Royal London UK Equity Funds

Fund Manager Commentary

28 February 2025

ROYAL LONDON
ASSET MANAGEMENT

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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.

Contents

Performance

	1 month (%)	Rolling 12 months (%)
RL UK Equity Income Fund M Inc	**-0.53**	**15.20**
FTSE All Share Index	1.32	18.37
IA UK Equity Income Sector	0.12	15.00
RL UK Dividend Growth Fund M Acc	**-0.63**	**15.06**
FTSE All Share Index	1.32	18.37
IA UK All Companies Sector	-0.30	13.99
RL UK Mid Cap Growth Fund M Acc	**-4.23**	**7.68**
FTSE 250 ex-IT Index	-3.38	10.59
IA UK All Companies Sector	-0.30	13.99
RL UK Opportunities Fund M Acc	**-0.86**	**9.84**
FTSE All Share Index	1.32	18.37
IA UK All Companies Sector	-0.30	13.99
RL UK Smaller Companies Fund M Acc	**-1.73**	**1.75**
FTSE Small Cap ex-IT Index	-5.02	10.71
IA UK Smaller Companies Sector	-3.20	4.77

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 28 February 2025. 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 underperformed its benchmark and peer group median, ranking in the third quartile. Year to date the fund is behind the benchmark, but ahead of the peer group.

February proved to be positive for equity markets, despite the growing threat of tariffs from the US Government on those nations who they undertake material trade with. In the UK interest rates were reduced by 0.25% to 4.5% as the Bank of England believe that the economy needs some monetary stimulus despite stubborn inflation. Generally, equity markets have had a good start to the year, but unlike recent years, the best performing markets so far have been in Europe rather than the US. The FTSE 100 continues to outperform the FTSE-250. The best performing sector in the UK during February was banks which continued its recent strong following robust results announcements in the sector.

The main reasons for the fund lagging the index were stocks the fund either does not hold (Rolls Royce and BAe) or holds at a much smaller weight than the index (HSBC).

During the month the holdings in Smiths Group, Astra Zeneca, Sage, Drax and Hikma were reduced and positions in HSBC, Sainsbury and Glencore added to.

Going forward there remains considerable uncertainty, notably around the policies of the new US President and what they will do to global trade. UK equities remain out of favour compared to many other markets, and this has left UK stocks at a significant valuation discount. This valuation gap is a driving force behind the large quantity of shares being bought back by companies and also the considerable amount of corporate activity being seen as UK businesses are acquired.

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, the fund underperformed its benchmark and peer group median, ranking in the third quartile. Year to date the fund is behind the benchmark, but ahead of the peer group.

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The main reasons for the fund lagging the index were stocks the fund either does not hold (Rolls Royce and Standard Chartered) or holds at a much smaller weight than the index (HSBC).

During the month the holdings in Hikma, Clarkson, Drax and BP were reduced and positions in Glencore and Inchcape added to.

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CITYWIRE +

Richard Marwood

Head of UK and European Equities

Max Newman

Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio commentary

The RL UK Mid Cap Growth Fund returned -4.2% for February, underperforming the benchmark FTSE 250 ex IT index.

February was a volatile month for UK equities, which were affected by US President Donald Trump's decision to levy tariffs on Canada, Mexico and China. Equity markets declined as concerns grew about the possibility of this fuelling a trade war and the potential negative ramifications this would have on the global economy. In the UK, the Bank of England cut interest rates as expected during its February meeting, but an unexpected increase in the inflation rate raised further concerns about the pace at which the central bank would continue cutting the base rate.

Chemring and GlobalData were positive contributors to performance. Chemring's shares performed strongly as it was rumoured that Bain Capital had made an approach to buy the company. Chemring also released a positive update during the month highlighting strong growth in its order book and reiterated that trading for the current year remained in line with expectations. GlobalData announced that it is planning to move its listing from the FTSE AIM to the FTSE Main Market as well as conduct a £50m share buyback.

Watches of Switzerland was a detractor despite issuing a positive third quarter update. The company confirmed that trading over the Christmas holiday period had been good, and it was on track to meet full year guidance. Trainline was another detractor as the government confirmed that there will be a single Great British Railways retail offering. As we mentioned last month, we believe the share price movement in response to the government's plans has been an over-reaction. Trainline's platform is well-invested, easy-to-use and contains innovative features. Furthermore, it has high brand awareness and a well-established distribution channel.

In terms of trading activity, the fund started a new position in Future. Future is a media publisher of specialist content to mostly consumers, but also businesses, via its leading brands. Key brands owned by Future include Tech Radar and Tom's Guide. Future also own Go Compare, a price comparison platform for consumers. Future is part way through its 'Growth Acceleration Strategy' where it is investing in editorial and sales teams to increase audience numbers in the US and generate improved yields through ecommerce and affiliate marketing. The company produces a prodigious amount of free cashflow, has a strong balance sheet, is attractively valued and should deliver strong earnings growth on any recovery in advertising.

Henry Lowson

Head of UK Alpha Strategies

Henry Burrell

Fund Manager

Royal London UK Opportunities Fund

Portfolio commentary

The RL UK Opportunities Fund produced a return of 0.9%, underperforming the FTSE All Share benchmark over the month. However, year to date, the fund is pleasingly ahead of the IA UK All Companies peer group.

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Chemring and Lloyds Banking Group were positive contributors to performance. Chemring’s shares performed strongly as it was rumoured that Bain Capital had made an approach to buy the company. Chemring also released a positive update during the month highlighting strong growth in its order book and reiterated that trading for the current year remained in line with expectations. Lloyds updated the market with its fourth quarter results which revealed strong profit growth. The guidance provided by the company for the coming year was also in line with analysts’ expectations.

