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# Royal London UK Equity Funds

Fund Manager Commentary

30 September 2024

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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.

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# Performance

	1 month (%)	Rolling 12 months (%)
<b>RL UK Equity Income Fund M Inc</b>	<b>-2.49</b>	<b>16.69</b>
FTSE All Share Index	-1.29	13.40
IA UK Equity Income Sector	-1.40	15.05
<b>RL UK Dividend Growth Fund M Acc</b>	<b>-1.97</b>	<b>15.51</b>
FTSE All Share Index	-1.29	13.40
IA UK All Companies Sector	-1.35	13.47
<b>RL UK Mid Cap Growth Fund M Acc</b>	<b>-0.29</b>	<b>23.33</b>
FTSE 250 ex-IT Index	-0.16	21.41
IA UK All Companies Sector	-1.35	13.47
<b>RL UK Opportunities Fund M Acc</b>	<b>-1.50</b>	<b>12.71</b>
FTSE All Share Index	-1.29	13.40
IA UK All Companies Sector	-1.35	13.47
<b>RL UK Smaller Companies Fund M Acc</b>	<b>-3.46</b>	<b>15.23</b>
FTSE Small Cap ex-IT Index	-0.16	22.38
IA UK Smaller Companies Sector	-3.46	17.12

**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 September 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

During September the fund underperformed both its benchmark and the peer group median, ranking in the fourth quartile. Year to date the fund is ahead of its benchmark and ranks second quartile in its peer group.

The FTSE All-Share index was down, with some large benchmark constituents weighing on returns. Astra Zeneca was down on some disappointing drug development updates and BP and Shell were both under pressure from oil price weakness; this was caused by Saudi Arabia saying that they may not manage their production levels to target \$100 per barrel oil prices. The move in energy stocks was very different to the moves seen in other commodity stocks, which enjoyed strong returns after news that China is looking to inject stimulus into its economy.

The main detractors from the fund's performance were the holdings in Close Brothers and Videndum. Close Brothers announced reasonable results and the disposal of their wealth management business but continue to be hampered by the ongoing FCA investigation into motor financing. The FCA had been due to conclude their investigation in September 2024, but it is now being targeted for May 2025. Videndum also announced results; results which showed that the recovery in their end markets for TV and film production continues to be sluggish.

The most significant trades in September were to reduce the large holdings in 3i and IMI. The proceeds were used to add to holdings in Rio Tinto and Glencore and also to establish a new holding in the property company New River Retail, who were issuing new shares to help fund their purchase of another property company.

## 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.



**Richard Marwood**  
Head of Equity Income



**Joe Walters**  
Senior Fund Manager

# Royal London UK Dividend Growth Fund

## Portfolio commentary

During September the fund underperformed both its benchmark and the peer group median, ranking in the fourth quartile. Year to date the fund is ahead of its benchmark and ranks top quartile in its peer group.

The FTSE All-Share index was down, with some large benchmark constituents weighing on returns. Astra Zeneca was down on some disappointing drug development updates and BP and Shell were both under pressure from oil price weakness; this was caused by Saudi Arabia saying that they may not manage their production levels to target \$100 per barrel oil prices. The move in energy stocks was very different to the moves seen in other commodity stocks, which enjoyed strong returns after news that China is looking to inject stimulus into its economy.

The main detractors from the fund's performance were the holdings in Close Brothers and Videndum. Close Brothers announced reasonable results and also the disposal of their wealth management business but continue to be hampered by the ongoing FCA investigation into motor financing. The FCA had been due to conclude their investigation in September 2024, but it is now being targeted for May 2025. Videndum also announced results which showed that the recovery in their end markets for TV and film production continues to be sluggish. The most notable positive contributor to the fund was the holding in the farm animal genetics company Genus, who are potential beneficiaries of a stronger Chinese economy.

The most significant trades in September were to sell out of the fund's remaining position in Ascential and to re-establish a position in Rentokil. Rentokil shares were very weak after announcing a trading statement which showed continued problems in integrating their large US acquisition, Terminix. We believe that these problems are not insurmountable and that the balance of risk reward in the shares is attractive at current levels.

