ROYAL LONDON SUSTAINABLE FUNDS

Fund Manager Commentary - April 2021

For professional clients only, not suitable for retail investors

CONTENTS

ROYAL LONDON SUSTAINABLE FUND PERFORMANCE

Fund Performance

	1 month (%)	Rolling 12 months (%)
RL Sustainable Managed Income Trust C Acc	**0.75**	**4.53**
IA Sterling Corporate Bond	0.65	4.67
iBoxx Sterling Non-Gilts All Maturities	0.67	2.86
RL Sustainable Managed Growth Trust C Acc	**1.98**	**9.41**
IA Mixed Investment 0-35%	1.36	9.49
RL Sustainable Diversified Trust C Inc	**3.20**	**14.15**
IA Mixed Investment 20-60% Shares sector	2.15	15.66
RL Sustainable World Trust C Acc	**5.29**	**21.62**
IA Mixed Investment 40-85% Shares sector	3.04	21.56
RL Sustainable Leaders Trust C Acc	**4.66**	**16.19**
IA UK All Companies	3.93	26.87
FTSE All-Share Index	4.29	25.95
RL Global Sustainable Equity Fund M Acc	**6.12**	**32.54**
IA Global	4.13	32.70
MSCI World All Countries Net Index GBP	4.01	32.78

Past performance is not necessarily a reliable indicator of 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 FE, correct as of 30 April 2021. Returns quoted are net of fees.

ROYAL LONDON SUSTAINABLE MANAGED INCOME TRUST

Portfolio commentary

- Net of fees, the fund delivered a return of 0.75% in April (C class, Accumulation), outperforming the iBoxx Sterling Non-Gilts All Maturities Index, which returned 0.67%, and the 0.65% average return for its peer group (IA Sterling Corporate Bond).
- While data showed inflation rising, partly through positive base effects and ongoing friction in global supply chains, investors were more sanguine and bond yields were mixed, rising in Europe as vaccinations increased, but falling in the US. The benchmark 10-year gilt yield fell just one basis point to 0.84%. Sterling investment grade corporate debt returned 0.67%, modestly outperforming UK government bonds (0.54%). The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened three basis points from 0.95% to 0.92%.
- Total returns were positive for nearly all sterling credit sectors, other than covered bonds. While senior banks underperformed the broad market, financials otherwise outperformed, particularly subordinated insurance and subordinated banks. The real estate, utilities and asset-backed securities sectors delivered strong returns. Against this, supranational bonds underperformed as investors maintained a 'risk on' attitude. Otherwise, lower-rated bonds outperformed, with the BBB and BB and below bands strongly outperforming AAA and AA rated bonds. Likewise, longer-dated issues delivered superior returns.
- Overweight exposure to insurance, a substantial underweight in supranational bonds, and a bias towards secured issues (such as social housing) are the most noticeable features of sector positioning.
- We participated in a number of new issues during the month, including structured bonds of **Yorkshire Water.**
- Secondary market activity primarily focused on managing liquidity and adding to favoured positions when available. An example of this were 2036 bonds from Wessex Water, an attractive business with high quality regulated cashflows and aggressive net zero targets. We also added senior holdco bonds from Dutch financial group ING, which had underperformed the market since its issue in February. Sales were limited during the month, but one of note was Mitchells & Butlers. Whilst the company's recent announcement of a rights issue is supportive for lenders, we are concerned that this could also lead to a reduction in independent non-executive representation on the board and given the potential for weaker governance, we exited the position with the bonds having outperformed the wider market over the last 12 months

Shalin Shah
Senior Fund Manager

ROYAL LONDON SUSTAINABLE MANAGED GROWTH TRUST

Portfolio commentary

- Net of fees, the fund delivered a return of 1.98% in April (C class, Accumulation), outperforming the 1.36% average return for its peer group (IA Mixed Investment 0-35% Shares).
- While data showed inflation rising, partly through positive base effects and ongoing friction in global supply chains, investors were more sanguine and bond yields were mixed, rising in Europe as vaccinations increased, but falling in the US. The benchmark 10-year gilt yield fell just one basis point to 0.84%. Sterling investment grade corporate debt returned 0.67%, modestly outperforming UK government bonds (0.54%). The average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightened three basis points from 0.95% to 0.92%.
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Shalin Shah
Senior Fund Manager

