Royal London GMAP Growth Fund

Quarterly Report 31 December 2021

Fund data

	Fund
Fund size	£646.8m
Launch date	14.03.2016

Source: RLAM. Based on the M Inc share class.

Fund performance

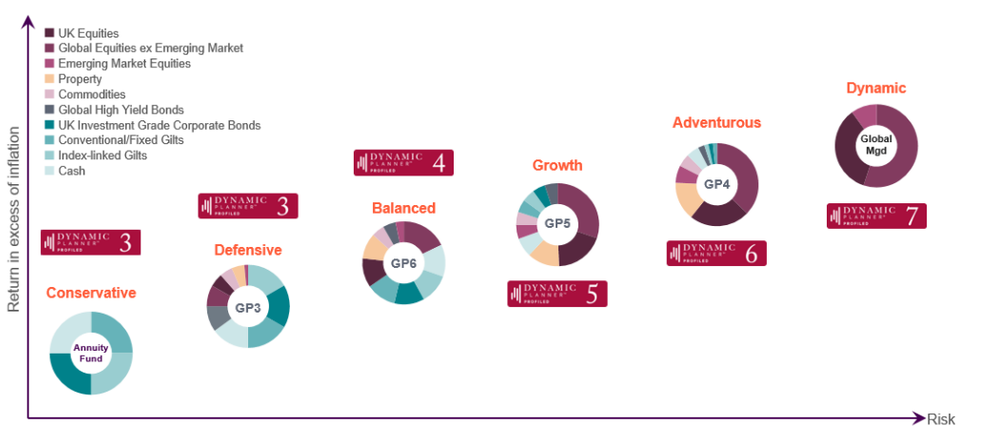
	Fund (%) (M Acc)	Fund (%) (M Inc)	Benchmark (%)	Relative (%) (as compared to M Inc)
Q4 2021	**3.54**	**3.59**	**3.90**	**-0.31**
Year-to-date	15.31	15.51	13.80	1.71
Rolling 12 months	15.31	15.51	13.80	1.71
3 years p.a.	9.47	9.52	9.85	-0.33
5 years p.a.	6.61	6.64	7.21	-0.57
Since Inception p.a. 14.03.2016	8.15	8.18	8.90	-0.72

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, based on the M share classes. Performance for the fund is calculated on a mid basis with income re-invested. All performance figures stated gross of fees and tax unless otherwise stated.

[1]GMAP Growth Composite Benchmark. The benchmark has been designed with the aim of maximising long run return in excess of inflation for a given level of risk.

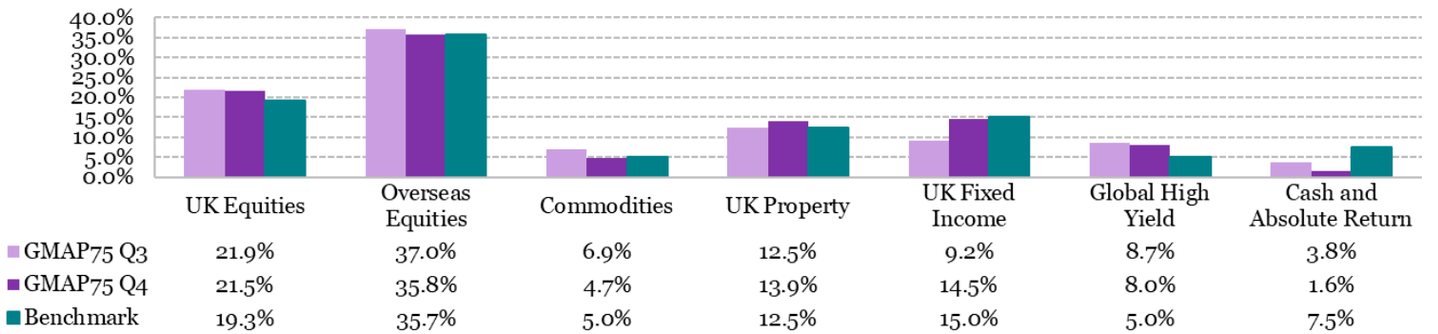
RL GMAP range



Past performance is not a reliable indicator of future results.
For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation. Risk rating is established by Distribution Technology (DT) and is out of 10. Inflation as measured by the Consumer Price Index (CPI).

