ROYAL LONDON EQUITIES

Fund Manager Commentary – January 2021

For professional clients only, not suitable for retail investors

CONTENTS

RLAM EQUITY PERFORMANCE

Fund Performance

	1 month (%)	Rolling 12 months (%)
RL UK Equity Income M Inc	**0.33**	**-11.40**
IA UK Equity Income Sector	-0.98	-10.20
FTSE All Share Index	-0.81	-7.55
RL UK Dividend Growth Fund M Acc	**0.57**	**1.09**
IA UK All Companies Sector	-0.86	-6.22
FTSE All Share Index	-0.81	-7.55
RL UK Mid Cap Growth Fund M Acc	**-2.89**	**-5.01**
IA UK All Companies Sector	-0.86	-6.22
FTSE 250 ex-IT Index	-1.08	-6.14
RL UK Opportunities Fund M Acc	**-1.54**	**-3.94**
IA UK All Companies Sector	-0.86	-6.22
FTSE All Share Index	-0.81	-7.55
RL UK Smaller Companies Fund M Acc	**0.10**	**4.08**
IA UK Smaller Companies Sector	0.19	4.51
FTSE Small Cap ex-IT Index	1.58	3.11

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 31 January 2021. Returns quoted are net of fees.

ROYAL LONDON UK EQUITY INCOME FUND

Portfolio Commentary

- During January, the fund was ahead of both the FTSE All Share index and competitor funds. The largest positive contributors to performance included **Johnson Matthey**, **Signature Aviation**, **Hargreaves Lansdown**, **IMI** and **Spectris**. Signature Aviation agreed a recommended cash offer during the month, but there is still the possibility of a counter bid from other interested parties. The largest detractors this month included **IG Group** and **Marshalls. IG Group** announced strong results together with a sizeable US acquisition, partly paid for by issuing new shares, which the stockmarket was not anticipating.
- The fund took some profits in Signature Aviation in the early part of the month, for risk management purposes, given the size of holding and its recent share price performance. Overall, the shape of the portfolio has not changed materially, maintaining a balance between domestic and international earnings, with activity largely focused on broadly based trades to cover client activity. The fund is maintaining some liquidity so that it has the flexibility to participate in any fund raisings that result from the current challenging economic conditions.

Investment Outlook

- The Covid-19 vaccine rollout is proceeding at pace in the UK, which is encouraging, although the threat of new strains means that international travel is being curtailed. In addition, progress on the vaccine rollout elsewhere in Europe has been more problematic. With no end to lockdown in sight, we continue to face a challenging economic background over the next few months. I will continue to target those companies I believe have good longer-term dividend paying capacity, without chasing dividend in the short term, and I will retain a breadth and depth of industry exposure. I am very much sticking to my investment process and using this to guide me through the crisis

Martin Cholwill

Head of UK Income Equities

ROYAL LONDON UK DIVIDEND GROWTH FUND

Portfolio Commentary

- The fund has started 2021 well, performing better than the benchmark index and its peer group, returning +0.57% and ranking in the 9th percentile in January. The biggest driver of outperformance was the fund's holdings in **Johnson Matthey** and **Aveva**. Johnson Matthey's strength was interesting. The market has long fretted about possible decline in the company's main business, supplying catalytic converters for cars and trucks, but given the company little credit for its expertise in fuel cells, battery chemistry and hydrogen. This changed to some extent when the company announced that it was expanding its production facilities for the manufacture of critical components for hydrogen production.
- The main trading in the month was to start a new holding in the mining company **Anglo American**. Anglo American has exposure to a broad range of metals and minerals and could be a beneficiary if economic recovery starts to push up commodity prices. Longer term, if the cleaner energy transition is to be achieved, electrification will be key. This would lead to strong demand for metals such as copper and nickel, which Anglo produces. The main sales were reducing positions in the retail stocks **B&M** and **Sainsbury** after strong share price performance.

Investment Outlook

- Although COVID restrictions remain very tight in the UK, the vaccination programme seems to be progressing effectively, offering hope of more normality later in the year. As consistently stated, we look to invest in a range of companies who are in control of their own fates, irrespective of market conditions. The COVID-19 shock is proving a stern test of this process, and the resilience of those companies, but we continue to believe that the approach is serving investors well. As well as looking for durable businesses, a willingness to look through short term extremes of sentiment and buy stocks when they are out of favour, or take profits when sentiment becomes exuberant should drive longer term performance.