ROYAL LONDON SUSTAINABLE DIVERSIFIED TRUST

Portfolio commentary

- April proved to be a positive month for investors as world equity markets continued to move higher reflecting a number of economic measures highlighting the strength of the recovery coupled with a generally better than expected corporate reporting season for the first quarter of 2021. In the US the economy expanded at an annualised rate of 6.4% in Q1 and this pace of recovery has resulted in commodity prices rising sharply year to date. In the UK the FTSE All-Share Index rose by 4.3% during April with the best performing sectors being those linked to economic activity such as chemicals and basic resources. MSCI All Countries World Index was also up 4%. The strength of the recovery and the resulting increase in demand for commodities has led to inflationary price increases, however this has not been replicated across the broader economy so far. Credit delivered positive returns in April, driven by credit spreads tightening by 4bps over the month, with spreads now just one basis point from the 2021 lows seen in February. Government bond yields were flat on the month, with the benchmark 10-year gilt yielding 0.84%. Total returns were positive for nearly all sterling credit sectors, other than covered bonds. While senior banks underperformed the broad market, financials otherwise outperformed, particularly subordinated insurance and subordinated banks. The real estate, utilities and asset-backed securities sectors delivered strong returns. Against this, supranational bonds underperformed as investors maintained a 'risk on' attitude.
- The Trust outperformed the peer group in April and was ranked in the first quartile. Intuitive Surgical and Experian performed especially well in the month. Intuitive Surgical, which provides surgical robots, also had results which were ahead of expectations which showed that elective procedures are coming back. Experian, which provides credit scoring information, had a good month, following two of its US peers having published strong first quarter results. Texas Instruments and Orsted however were a drag on returns. Texas Instruments, a semiconductor company saw a pull-back in its share price in the month following a recent very strong run. Orsted, the Danish offshore wind operator announced results too, which noted a provision had been set aside for potential problems with cabling at some of its wind farms.
- During the month we started a new equity position in CSX, the US railroad company. The company has been making efficiency improvements and when it comes to transporting bulk goods, rail has environmental benefits over road.
- In our credit exposure, we participated in new issue of structured bonds from Yorkshire Water during the month, although secondary market activity was perhaps more notable, adding to social housing exposure such as Notting Hill, Saxon Weald and Yorkshire Housing. Sales were limited during the month, but one of note was Mitchells & Butlers. Whilst the company's recent announcement of a rights issue is supportive for lenders, we are concerned that this could also lead to a reduction in independent non-executive representation on the board and given the potential for weaker governance, we exited the position with the bonds having outperformed the wider market over the last 12 months.

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Head of Sustainable Investments

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ROYAL LONDON SUSTAINABLE WORLD TRUST