Watches of Switzerland detracted despite issuing a positive third quarter update. The company confirmed that trading over the Christmas holiday period had been good, and it was on track to meet full year guidance. Other holdings such as WH Smith and Integrafin, were detractors despite not releasing any updates during the month.

Royal London UK Smaller Companies Fund

Portfolio commentary

The RL UK Smaller Companies Fund returned -1.7% during February, outperforming the benchmark FTSE Smaller Companies ex IT index by over 3%. The fund also performed strongly relative to the UK Smaller Companies peer group, placing 14th percentile.

February was a volatile month for UK equities, which were affected by US President Donald Trump's decision to levy tariffs on Canada, Mexico and China. Equity markets declined as concerns grew about the possibility of this fuelling a trade war and the potential negative ramifications this would have on the global economy. In the UK, the Bank of England cut interest rates as expected during its February meeting, but an unexpected increase in the inflation rate raised further concerns about the pace at which the central bank would continue cutting the base rate.

Chemring and XPS were positive contributors to performance. Chemring's shares performed strongly as it was rumoured that Bain Capital had made an approach to buy the company. Chemring also released a positive update during the month highlighting strong growth in its order book and reiterated that trading for the current year remained in line with expectations. XPS's shares performed well as the company released an update highlighting that strong trading would result in earnings for the full year being materially above expectations. Separately XPS also announced that it had acquired Polaris, a UK insurance consultancy business. The acquisition was financially compelling and strategically sensible as it accelerates XPS' expansion into the Insurance market.

Wilmington and DiscoverIE were detractors to performance. Despite issuing a solid set of results, Wilmington's shares detracted as the company revealed a softer revenue performance in its US healthcare events business. The rest of their suite of GRC (Governance, Risk and Compliance) oriented businesses performed strongly however, and the company remains confident in meeting full year expectations. DiscoverIE's shares declined following an analyst downgrade and concerns regarding the potential impact of tariffs on European industrial businesses.

In terms of trading activity, the fund started new positions in Ashtead Technology and Pinewood Technologies (following the equity placing). Ashtead Technology is a market leading subsea equipment rental business, serving the oil & gas and offshore wind markets. The company operates in a highly fragmented market which should enable Ashtead to take market share, and a positive subsea market demand outlook underpins our confidence in near term forecasts. Ashtead's shares trade on a modest valuation multiple, given the growth opportunity and returns on capital generated. Pinewood Technologies provides Dealer Management System software to retailers in the automotive sector. Unlike its key competitors, Pinewood's product is cloud-based and built on modern code. This not only enables the company to scale easily, but it also provides customers with a highly efficient, cyber-secure software solution. The company has been winning material customers both in the UK and internationally, and the recent acquisition of Seez, an AI software solution, is strategically sensible.

Henry Lowson

Head of UK Alpha Strategies

Henry Burrell

Fund Manager

Disclaimers

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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.

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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

Cumulative (%)

		3 Month	6 Month	1 Year	3 Years	5 Years
RL UK Equity Income M Inc	Gross	3.08	0.07	16.03	33.15	57.06
RL UK Equity Income M Inc	Net	2.90	-0.29	15.20	30.31	51.53
RL UK Dividend Growth Fund M Acc	Gross	3.14	1.18	15.88	28.66	66.22
RL UK Dividend Growth Fund M Acc	Net	2.96	0.82	15.06	25.96	60.44
RL UK Mid Cap Growth Fund M Acc	Gross	-5.29	-7.11	8.51	5.43	14.47
RL UK Mid Cap Growth Fund M Acc	Net	-5.47	-7.46	7.68	3.03	10.17
RL UK Opportunities Fund M Acc	Gross	2.09	-0.48	10.68	10.66	29.24
RL UK Opportunities Fund M Acc	Net	1.90	-0.86	9.84	8.14	24.38
RL UK Smaller Companies Fund M Acc	Gross	-6.66	-8.35	2.53	-14.10	7.56
RL UK Smaller Companies Fund M Acc	Net	-6.84	-8.70	1.75	-16.06	3.52

Annualised (%)

3 Years (p.a)	5 Years (p.a)
10.00	9.44
9.22	8.66
8.76	10.69
7.99	9.91
1.78	2.74
1.00	1.95
3.43	5.26
2.64	4.46
-4.94	1.47
-5.66	0.69

Year on year performance (%)

		31/12/2023 – 31/12/2024	31/12/2022 – 31/12/2023	31/12/2021 – 31/12/2022	31/12/2020 – 31/12/2021	31/12/2019 – 31/12/2020
RL UK Equity Income M Inc	Gross	8.13	11.04	3.08	22.06	-14.28
RL UK Equity Income M Inc	Net	7.36	10.25	2.35	21.19	-14.89
RL UK Dividend Growth Fund M Acc	Gross	8.65	10.59	-4.34	22.77	-3.17
RL UK Dividend Growth Fund M Acc	Net	7.89	9.81	-5.02	21.90	-3.86
RL UK Mid Cap Growth Fund M Acc	Gross	7.39	8.49	-22.11	18.49	-3.60
RL UK Mid Cap Growth Fund M Acc	Net	6.57	7.66	-22.70	17.59	-4.34
RL UK Opportunities Fund M Acc	Gross	3.73	9.83	-17.33	20.44	-4.73
RL UK Opportunities Fund M Acc	Net	2.94	8.99	-17.96	19.52	-5.46
RL UK Smaller Companies Fund M Acc	Gross	4.30	4.51	-30.34	26.74	6.46
RL UK Smaller Companies Fund M Acc	Net	3.51	3.72	-30.88	25.77	5.65

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 28 February 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.