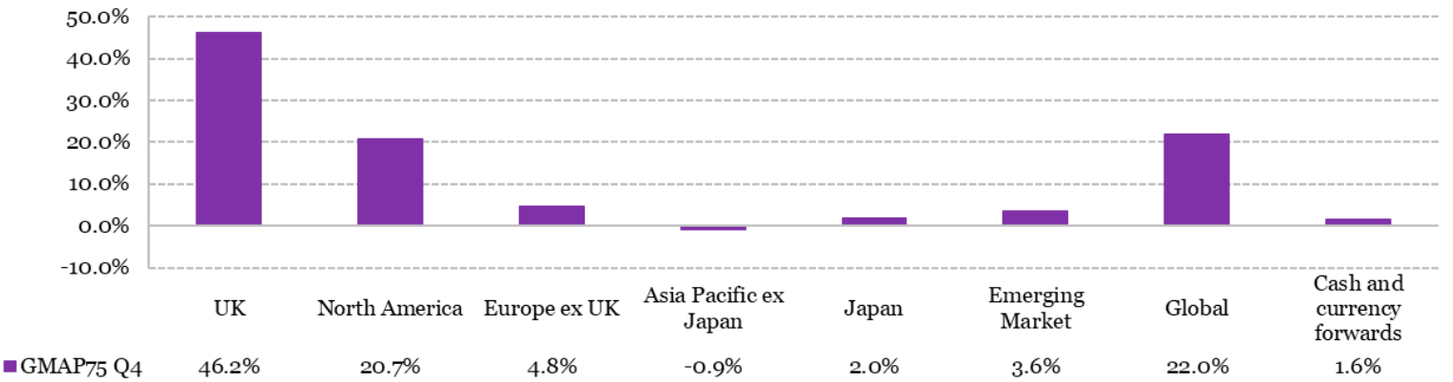
Our GMAPs fund range is designed to span the risk return spectrum, with each fund aiming to maximise the long-term real return for its given level of risk through a broadly diversified portfolio of investments.

Asset split



Source: RLAM. We take a holistic approach to fixed income management and fund weights relative to their respective benchmarks may not reflect tactical exposures.

Geographical breakdown



Source: RLAM. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

Ten Largest Holdings

	Asset type	Weighting (%)
RL UK Broad Equity Tilt Fund	UK Equities	18.6
RL Property (PAIF) Feeder Fund	UK Property	10.5
RL US Equity Tilt Fund	Overseas Equities	7.4
UK Treasury 1.75% 2022	UK Fixed Income	5.8
RL Emerging Markets ESG Leaders Equity Tracker	Overseas Equities	5.3
RL Global Equity Diversified Fund	Overseas Equities	5.1
RL Global High Yield Bond Fund	High Yield	4.6
RL Sterling Credit Fund	UK Fixed Income	4.5
RL UK Government Bond Fund	UK Fixed Income	4.4
RL Short Duration Global Index Linked Fund	UK Fixed Income	3.4
Total		**69.5**

Source: RLAM. Information as at 31 December 2021 and correct at that date, unless otherwise stated. Total weight reflects rounding.

Executive summary

- The themes that influenced the market throughout 2021 continued in the fourth quarter. Periods of volatility arose as a new strain of Covid led to renewed travel restrictions and lockdown measures, while inflation and the implications for quantitative easing (QE) and interest rates continued to capture headlines. Nonetheless, corporate earnings continued to surprise on the upside, pushing equity markets to new highs.
- Having surprised markets by failing to raise the base rate in November despite elevated inflation levels, the Bank of England (BoE) decided to raise rates slightly in the following month, from 0.1% to 0.25% – this again surprised markets given that the Omicron variant hit the UK during the same period. Meanwhile, the Federal Reserve (Fed) removed the term "transitory" from its inflation commentary, guiding investors to earlier and faster rate rises in 2022.
- The MSCI All Countries World Index (ACWI) returned +6.2% to sterling investors in the fourth quarter. The US was the strongest regional market according to MSCI regional data, returning +9.5% to sterling investors, while Europe (ex-UK) and the UK returned +5.45% and +5.15%, respectively; returns in sterling terms from emerging markets and Asia-Pacific (ex-Japan) were -1.9% and -2.1% respectively, while Japan, the weakest regional market, returned -4.3%. Technology led sector returns (+12.7%), followed by utilities (+10.8%) and real estate (10.4%). The weakest sector returns were from energy (+4.2%) and financials (+3.4%), with communication services delivering the only negative returns (-2.2%). The MSCI World Growth Index returned +7.6% versus +6.8% for the MSCI World Value Index.
- Although the period through October to April is seasonally strong for stock markets, we were aware of two-way risks in the period, with strong earnings causing equities to grind higher while fears of policy tightening or negative virus developments could have caused markets to pull back. Given the strong performance of equities from the summer of 2020, we held a slight positive tilt to equities, which was positive for performance. The regional tactical allocations in the GMAPs funds also benefitted performance, particularly the overweight in US stocks – sector tilts gave back some value in what was a somewhat volatile period.
- In UK bond markets, the benchmark 10-year gilt yield fell from 1.02% to 0.97% over the quarter. The apparent stability of the gilts market is misleading, however: having risen to 1.20% in late October, the 10-year gilt yield rallied to just 0.70% on 13 December (before the Bank of England raised the UK base rate). Furthermore, returns from gilts of differing maturities significantly varied in the period: on an all-maturities basis, gilts returned +2.42% for the period (FTSE Actuaries); gilts of less than 5 years in duration returned -0.37%; and gilts of greater than 15 years in duration returned +5.51%. The underweight in short-dated government bonds relative to global high yield corporate bonds added value in the quarter.
- We reduced exposure to commodities for the relevant GMAPs funds during the period as a risk control measure, given the potential risks surrounding the emergence of the Omicron variant of Covid-19. Nonetheless, a slight commodities overweight at the beginning of the period added to fund performance
- Our view remains that inflation is likely to ease back from high levels through 2022, after the temporary bounce post lockdowns owing to global supply chain issues. However, as markets grapple with changes in monetary policy and potential further coronavirus risks, it is likely that we will see spouts of volatility throughout – diversified global multi-asset funds are suitable for these types of market conditions.