Portfolio commentary

- April proved to be a positive month for investors as world equity markets continued to move higher reflecting a number of economic measures highlighting the strength of the recovery coupled with a generally better than expected corporate reporting season for the first quarter of 2021. In the US the economy expanded at an annualised rate of 6.4% in Q1 and this pace of recovery has resulted in commodity prices rising sharply year to date. In the UK the FTSE All-Share Index rose by 4.3% during April with the best performing sectors being those linked to economic activity such as chemicals and basic resources. The MSCI All Countries World Index was also up 4%. The strength of the recovery and the resulting increase in demand for commodities has led to inflationary price increases, however this has not been replicated across the broader economy so far. Credit delivered positive returns in April, driven by credit spreads tightening by 4bps over the month, with spreads now just one basis point from the 2021 lows seen in February. Government bond yields were flat on the month, with the benchmark 10-year gilt yielding 0.84%. Total returns were positive for nearly all sterling credit sectors, other than covered bonds. While senior banks underperformed the broad market, financials otherwise outperformed, particularly subordinated insurance and subordinated banks. The real estate, utilities and asset-backed securities sectors delivered strong returns. Against this, supranational bonds underperformed as investors maintained a 'risk on' attitude.
- The Trust outperformed the peer group in April and was ranked in the first quartile. IQVIA and Intuitive Surgical were among the strongest performers in the month. IQVIA, which provides services to the healthcare sector, published better than expected quarterly results during the month which showed strong demand for its contract research services from pharmaceutical companies. Intuitive Surgical, which provides surgical robots, also had results which were ahead of expectations which showed that elective procedures are coming back. Texas Instruments and Orsted however were a drag on returns. Texas Instruments, a semiconductor company saw a pull-back in its share price in the month following a recent very strong run. Orsted, the Danish offshore wind operator announced results too, which noted a provision had been set aside for potential problems with cabling at some of its wind farms.
- During the month we reduced the holding in Ansys, the US simulation software company as it is no longer a best idea within the portfolio. We also started a new holding in Sika, the Swiss building materials company whose products increasingly offer tangible environmental and efficiency benefits.

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ROYAL LONDON SUSTAINABLE LEADERS TRUST

Portfolio commentary

- April proved to be a positive month for investors as world equity markets continued to move higher reflecting a number of economic measures highlighting the strength of the recovery coupled with a generally better than expected corporate reporting season for the first quarter of 2021. In the US the economy expanded at an annualised rate of 6.4% in Q1 and this pace of recovery has resulted in commodity prices rising sharply year to date. In the UK the FTSE All-Share Index rose by 4.3% during April with the best performing sectors being those linked to economic activity such as chemicals and basic resources. The strength of the recovery and the resulting increase in demand for commodities has led to inflationary price increases, however this has not been replicated across the broader economy so far.
- The Trust outperformed the peer group in April and was ranked in the second quartile. Experian and Smith & Nephew performed especially well in the month. Experian, which provides credit scoring information, had a good month, following two of its US peers having published strong first quarter results. Smith & Nephew, the medical device manufacturer, itself published results which were ahead of expectations, as it sees elective procedures recovering. Adidas and Texas Instruments on the other hand, detracted from returns. Adidas has continued to struggle after having said that it would not be using cotton sourced from Xinjiang in China that could be linked to forced labour abuses. This could be hurting sales in China which has been an excellent source of sales growth. Texas Instruments, a semiconductor company saw a pull back in its share price in the month following a recent very strong run.
- During the month we exited the position in Ansys, the US simulation software company, as we feel this is no longer a best idea on a global basis.

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ADVISER INVESTMENT 100 CLUB — Winner UK Equity: Royal London Sustainable Leaders Trust

ROYAL LONDON GLOBAL SUSTAINABLE EQUITY FUND

Portfolio commentary

- Equity markets moved higher in April as various economic measures confirmed the strength of the recovery combined with a generally better than expected corporate reporting season for the first quarter of 2021.The MSCI All Countries World Index rose 4% during the month with the best performing sectors being communication services, materials and real estate with businesses closely linked to economic activity performing particularly strongly.
- The fund outperformed the benchmark and peer group in April and was ranked in the first quartile. IQVIA and Experian were the top contributors to performance during the month. IQVIA, which provides services to the healthcare sector, published better than expected quarterly results which showed strong demand for its contract research services from pharmaceutical companies. Experian, a UK based credit bureau, benefitted from a positive read-across from its two key US listed peers which both reported strong results. HDFC Bank and Texas Instruments detracted from performance. Despite reporting solid quarterly results, HDFC Bank declined with the broader Indian market as Covid-19 infection rates rose. Texas Instruments was subject to profit taking after reporting record quarterly results but not raising the next quarters guidance as much as some investors had expected.
- During the month we initiated a new position in Sika, the Swiss building materials company whose products increasingly offer tangible environmental and efficiency benefits and exited our position in Australian biopharmaceutical company CSL. We also took advantage of the weakness in both HDFC Bank and Texas Instruments and added to our positions.

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