## 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.



**Richard Marwood**  
Head of Equity Income



**Joe Walters**  
Senior Fund Manager

# Royal London UK Mid Cap Growth Fund

## Portfolio commentary

The UK Mid Cap Growth fund placed in the first quartile of the IA All Companies peer group during the month but marginally underperformed the benchmark return by 0.1%.

UK equities experienced a decline at the beginning of the month due to renewed concerns about an economic slowdown in the US, prompted primarily by weak data. The market however recovered over the remainder of the month, due in part to a larger-than-anticipated interest rate cut by the Federal Reserve. Energy companies were generally weak following news that Saudi Arabia was likely to abandon its price target of \$100 per barrel, and elsewhere, China announced a series of stimulus measures aimed at boosting its economic growth.

WH Smith and Genus were contributors to performance. WH Smith's full year trading update revealed a strong performance in its UK Travel division and an improvement in like-for-like trends in its North American travel division. The company also announced it would be conducting a share buyback, which in part will be funded from a cash refund from its defined benefit pension scheme which was bought-out several years ago. Genus produced a set of full year results that were broadly in line with expectations, but positively it flagged stable and slowly improving market conditions, albeit it remains cautious on China. The company also flagged the good progress made with regards to cost & efficiency savings in its ABS division and with its R&D spend.

Chemring was a detractor as its share price declined, along with other European Defence companies, due to speculation that Ukraine's allies are considering how a ceasefire could work with Russia. Bodycote also detracted as investors grew concerned about a deteriorating trading environment following weak updates from peers in the broader Industrial sector and a lack of improvement in PMI data.

In terms of trading activity, the fund initiated a new position in Kainos. Kainos provides digital transformation and Workday implementation services and has developed software products for the Workday platform. The company's customers are global and are spread across the public & private sector, and it has an excellent reputation as demonstrated by its strong customer retention. Kainos has recently announced it has entered into an agreement with Workday, whereby Workday will introduce customers to and co-sell the software products which Kainos has developed. We believe this is a transformational announcement as this significantly increases the ability for Kainos to grow its software related revenues. Whilst the company has flagged some weakness in its end markets, we believe this is short term in nature and the recent pull back in the shares provide an attractive entry point for the fund to start a position.



**Henry Lowson**

Head of Alpha



**Henry Burrell**

Fund Manager

# Royal London UK Opportunities Fund

## Portfolio commentary

The RLAM UK Opportunities fund produced a return of -1.5% during the month, marginally underperforming the FTSE All Share benchmark by 0.2%. The fund's overweight exposure to the FTSE 250 proved beneficial as it outperformed the FTSE 100 during the month.

UK equities experienced a decline at the beginning of the month due to renewed concerns about an economic slowdown in the US, prompted primarily by weak data. The market however recovered over the remainder of the month, due in part to a larger-than-anticipated interest rate cut by the Federal Reserve. Energy companies were generally weak following news that Saudi Arabia was likely to abandon its price target of \$100 per barrel, and elsewhere, China announced a series of stimulus measures aimed at boosting its economic growth.

Watches of Switzerland and WH Smith were contributors to performance. Watches of Switzerland issued an update at the beginning of the month highlighting that trading was in line with expectations. Pleasingly, demand for its key luxury brands remains strong, and the company has seen a continued stabilisation in the UK market. WH Smith's full year trading update revealed a strong performance in its UK Travel division and an improvement in like-for-like trends in its North American travel division. The company also announced it would be conducting a share buyback, which in part will be funded from a cash refund from its defined benefit pension scheme which was bought-out several years ago.

Chemring was a detractor during the month as its share price declined, along with other European Defence companies, due to speculation that Ukraine's allies are considering how a ceasefire could work with Russia. Rentokil was another detractor as the company lowered its guidance for the full year driven by challenges in its North American division. Whilst disappointing, we take some comfort that the issues which Rentokil are facing are solvable and that the underlying market in North America remains robust.

The fund has recently initiated a new position in Informa, a leading events, digital services and academic publishing group. Following the recent disposal of its Intelligence division for an attractive valuation, Informa have used the proceeds to invest organically and inorganically to refocus itself on its core markets of B2B events and academic publishing. These are big and growing addressable markets, and we believe there is plenty of opportunity for Informa to take market share. The company is run by a well-respected management team, and it is highly cash generative with a strong balance sheet which will likely be used for further M&A.