GMAP fund	Q4 2021 performance (M class, Acc – net of fee)	GMAP custom benchmark	IA sector	IA sector average performance
Conservative	1.08%	-1.30%	£ Strategic Bond	-0.15%
Defensive	1.23%	1.03%	Mixed Investments: 0-35% shares	1.00%
Balanced	1.90%	1.91%	Mixed Investments: 20-65% shares	1.85%
Growth	3.38%	3.35%	Mixed Investments: 40-85% shares	2.80%
Adventurous	3.94%	4.05%	Mixed Investments: 40-85% shares	2.80%
Dynamic	3.86%	5.05%	IA Global	4.72%

Market overview

- The themes that influenced the market throughout 2021 continued in the fourth quarter. Periods of volatility arose as a new strain of Covid-19 led renewed travel restrictions and lockdown measures, while inflation and the implications for quantitative easing (QE) and interest rates continued to capture headlines. Nonetheless, corporate earnings continued to surprise on the upside, pushing equity markets to new highs.
- The issues that had concerned investors in the last few weeks of the third quarter continued to play out in the fourth quarter, albeit without significant effects on global financial markets. The travails of the giant Evergrande property company-continued. Meanwhile, bottlenecks in supply chains caused by Covid disruption (possibly exacerbated by Brexit in the UK) continued to result in some shortages and price spikes. Having surprised markets by failing to raise the base rate in November despite elevated inflation levels, the Bank of England (BoE) decided to raise rates slightly in the following month, from 0.1% to 0.25% – this again surprised markets given that the Omicron variant hit the UK during the same period. Meanwhile, the Federal Reserve (Fed) removed the term "transitory" from its inflation commentary, guiding investors to earlier and faster rate rises in 2022. Investors were relatively sanguine about these policy changes as they had been trailed from September and, to an extent, taking moderate action on inflation was seen as less of a risk than no action.
- Whereas the third quarter started with the spread of the Delta variant of Covid-19, the fourth quarter began with some confidence about vaccine programmes and the rollout of booster jabs. There was initial concern about the rapid spread of the Omicron variant as the holiday season loomed, as well as the ability of healthcare systems to cope with the number of new cases. However, investors took comfort from early data from South Africa that suggested that, while highly contagious, Omicron is less deadly, and vaccines remain effective in mitigating its effects.
- The quarter was somewhat mixed for global equities. The FTSE All-Share returned -2.2% in November, while the MSCI ACWI still delivered a positive return of 1.1% to sterling investors, however strong positive returns in October and December more than compensated. As a result, for the fourth quarter the FTSE-All Share, MSCI World and MSCI All Countries World Index (ACWI also includes 26 emerging markets) returned +4.2%, +7.3% and +6.2% to sterling investors, respectively. For the year as a whole, these indices returned +18.3%, +23.4% and +20.0%, respectively.
- Regional returns were more dispersed than for many recent quarters. Chinese property market issues and the country's 'zero Covid' lockdowns strategy negatively impacted the economy and affected the returns from emerging markets and Asia-Pacific (ex-Japan). The US was the strongest regional market, returning +9.5% to sterling investors (MSCI data), while Europe (ex-UK) and the UK returned +5.45% and +5.15%, respectively. Returns in sterling terms from emerging markets and Asia-Pacific (ex-Japan) were -1.9% and -2.1%, respectively. Japan was the weakest regional market, returning -4.3%, having been the strongest in the third quarter when investors welcomed the resignation of Prime Minister Suga and the potential for further economic reforms.
- Technology led sector returns (+12.7%), followed by utilities (+10.8%) and real estate (10.4%). The weakest sector returns were from energy (+4.2%) and financials (+3.4%), with communication services delivering the only negative returns (-2.2%). The MSCI World Growth Index returned +7.6% versus +6.8% for the MSCI World Value Index.
- In UK bond markets, the benchmark 10-year gilt yield fell from 1.02% to 0.97% over the quarter. The apparent stability of the gilts market is misleading, however: having risen to 1.20% in late October, the 10-year gilt yield rallied to just 0.70% on 13 December (before the Bank of England raised the UK base rate). Furthermore, returns from gilts of differing maturities significantly varied in the period: on an all-maturities basis, gilts returned +2.42% for the period (FTSE Actuaries); gilts of less than five years in duration returned -0.37%; and gilts of greater than 15 years in duration returned +5.51%. Credit market returns were more pedestrian with sterling investment grade credit returning 0.34%, as the average sterling investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) widened from 0.87% to 0.98%. For the year as a whole, the rise in gilt yields (from 0.20% to 0.97% for the 10-year gilt) led gilts to return -5.16% – by way of context, 2021 was the worst year for global sovereign bonds since 1999. Sterling investment grade credit returned -3.09%, with the credit spread tightening by one basis point to 0.98%.
- Currency movements were muted in the fourth quarter. Sterling was one of the stronger global currencies, strengthening against the US dollar and euro to reach a two-year high as the Bank of England raised the UK base rate. The yen was a notable outlier, weakening 3.3% against the US dollar and falling to its lowest level since 2017.
- Commodities delivered mixed returns after rising strongly earlier in the year. Brent crude oil trod water, falling back to below $80 a barrel after weakness in November. However, it still enjoyed a remarkable year after being particularly weak in the initial aftermath of Covid-19 – for 2021 as a whole, the price of Brent crude increased by over 50%. Copper futures resumed their upward trend (+7.7%) after retrenching in the third quarter: prices rose nearly 27% for the full year. The gold spot price rose +2.2% to just below $1,800/oz.

