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Royal London UK Equity Funds

Fund Manager Commentary

31 January 2025

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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

[RLAM Equity Performance](#)

[Royal London UK Equity Income Fund](#)

[Royal London UK Dividend Growth Fund](#)

[Royal London UK Mid Cap Growth Fund](#)

[Royal London UK Opportunities Fund](#)

[Royal London UK Smaller Companies Fund](#)

[Disclaimers](#)

[Performance net and gross](#)

Performance

	1 month (%)	Rolling 12 months (%)
RL UK Equity Income Fund M Inc	5.73	14.41
FTSE All Share Index	5.52	17.06
IA UK Equity Income Sector	4.33	14.52
RL UK Dividend Growth Fund M Acc	6.33	15.37
FTSE All Share Index	5.52	17.06
IA UK All Companies Sector	4.76	14.45
RL UK Mid Cap Growth Fund M Acc	1.82	10.25
FTSE 250 ex-IT Index	1.78	12.01
IA UK All Companies Sector	4.76	14.45
RL UK Opportunities Fund M Acc	5.52	10.47
FTSE All Share Index	5.52	17.06
IA UK All Companies Sector	4.76	14.45
RL UK Smaller Companies Fund M Acc	-2.98	0.04
FTSE Small Cap ex-IT Index	-1.24	14.90
IA UK Smaller Companies Sector	-0.95	6.02

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 31 January 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

The fund outperformed both its benchmark and the peer group median, ranking in the top decile.

January proved to be a strong opening month for equity markets across the world, reflecting investor beliefs that economic growth is generally robust, particularly in the US and inflation is coming under control. In the UK, it is also clear that the Government is looking for levers to pull to stimulate economic growth, for example by easing regulation in financial markets or speeding up planning processes. The month wasn't without some volatility, with government finances under pressure and technology shocked by the launch of the cheaper Chinese AI model Deepseek. In the UK, banks, energy and industrial sectors were strong.

The main contributors to the fund's performance were holdings in Hikma, Intermediate Capital and the industrials Spectris, IMI and Smiths Group. The holding in the engineering consultancy Ricardo was weak after the company warned that contract delays would hurt profits.

The most significant trades in the month were to trim the holdings in Shell, BAT, RELX and Hikma and to add to Lloyds, Sainsbury and Marshalls.

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.



Richard Marwood

Head of UK and European Equities



Max Newman

Fund Manager

Royal London UK Dividend Growth Fund

Portfolio commentary

The fund outperformed both its benchmark and the peer group median, ranking in the top decile.

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The main contributors to the fund's performance were holdings in Spectris, Hikma, Genus, and Intermediate Capital.

The most significant trades in the month were to trim the holdings in Sage, Hikma, Clarkson and Avon Technologies and to add to Howden, Inchcape, Dunelm and JD Sports. A new holding was also established in the engineering consultancy Ricardo, whose shares were weak after announcing that contract delays would hurt profits.

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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 outperformed the benchmark during the period under review.

Gilt yields spiked and UK small & mid-cap stocks declined during the first half of the month, in response to weak UK economic data as well as fears about higher global inflation and the state of the UK government's financial position. These declines, however, were largely erased during the second half of January as positive inflation surprises in the US and the UK caused equity markets to rally. Elsewhere, chancellor Rachel Reeves announced a series of supply side policies to boost economic growth in the UK.

Intermediate Capital Group and Genus were positive contributors to performance. Intermediate Capital Group published its third quarter update, with good growth in third party assets-under-management driven by strong fundraising. The balance sheet investment portfolio also reassuringly delivered a positive performance. Genus' first half trading update revealed that it expected full year profits to be at the top end of expectations. The Value Acceleration Plan (VAP) has contributed to a strong recovery in margins, alongside a positive trading performance in its porcine division across key markets.

FDM and Trainline were detractors to performance. Despite delivering an in-line trading update for 2024, FDM's shares detracted as fewer placed consultants at the year-end resulted in analysts lowering their forecasts for 2025. The recent market backdrop has been difficult for FDM, but the company remains well placed to help its clients address their digital skills needs when the cycle turns and budget pressures ease. Trainline detracted as the Department for Transport announced it would be consolidating train operator ticket sites. We believe the share price movement in response to the government announcement was an over-reaction - Trainline's platform is well-invested, easy-to-use & contains innovative features. It has high brand awareness and a well-established distribution channel. We also note Trainline has been extremely successful in fending off competition from the likes of Uber, who have been aggressively trying to take market share.

