n/a
SBTi Near-Term targets set	23.22	n/a	n/a

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	10	53
Number of engagements	14	107

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	3
Climate - Transition Risk	3
Governance	6
Remuneration	4
Corporate Governance	2
Social & Financial Inclusion	2
Just transition	2
Technology, Innovation & Society	4
Technology & Society	4

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

BNP Paribas SA – Net zero

Purpose:

We, as part of a collaborative investor group coordinated by ShareAction, asked a question at BNP Paribas' AGM regarding its financing of oil and gas companies.

Outcome:

The CEO of BNP Paribas has expressed confidence in the bank's decision to cease involvement in oil and gas bond transactions since mid-February 2023. This move is indicative of the bank's disinterest in participating in oil and gas bonds and is seen as a positive step. BNP Paribas utilises International Energy Agency scenarios as a guide and seeks to reflect its insights in its policies. During our meeting, the CEO reaffirmed the bank's commitments, including its 10-90 goal, which aims for 90% of its energy sector financing to be low carbon, with the remainder for fossil fuels, contingent on suitable opportunities for financing. We will continue to monitor BNP's disclosures and assess the company's progress.

Eskmuir Properties Ltd – Net zero

Purpose:

We participated in Eskmuir's annual bondholder meeting, which provided a valuable platform to engage in discussions about its sustainability initiatives and specifically its progress towards achieving net zero.

Outcome:

Eskmuir shared its current environmental initiatives, highlighting its focus on improving its Global Real Estate Sustainability Benchmark (GRESB) in 2024. The company aims to achieve this through enhanced data collection of energy usage across its portfolio, utilising a platform for live data access, rather than relying on tenant engagement which had a low response rate. Although the adoption of solar panels is minimal due to property constraints, the company is making strides with a majority of its portfolio rated EPC C or above, with a modest Capex spend. Eskmuir is also beginning to address embedded carbon, acknowledging the need for offsetting strategies. We will continue to monitor the company's net zero progress.

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.

Vodafone – Ethical AI

Purpose:

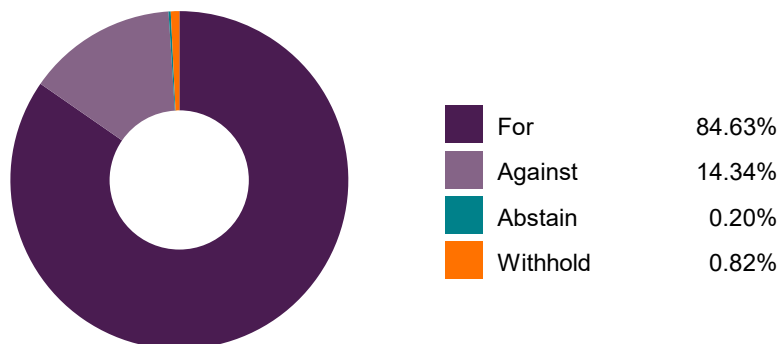
We have reached out to Vodafone on behalf of the Investor Group as part of the World Benchmarking Alliance's Ethical AI collaborative engagement. Our aim is to schedule a meeting with the company to gain a deeper understanding of its ethical AI practices and to discuss opportunities for enhancing these practices.

Outcome:

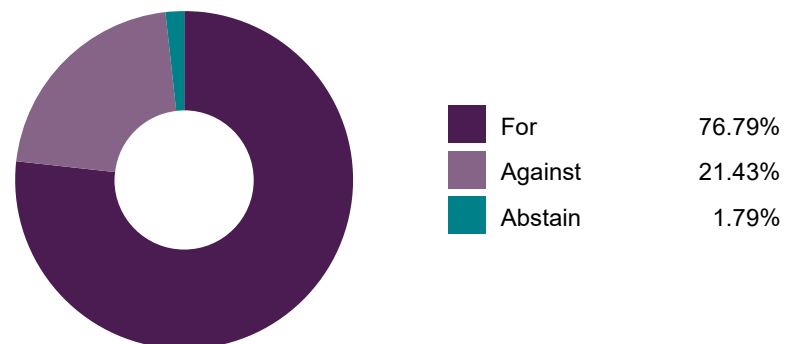
Vodafone has provided a written response outlining its AI governance structure, highlighting the AI Governance Board's role in strategy and policy oversight, chaired by the Chief Commercial Officer and comprising senior executives such as the CEO of Vodafone Business and the Chief Technology Officer. The AI framework emphasises a responsible approach to AI, with a focus on ethical principles and risk management across the AI lifecycle. The company is proactive in human rights due diligence and is enhancing risk assessments to address AI risks effectively with a particular focus on establishing robust controls during the design phase. We continue to seek a detailed dialogue on its ethical AI practices.