Asset allocation overview

- Our proprietary Investment Clock model was in its 'Stagflation' phase through the fourth quarter and into the turn of the year, reflecting a fall in the pace of growth but with significant inflationary pressures present. Our view remains that inflation is likely to ease through 2022, after the temporary bounce post lockdowns owing to global supply chain issues. We held a small equity overweight in the fourth quarter of 2021, having increased our allocation to the asset class as markets sold-off on fears of the spread of the omicron variant and potential contagion from the Evergrande crisis. We also pared back an initial constructive view on commodities, moving neutral in November, given risks surrounding the Omicron variant. We maintained our preference for short duration high yield bonds over government bonds which have negative real yields and are likely to lose value as interest rates rise.

What we thought	What we did	What happened	Effect on portfolio
Although the period through October to April is seasonally strong for stock markets, we were wary of the two-way risks in the period – strong earnings could have seen equities grind higher but fears of policy tightening or negative virus developments could have seen markets pull back.	We held a small positive tilt to stocks throughout the period, adding to this position as markets dipped. We began the period with a slight tilt to value and defensive sectors in the run up to the earnings season. However, with strong earnings results, we moved slightly in favour of a number of US growth sectors, including technology and consumer discretionary) and defensives (utilities and healthcare).	Stock markets were strong in the fourth quarter. Although markets retrenched slightly during November on Omicron concerns, markets rose back to all-time highs into year-end, with cyclical assets leading the move higher. The MSCI World and MSCI All Countries World Index returned +7.3% and +6.2% to sterling investors, respectively. Technology led sector returns (+12.7%), followed by utilities (+10.8%) and real estate (10.4%). The weakest sector returns were from energy (+4.2%) and financials (+3.4%), with communication services delivering the only negative returns (-2.2%).	The slight overweight in equities was positive for performance in the period. Sector tilts gave back some value though over the volatile period.
With countries responding to the pandemic differently, we have seen dispersion in economic fundamentals this year, and macro momentum has been more impressive in developed than emerging markets. Furthermore, companies in the US, Europe and UK delivered strong earnings. We expected the US to remain resilient, helped by a strong relative earnings picture, and with macro data in the region the most resilient globally. We continued to be wary of emerging markets due to continued struggles with the Evergrande crisis and the regulatory issues being faced in China.	We remained tactically overweight the US, but slightly paired back the positive tilt as Fed hawkishness increased through the period. We also remained overweight Europe and UK stocks given strong earnings revisions in quarter but moved neutral Japan after opening the quarter slightly overweight. We maintained underweight positions in Emerging markets and Asia Pacific.	The US was the strongest regional market, returning +9.5% to sterling investors, while Europe (ex-UK) and the UK returned +5.45% and +5.15%, respectively. Meanwhile, the returns in sterling terms from emerging markets and Asia-Pacific (ex-Japan) were -1.9% and -2.1%, respectively. Japan was the weakest regional market, returning -4.3%, having been the strongest in the third quarter.	Our regional tactical allocations in equities were positive contributors to performance – our US overweight proved particularly beneficial.