# Royal London UK Smaller Companies Fund

## Portfolio commentary

The UK Smaller Companies fund returned -3.5% during the month, performing in line with its UK Smaller companies peer group.

UK equities experienced a decline at the beginning of the month due to renewed concerns about an economic slowdown in the US, prompted primarily by weak data. The market however recovered over the remainder of the month, due in part to a larger-than-anticipated interest rate cut by the Federal Reserve. Energy companies were generally weak following news that Saudi Arabia was likely to abandon its price target of \$100 per barrel, and elsewhere, China announced a series of stimulus measures aimed at boosting its economic growth.

Genus and Gamma Communications were contributors to performance. Genus produced a set of full year results that were broadly in line with expectations, but positively it flagged stable and slowly improving market conditions, albeit it remains cautious on China. The company also flagged the good progress made with regards to cost & efficiency savings in its ABS division and with its R&D spend. Gamma Communications reported impressive interim results, mainly due to strong performance in its UK divisions, and raised its full-year guidance. The company also announced the acquisition of Placetel which will enhance its scale in Germany, a growth market for Gamma. A number of companies not held in the fund, such as TT Electronics and Videndum, performed poorly which also benefited relative performance.

Chemring was a detractor as its share price declined, along with other European Defence companies, due to speculation that Ukraine's allies are considering how a ceasefire could work with Russia. Advanced Medical Solutions interim results highlighted good growth in its Surgical division but a weak performance in its Woundcare division. In part, this was due to lower Organogenesis royalty revenues which was previously flagged, but also due to softer demand for its products. Whilst disappointing, we are pleased that the management team have begun to take action, including the exiting of low margin business, to improve profitability in this division.

In terms of trading activity, the fund initiated new positions in ME Group & Niox. ME Group is a global developer and operator of automated self-service vending machines. The company is founder owned and managed, and the existing founder retains a significant holding in the company. The primary revenue streams come from photobooths and laundry machines, and cashflow from the more mature photobooth business should facilitate the expansion of the laundry division. ME Group generates impressive returns on capital and is attractively valued. Niox is an innovative medical device company which sells devices & consumables to diagnose and monitor asthma patients using FeNO (Fractional exhaled Nitric Oxide) technology. With millions of people suffering from asthma worldwide, the addressable market is substantial, and FeNO testing provides a quick, easy, non-invasive and accurate way to test patients. Niox mainly uses a distributor-focused sales model, making the business highly scalable and profitable.



**Henry Lowson**

Head of Alpha



**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.

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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](http://www.rlam.com).

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# 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 September 2024

## Cumulative (%)

		3 Month	6 Month	1 Year	3 Years	5 Years
RL UK Equity Income M Inc	Gross	1.79	7.42	17.53	32.88	42.41
RL UK Equity Income M Inc	Net	1.61	7.04	16.69	30.05	37.39
RL UK Dividend Growth Fund M Acc	Gross	3.31	7.24	16.33	21.05	50.81
RL UK Dividend Growth Fund M Acc	Net	3.12	6.86	15.51	18.50	45.57
RL UK Mid Cap Growth Fund M Acc	Gross	6.31	11.71	24.28	-1.99	21.30
RL UK Mid Cap Growth Fund M Acc	Net	6.11	11.29	23.33	-4.22	16.74
RL UK Opportunities Fund M Acc	Gross	2.15	6.02	13.58	0.49	23.94
RL UK Opportunities Fund M Acc	Net	1.95	5.61	12.71	-1.80	19.27
RL UK Smaller Companies Fund M Acc	Gross	-0.58	6.81	16.12	-23.55	19.63
RL UK Smaller Companies Fund M Acc	Net	-0.77	6.40	15.23	-25.29	15.13

## Annualised (%)

	3 Years (p.a)	5 Years (p.a)
	9.93	7.32
	9.14	6.55
	6.57	8.55
	5.82	7.79
	-0.67	3.93
	-1.43	3.14
	0.16	4.38
	-0.60	3.58
	-8.55	3.65
	-9.25	2.85

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