Royal London UK Equity Funds

Fund Manager Commentary

30 November 2024

Fund Manager Commentary

30 November 2024

The purpose of this report is to provide an update on the Royal London UK Equity Funds. The report has been produced by Royal London Asset Management. The report starts with a performance summary followed by Fund Manager commentary for each of the Funds. All data within this report is at the report date unless otherwise stated.

Contents

ROYAL LONDON
ASSET MANAGEMENT

Performance

	1 month (%)	Rolling 12 months (%)
RL UK Equity Income Fund M Inc	**3.01**	**15.52**
FTSE All Share Index	2.49	15.75
IA UK Equity Income Sector	2.38	15.54
RL UK Dividend Growth Fund M Acc	**3.17**	**16.07**
FTSE All Share Index	2.49	15.75
IA UK All Companies Sector	2.47	15.27
RL UK Mid Cap Growth Fund M Acc	**0.79**	**19.35**
FTSE 250 ex-IT Index	1.94	19.94
IA UK All Companies Sector	2.47	15.27
RL UK Opportunities Fund M Acc	**1.25**	**11.61**
FTSE All Share Index	2.49	15.75
IA UK All Companies Sector	2.47	15.27
RL UK Smaller Companies Fund M Acc	**-1.93**	**14.63**
FTSE Small Cap ex-IT Index	-0.59	23.11
IA UK Smaller Companies Sector	-0.20	15.48

Past performance is not a guide to future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

Source: RLAM and Morningstar, as at 30 November 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically.

Royal London UK Equity Income Fund

Portfolio commentary

In the month the fund performed better than both its benchmark and the peer group median, ranking in the second quartile.

During November equity markets were heavily influenced by the US election result, following the clean sweep by the Republican party. Markets were encouraged by the expectation that the Trump victory will result in tax cuts, deregulation and improvements in US productivity. Equally if, as threatened, widespread tariffs are introduced this could have a detrimental impact on global trade. For the time being, positive sentiment has prevailed. The FTSE All-Share rose, reflecting the positive sentiment from the US. Mining was the worst performing sector reflecting further concerns about the outlook for the Chinese economy. Corporate activity remain high, most notably with Aviva launching a bid for fellow insurer Direct Line.

The main contributors to the fund's outperformance were the significant holdings in the accounting software company, Sage; the tobacco company, Imperial brands; and the engineering business, Smiths Group, all of whom reported strong results or trading statements. Shares in DCC also performed well after announcing plans to sell its healthcare business and focus on its energy division.

The most significant trades in the month were to reduce the fund's holding in 3i, Imperial Brands and Drax. A range of existing holdings were added to, including Croda, ITV, Sainsbury and Johnson Matthey.

Investment outlook

We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

CITYWIRE +

Richard Marwood

Head of UK and European Equities

Max Newman

Fund Manager

Royal London UK Dividend Growth Fund

Portfolio commentary

In the month fund performed better than both its benchmark and the peer group median, ranking in the first quartile.

During November equity markets were heavily influenced by the US election result, following the clean sweep by the Republican party. Markets were encouraged by the expectation that the Trump victory will result in tax cuts, deregulation and improvements in US productivity. Equally if, as threatened, widespread tariffs are introduced this could have a detrimental impact on global trade. For the time being, positive sentiment has prevailed. The FTSE All-Share rose, reflecting the positive sentiment from the US. Mining was the worst performing sector reflecting further concerns about the outlook for the Chinese economy. Corporate activity remain high, most notably with Aviva launching a bid for fellow insurer Direct Line.

The main contributors to the fund's outperformance were the significant holdings in the accounting software company Sage and the conglomerate DCC. Sage reported strong results, with good sales growth and saw its shares rise almost 20% on the day. DCC shares were strong after announcing plans to sell off their healthcare division and focus on its energy business.

The most significant trades in the month were to reduce the fund's exposure to 3i, Reckitt Benckiser and Rentokil. The main purchases were in AstraZeneca, HSBC and Segro.