What we thought	What we did	What happened	Effect on portfolio
We maintained our view that corporate credit will outperform government bonds as the global economy recovers strongly. High yield bonds have continued to provide stronger returns relative to investment grade. The asset class has been supported by loose fiscal and monetary policy, which have made the default on debt less likely.	Our Investment Clock is in Stagflation (slowing growth with inflation), a phase that historically is not supportive for bonds. We maintained a significant high yield overweight position, favouring shorter duration securities.	Gilt returns were significantly dispersed in the period: on an all-maturity basis, gilts returned +2.42% in the period (FTSE Actuaries); gilts of less than 5 years in duration returned -0.37%; gilts of greater than 15 years in duration returned +5.51%. Global high yield bonds returned 0.1% for the quarter (ICE BofA BB-B Non-Fins HY Index (Constrained)).	The underweight in short-dated government bonds relative to global high yield corporate bonds added value in the quarter.
A strong global recovery with supportive fiscal / monetary policy. However, potential risks surrounding the Omicron variant could have led to weaker growth expectations into 2022.	We reduced our exposure to commodities during the period as a risk control measure, given the potential risks surrounding the emergence of the Omicron variant of Covid-19 and its potential to dampen growth prospects.	Brent crude oil trod water, below $80 a barrel after weakness in November. However, it still enjoyed a remarkable year after being particularly weak in the initial aftermath of Covid-19: for 2021 as a whole, the price of Brent crude increased by over 50%. Copper futures resumed their upward trend (+7.7%) after retrenching in the third quarter: prices rose nearly 27% for the full year. The gold spot price rose +2.2% to just below $1,800/oz.	Our slight commodities overweight at the beginning of the period added to fund performance.
With our property team buying high quality assets, we remain positive on long-term prospects for the sector despite some areas (such as retail) being challenged currently. Property gives diversification and inflation resilience benefits to the portfolios.	Given post-Covid challenges, we have maintained a marginal underweight to property in diversified portfolios.	Commercial property performed well over the quarter as global activity and confidence continued to improve.	Our slight underweight to property had a marginally negative impact on performance.

Please note: This table details our main asset allocation decisions for the quarter across the GMAPs funds. Not all tactical allocations are relevant to the Conservative fund (fixed income-only) and Dynamic Fund (equity-only).

Outlook

- There are two main schools of thought for the outlook of the global economy in 2022: there is potential for 2022 to be a strong year for growth, with lots of stimulus remaining in markets, supporting asset prices; alternatively, given relatively high inflation through 2021 – which is likely to remain through much of 2022 – there is potential for a squeeze on incomes that could limit the pace of economic growth. Additionally, the slowdown of growth in China could dent global growth. Our view remains that inflation is likely to ease through 2022, after the temporary bounce post lockdowns owing to global supply chain issues. However, as markets grapple with changes in monetary policy (i.e., interest rates rising owing to sustained higher inflation), and the potential further coronavirus risks, it is likely that we will see spouts of volatility throughout; diversified multi-asset funds are well suited to these types of market conditions.
- Please see our Investment Clock blog for our latest views.
- A record number of current and prospective clients and consultants joined us online for the 2021 RLAM Investment Series (our annual client conference) between 1 and 5 November 2021. Fund managers and other in-house specialists addressed the macroeconomic environment and prospects for different asset classes, and the issues that they consider in managing their funds. There were also sessions on responsible and sustainable investing, addressing the latest developments in these fast-changing areas and considering their possible evolution. All the sessions are available to watch on demand – please visit the RLAM Digital Insight Hub
- You can find more of our thoughts on the opportunities and risks in the year ahead in our RLAM Outlook 2022 document, and regular updates on our investment thinking in the *Our Views* section of www.rlam.co.uk

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