Fund Voting

Total proxy voting activity



Executive remuneration voting activity



Notable votes

Amazon.com

Shareholder Proposal Regarding Report on Customer Due Diligence - for: We are supportive of the request for an independent review into Amazon's customer due diligence process to determine whether use of its products and services with surveillance, computer vision and cloud storage contributes to human rights violations.

Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report - for: While we acknowledge the Company's current disclosures around pay equity, we are supportive of the Company increasing its reporting in this area.

Shareholder Proposal Regarding Just Transition Reporting - for: We support further disclosures on just transition and the development of a plan to address the social impacts of climate transition.

Shareholder Proposal Regarding Third-Party Assessment of Freedom of Association - for: We are supportive of the request for the company to disclose how it ensure workers' rights to freedom of association and collective bargaining as guaranteed by the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights; particularly given the ongoing issues raised over the company's labour practices and anti-unionisation rhetoric at some sites.

Shareholder Proposal Regarding the Human Rights Impacts of Facial Recognition Technology - for: We are supportive of increased disclosure in this area given the potential for human and civil rights violations associated with the use of Recognition.

Shareholder Proposal Regarding Report on Working Conditions - for: We are supportive of increased scrutiny in this area given the significant allegations around the Company's working conditions.

Fund Voting

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.

Taiwan Semiconductor Manufacturing

Elect KUNG Ming-Hsin - withhold: The nominee has attended less than 75% of meetings without a valid excuse.

Elect Sir Peter L. Bonfield - withhold: The nominee is not independent with a board tenure of 22 years and serves on the Audit Committee which should remain fully independent in our view.

Elect Moshe N.Gavrielov - withhold: The nominee serves as Chair of the Nomination and Governance committee and we note that a Senior Independent Director or equivalent has not been appointed, particularly given the absence of an independent Chair on the board.

Market commentary

Market overview

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.

Some of the same trends that were driving global equity markets during the first quarter continued into the second quarter of 2024. While the technology sector has continued to outperform, there has been an underlying rally in equity markets with sectors such as financials and utilities also performing 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 in part by the growth of datacentres. Cyclically sensitive sectors such as industrials and consumer discretionary were among the worst performers, impacted by deteriorating activity data.

Government yields generally rose over the quarter, particularly following poor US inflation data released in April with yields largely range-bound through May and June. In the US, 10-year treasury yields rose from 4.21% to 4.40%, while German 10-year bunds similarly saw yields rise from 2.30% to 2.50%. Benchmark 10-year gilt yields rose from 3.94% to 4.18%.

The sterling investment grade credit market (iBoxx non-gilt index) returned -0.13% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) widening marginally from 1.02% to 1.03% (iBoxx). Given the modest rise in yields, sectors with a greater proportion of long-dated bonds performed less well, including utilities and social housing. Of the major sectors, supranationals and banks produced positive returns, while insurance lagged.

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 rates 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 microeconomic trends, as these will be more important drivers of 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.

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

Looking at fixed income exposure, all issuers within our sustainable holdings offer a net benefit to society or show ESG leadership. As well as reducing risk, we seek out opportunities that are under-researched e.g., bonds that do not fall into mainstream indices or benchmarks and/or are unrated by ratings agencies. Importantly, the sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets.

Sterling investment grade yields are higher than they were at the start of the year, reflecting higher gilt yields and a small reduction in credit spread. We believe that the all-in yield on the market (using iBoxx), near 5.3% at the end of June, is attractive both in absolute terms but also relative to government bonds. Despite the contraction in credit spreads they continue to compensate investors for the risk of default.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

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.

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 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.

The portfolio has no index as a comparison.

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.

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.

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)	0.56	3.38	13.20	0.09	17.83	0.03	3.33
Fund (net)	0.40	3.05	12.47	(1.84)	14.07	(0.62)	2.67

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)	13.20	0.78	(12.27)	8.52	8.48
Fund (net)	12.47	0.13	(12.83)	7.82	7.78

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 Managed Growth Trust (C Acc).

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

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.

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

Distribution yield

The distribution yield reflects the amounts that may be expected to be distributed over the next 12 months. It is calculated net of standard management charges. It reflects RLAM's current perception of market conventions around timing of bond cash flows.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

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 analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.

This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

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.

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.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

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.

SBTi

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

Sector breakdown

Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.

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.

In line with our bespoke and targeted approach to credit analysis, we have developed an in-house carbon data tool that addresses coverage and mapping issues with third party systems. The development of this tool has been a critical element of RLAM's ESG integration into our credit process, addressing coverage and mapping issues with third party systems. This enhanced coverage is reflected in the WACI figures provided in this report, with all other metrics instead being based on data from MSCI.