In terms of trading activity, the fund started a new position in Hollywood Bowl, a leading operator of high-quality bowling sites. The company operates with a large footprint in the UK and has an exciting growth opportunity rolling out new sites in the fragmented Canadian market. Hollywood Bowl is run by an excellent management team, has a strong balance sheet, and generates high returns on capital. In terms of valuation, the shares trade on a low double digit forward PE ratio, which we view as highly attractive.



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 5.5% during the month, performing in line with the FTSE All Share benchmark and outperforming the UK IA All Companies peer group median.

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FDM and Marshalls were detractors to performance. Despite delivering an in-line trading update for 2024, FDM's shares detracted as fewer placed consultants at the year-end resulted in analysts lowering their forecasts for 2025. The recent market backdrop has been difficult for FDM, but the company remains well placed to help its clients address their digital skills needs when the cycle turns and budget pressure eases. Marshalls' trading update revealed that full year profits would be in line with market expectations. The shares declined however as the company cited continued uncertainty in its end markets.

Royal London UK Smaller Companies Fund

Portfolio commentary

The RLAM UK Smaller Companies fund underperformed the benchmark. We note that the underperformance versus the benchmark can be partly attributable to the fund's exposure to FTSE AIM holdings, which have been a drag on performance. Following the changes made to Business Property Relief by the UK Government last year, this has resulted in some short-term selling pressure to companies listed on the FTSE AIM index. Over the last six months, the fund has performed in line with the UK Smaller Companies peer group.

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Auction Technology Group and Genus were positive contributors to performance. Auction Technology Group issued a brief trading statement confirming that the first quarter was trading in line with expectations. Genus' first half trading update revealed that it expected full year profits to be at the top end of expectations. The Value Acceleration Plan (VAP) has contributed to a strong recovery in margins, alongside a positive trading performance in its porcine division across key markets.

Renew Holdings and Tracsis were detractors to performance. Renew issued an update highlighting that trading in its Rail division had been impacted by lower activity levels in the government's new spending control period. Whilst disappointing, the other divisions of Renew are performing in line with expectations, and activity levels in its Water division are ahead of management's expectations. Tracsis' share price declined during the month despite releasing a positive update announcing that ScotRail is expanding the use of its pay-as-you-go ticketing solution, 'Hopsta'. It appears that the recent change in government and their ambitions with regard to the potential nationalisation of certain parts of the UK rail industry has resulted in some short-term uncertainty and a spending hiatus.



Henry Lowson

Head of UK Alpha Strategies



Henry Burrell

Fund Manager

Royal London UK Smaller Companies Fund continued

In terms of trading activity, the fund started a new position in Pollen Street and On The Beach. Pollen Street is an alternative asset manager, who run Private Equity and Private Credit strategies focusing on companies operating in the financial services and business services sectors. The company's fund-raising efforts should benefit from the increasing investor appetite for private asset strategies within their overall asset allocation. The company is led by a highly respected CEO who retains a significant shareholding. On The Beach is a market leading Online Travel Agent, with high brand awareness particularly in the short haul beach holiday market. The recent deal with Ryanair, which enables On The Beach to secure access to Ryanair's seat supply, is transformational as it removes a key threat to the investment case (Ryanair are a significant supplier to On The Beach) and provides On The Beach with a slicker customer experience. The company has multiple growth opportunities, including long haul and its expansion into the city break market. Furthermore, it generates high returns on capital due to its asset light business model.

Disclaimers

Important information

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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	6.75	0.06	15.24	31.51	42.08
RL UK Equity Income M Inc	Net	6.56	-0.30	14.41	28.71	37.07
RL UK Dividend Growth Fund M Acc	Gross	7.09	1.86	16.19	26.99	51.89
RL UK Dividend Growth Fund M Acc	Net	6.90	1.50	15.37	24.32	46.61
RL UK Mid Cap Growth Fund M Acc	Gross	-0.32	-4.25	11.10	2.84	7.92
RL UK Mid Cap Growth Fund M Acc	Net	-0.51	-4.62	10.25	0.50	3.86
RL UK Opportunities Fund M Acc	Gross	4.26	0.13	11.32	5.82	17.69
RL UK Opportunities Fund M Acc	Net	4.06	-0.26	10.47	3.42	13.27
RL UK Smaller Companies Fund M Acc	Gross	-6.85	-7.56	0.81	-18.84	-2.17
RL UK Smaller Companies Fund M Acc	Net	-7.03	-7.91	0.04	-20.69	-5.85

Annualised (%)

	3 Years (p.a)	5 Years (p.a)
	9.55	7.27
	8.77	6.50
	8.28	8.71
	7.52	7.94
	0.94	1.53
	0.17	0.76
	1.90	3.31
	1.12	2.52
	-6.72	-0.44
	-7.43	-1.20

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 31 January 2025 unless otherwise stated. All figures are mid-price to mid-price in GBP.