Investment outlook

We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

CITYWIRE +

Richard Marwood

Head of UK and European Equities

Max Newman

Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio commentary

The UK Mid Cap Growth fund returned +0.8% for November, underperforming the benchmark FTSE 250 ex IT index. The relative underperformance during the month will be explained below, but should be seen in the context of strong relative outperformance during October, and the year-to-date return of approximately +10%, ahead of the benchmark.

During November equity markets were heavily influenced by the US election result, following a clean sweep by the Republican party. Equity markets overall responded positively to the expectation that the Trump victory will result in tax cuts, deregulation, and improvements in US productivity. Equally if, as threatened, widespread tariffs are introduced this could increase consumer price inflation, and clearly would have a detrimental impact on global trade. For the time being, positive sentiment has prevailed although bond yields also rose as investors adjusted their expectations for inflation and interest rates. The FTSE All-Share rallied, reflecting the positive sentiment from US equities, but large-caps outperformed small and mid-caps which is not unsurprising given higher bond yields. Corporate activity remained elevated, most notably with Aviva launching a hostile bid for fellow insurer Direct Line, while the boards of both Loungers and TI Fluids recommended all cash offers from buyers.

A theme that has been consistent in the UK small and Mid-cap market during recent months, has been companies reporting “in-line” results, with earnings no better or no worse than analyst forecasts, but seeing material share price bounces on the day. It speaks to the negative sentiment and extremely short-term nature of UK equity markets today, where the market is unwilling to look any further than the next piece of news, ignoring longer term dynamics. Examples in the month included heat treatment provider Bodycote, online auction platform Auction Technology Group (“ATG”), and identify fraud specialist GB Group. Each of them provided good trading updates, but gave no reason for analysts to change forecasts – however their share prices rose by double digit percentages. As long-term investors in these companies we believe this demonstrates the pent-up performance in many of our portfolio holdings, where share prices have been buffeted by macro concerns, political headlines, technical headwinds (net outflows from the UK market) yet the underlying performance from companies has in many cases been robust. It can take time for the market to reflect this, but in small and mid-cap investing, it often pays to be patient.

The largest single detractor to relative performance in the period was Direct Line (not held in the fund), where the approach from Aviva sent their shares up over 40%. We’ve long avoided investing in the personal (car and home) insurance sector as it is highly price competitive and cyclical. We also chose not to invest in TI Fluids, a manufacturer of parts into the car industry, for similar reasons – another headwind to performance as Canadian peer ABC made an all-cash takeover offer. Of the portfolio holdings, Genus saw a double digit decline in share price despite providing a reasonable trading update. Their world leading Porcine business continues to deliver decent results in a tough market, while there is some evidence of better execution amid an ongoing turnaround in their Bovine division. Yet the equity market appears to be rattled by weak Chinese consumer data and possibly president-elect Trump’s pick for Health Secretary; we’re comfortable taking a longer term view here and believe the value of their unique IP will be demonstrated in time.

Henry Lowson

Head of UK Alpha Strategies

Henry Burrell

Fund Manager

Royal London UK Opportunities Fund

Portfolio commentary

The RLAM UK Opportunities fund produced a return of +1.3% during the month, underperforming the FTSE All Share benchmark. The underperformance can partly be explained by sensitivity of different sectors to higher interest rates (and bond yields). The fund's underweight exposure to the financials sector and in particular the large banks was a headwind, as those responded positively to expectations of higher interest rates, while consumer discretionary holdings such as housebuilders were weak.

During November equity markets were heavily influenced by the US election result, following a clean sweep by the Republican party. Equity markets overall responded positively to the expectation that the Trump victory will result in tax cuts, deregulation, and improvements in US productivity. Equally if, as threatened, widespread tariffs are introduced this could increase consumer price inflation, and clearly would have a detrimental impact on global trade. For the time being, positive sentiment has prevailed although bond yields also rose as investors adjusted their expectations for inflation and interest rates. The FTSE All-Share rallied, reflecting the positive sentiment from US equities, but large-caps outperformed small and mid-caps which is not unsurprising given higher bond yields. Corporate activity remained elevated, most notably with Aviva launching a hostile bid for fellow insurer Direct Line, while the boards of both Loungers and TI Fluids recommended all cash offers from buyers.

Auction Technology Group, DCC and Rotork were positive contributors to performance. DCC shares were strong after announcing plans to sell off their healthcare division and focus on its higher return on capital energy business. Rotork and Auction Technology share prices both rallied after announcing solid if unspectacular results. It speaks to the extreme short term nature of equity markets at the moment, that on results which gave analysts no cause to change estimates, the share prices rallied by double digit percentages. As long-term investors in these companies we believe this demonstrates the pent-up performance in many of our portfolio holdings, where share prices have been buffeted by macro concerns, political headlines, technical headwinds (net outflows from the UK market) yet the underlying performance from companies has in many cases been robust.

Genus was the most significant detractor during the month. The share price saw a double digit decline despite a reasonable trading update. Their world leading porcine business continues to deliver decent results in a tough market, while there is some evidence of better execution amid an ongoing turnaround in their bovine division. The equity market appears to be rattled by factors out of their control, such as weak Chinese consumer data and possibly president-elect Trump's pick for the next US Health Secretary and the impact that might have on FDA approval for their PRRVs resistant pig. We're comfortable taking a longer term view here and believe the value of Genus' unique IP will be demonstrated in time.

Royal London UK Smaller Companies Fund

Portfolio commentary

The UK Smaller Companies fund returned -1.9% for November, underperforming the benchmark FTSE Smaller Companies ex IT index. The relative underperformance during the month will be explained below, but should be seen in the context of very strong relative outperformance during October, with the fund ranking top decile amongst its peer group over the last three months.

During November equity markets were heavily influenced by the US election result, following a clean sweep by the Republican party. Equity markets overall responded positively to the expectation that the Trump victory will result in tax cuts, deregulation, and improvements in US productivity. Equally if, as threatened, widespread tariffs are introduced this could increase consumer price inflation, and clearly would have a detrimental impact on global trade. For the time being, positive sentiment has prevailed although bond yields also rose as investors adjusted their expectations for inflation and interest rates. The FTSE All-Share rallied, reflecting the positive sentiment from US equities, but large-caps outperformed small and mid-caps which is not unsurprising given higher bond yields. Corporate activity remained elevated, most notably with Aviva launching a hostile bid for fellow insurer Direct Line, while the boards of both Loungers and TI Fluids recommended all cash offers from buyers.

A consistent theme of the UK small and Mid-cap market during recent months, has been companies reporting “in-line” results, with earnings no better or no worse than analyst forecasts, but seeing material share price bounces on the day. It speaks to the extremely short-term nature of current equity markets, where the market is unwilling to look any further ahead than one set of next results. Examples in the month included online auction platform Auction Technology Group (“ATG”), and identify fraud specialist GB Group. Each of them provided good trading updates, but gave no reason for analysts to change forecasts – however their share prices rose by double digit percentages. As long-term investors in these companies we believe this demonstrates the pent-up performance within many of our portfolio holdings, where share prices have been buffeted by macro concerns, political headlines, technical headwinds (net outflows from the UK market) yet the underlying performance from companies has in many cases been robust. It can take time for the market to reflect this, but in small and mid-cap investing, it often pays to be patient.

Corporate activity was elevated during November, with two portfolio holdings involved in M&A. Firstly Cohort, the defence group, raised £40m from shareholders to support the £75m acquisition of EM Solutions, an Australian satellite communications business which largely serves Naval customers around the world. The deal makes strategic sense with substantial customer cross-over and adjacent capabilities, and the market responded well to the material earnings per share accretion, sending the shares up almost 20%. Secondly, engineering group Volex launched an approach for peer TT Electronics. TT has had more than its share of challenges in the last few years, with repeated profits downgrades. The Volex team believe they can add significant value through better execution. However buying a business amid operational challenges carries plenty of risk while public to public deals are also never straightforward. Unsurprisingly the equity market substantially marked down the Volex share price in response, while the TT share price rallied almost 50% on the news. TT is not held in the fund, but is in the benchmark index, and as such the portfolio’s relative performance suffered a double headwind.

Henry Lowson

Head of UK Alpha Strategies

Henry Burrell

Fund Manager

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 December 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 Funds are sub-funds 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 funds 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.

FTSE indexes and data are an intellectual property of FTSE International Limited ("FTSE"). "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. The Index is calculated by FTSE or its agent.

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.

FC RLAM PD 0056 RH

Risk 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.

Charges from capital risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

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.

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.

Efficient portfolio management (EPM) techniques

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.

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.

Smaller companies risk

The Fund invests in smaller companies, the prices for which can be less liquid and be more volatile than those of larger companies and therefore may have a greater impact on the value of the Fund.

Performance to 30 November 2024

Cumulative (%)

		3 Month	6 Month	1 Year	3 Years	5 Years
RL UK Equity Income M Inc	Gross	-2.92	1.30	16.35	32.52	37.98
RL UK Equity Income M Inc	Net	-3.10	0.94	15.52	29.70	33.12
RL UK Dividend Growth Fund M Acc	Gross	-1.90	1.80	16.89	22.77	45.69
RL UK Dividend Growth Fund M Acc	Net	-2.07	1.44	16.07	20.19	40.63
RL UK Mid Cap Growth Fund M Acc	Gross	-1.92	2.70	20.27	-1.74	12.49
RL UK Mid Cap Growth Fund M Acc	Net	-2.11	2.31	19.35	-3.97	8.26
RL UK Opportunities Fund M Acc	Gross	-2.52	-0.06	12.47	0.82	16.09
RL UK Opportunities Fund M Acc	Net	-2.70	-0.44	11.61	-1.48	11.72
RL UK Smaller Companies Fund M Acc	Gross	-1.81	-0.52	15.51	-18.22	13.85
RL UK Smaller Companies Fund M Acc	Net	-2.00	-0.90	14.63	-20.08	9.56

Annualised (%)

3 Years (p.a)	5 Years (p.a)
9.83	6.64
9.05	5.88
7.07	7.81
6.32	7.05
-0.58	2.38
-1.34	1.60
0.27	3.03
-0.49	2.24
-6.48	2.62
-7.19	1.84

Year on year performance (%)

		30/09/2023 – 30/09/2024	30/09/2022 – 30/09/2023	30/09/2021 – 30/09/2022	30/09/2020 – 30/09/2021	30/09/2019 – 30/09/2020
RL UK Equity Income M Inc	Gross	17.53	19.10	-5.07	32.77	-19.28
RL UK Equity Income M Inc	Net	16.69	18.25	-5.75	31.82	-19.86
RL UK Dividend Growth Fund M Acc	Gross	16.33	18.13	-11.92	36.78	-8.92
RL UK Dividend Growth Fund M Acc	Net	15.51	17.30	-12.54	35.82	-9.56
RL UK Mid Cap Growth Fund M Acc	Gross	24.28	12.82	-30.10	35.79	-8.85
RL UK Mid Cap Growth Fund M Acc	Net	23.33	11.96	-30.64	34.75	-9.55
RL UK Opportunities Fund M Acc	Gross	13.58	17.70	-24.83	40.99	-12.53
RL UK Opportunities Fund M Acc	Net	12.71	16.80	-25.41	39.92	-13.19
RL UK Smaller Companies Fund M Acc	Gross	16.12	1.77	-35.30	52.56	2.57
RL UK Smaller Companies Fund M Acc	Net	15.23	0.99	-35.80	51.40	1.78

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 November 2024 unless otherwise stated. All figures are mid-price to mid-price in GBP unless otherwise stated.