Richard Marwood

Senior Fund Manager

Niko De Walden

Fund Manager

ROYAL LONDON UK MID CAP GROWTH FUND

Portfolio Commentary

- January saw UK equity markets consolidate following the sharp rise in the last quarter of 2020, as optimism arising from the rollout of vaccine programmes was tempered by news of fast spreading Covid mutations in the UK, South Africa and Brazil amongst others. The fund returned -2.9%, behind the benchmark (the FTSE 250 ex-IT index) return of -1.1 % and the peer group median return of -0.9%. This relative underperformance was driven by stock selection within the industrials and consumer services sectors. Sector allocation however was a modest contributor to relative returns, primarily due to the underweight allocation to the financials sector and overweight allocation to the healthcare sector.
- **Genus**, the global leader in pork and beef genetics, was the top contributor as the company issued a trading update indicating that interim results would be significantly better than expectations, and +28% ahead on the prior year. This growth partly reflects years of investment in beef and dairy genetics beginning to have a material effect on profits, but is also a result of a sharp increase in demand in China, where producers have been restocking their breeding herds, following the culls that took place in 2019 to limit the spread of African Swine Fever. **Watches of Switzerland**, the luxury goods retailer, was also amongst the top performers. Management raised earnings due to strong trading during November and December, marking their third upgrade since the initial pandemic downgrades, as their transition to online sales continues to bear fruit.
- **Ascential**, the media group, and **JD Sports**, the fashion retailer, were amongst the largest detractors. The former saw downgrades to earnings forecasts, as analysts adjusted their numbers to reflect more disruption to Ascential's events businesses. JD Sports' share price declined, largely due to rumours over a possible equity raise to fund further acquisitions rather than any changes in earnings expectations.

Investment Outlook

- The UK's first month outside the European Union passed relatively uneventfully, despite some challenges at the ports. The main impact on financial markets was the continued strength of sterling against the US dollar, and this could cause some headwinds to corporate earnings if it persists. However any impact is likely to be minimal compared to the recovery from Covid related disruption, and macroeconomic data remains relatively encouraging. Forward looking indicators continue to suggest a sharp recovery in industrial orders across the eurozone, the US and China, due to corporate supply chains restocking. As vaccine rollouts continue across the globe, this demand squeeze may persist for some time given the sharp fall in inventories last year, and this would be very supportive of corporate earnings growth.
- We focus our efforts on investing in cash generative small and medium sized companies, with strong balance sheets, structural earnings growth opportunities and valuation optionality.

Henry Lowson

Head of UK Alpha Equities

ALPHA MANAGER 2020
Henry Lowson
citywire AA

ROYAL LONDON UK OPPORTUNITIES FUND

Portfolio Commentary

- During January the UK Opportunities Fund underperformed the FTSE All-Share Index and posted a decline of 1.5%. Over the month there was lots of volatility but few clear trends – commodities performed strongly whilst banks had a disappointing start to the year. The fund benefitted from strong performances in holdings such as **Hargreaves Lansdown**, **B&M European Value** and **Ashtead** but was held back by the likes of **JD Sports**, **Marshalls** and **Prudential**.
- In terms of transactions we added one new stock to the portfolio which was **Watches of Switzerland Group**. Following a positive meeting with management we started to build a position before it was announced the private equity backer was reducing its stake through an equity placing. We took this opportunity to take a full position in the business. Following the agreed bid from management, we exited our position in **Applegreen**. Over the course of the month we reduced our weighting to stocks including **Fevertree**, **B&M**, **Restore** and **Spirax Sarco**.

Investment Outlook

- Equity markets started the New Year trying to balance enthusiasm as the roll out of the vaccines across the world began in earnest, together with caution as a new wave of infections resulted in a further number of lockdown measures. Reflecting this uncertainty, equity markets continued to oscillate around short-term news and demonstrated increased volatility. The FTSE All-Share finished January off 0.8% following a strong finish to 2020. What we know with certainty is central banks will continue to remain dovish in their support for the global economy and at some stage this year the positive impact of the vaccines will result in an improvement in economic activity. We retain our optimistic outlook regarding the ability of corporate earnings to bounce back and for the UK equity market to recover the falls experienced last year.

Craig Yeaman

Senior Fund Manager

ROYAL LONDON UK SMALLER COMPANIES FUND

Portfolio Commentary

- January saw UK equity markets consolidate following the sharp rise in the last quarter of 2020, as optimism arising from the rollout of vaccine programmes was tempered by news of fast spreading Covid mutations in the UK, South Africa and Brazil amongst others. The fund returned +0.1%, which compares to the benchmark (the FTSE Small Cap ex-IT index) return of +1.6% and the peer group median return of +0.2%. This relative underperformance was driven by stock selection within the consumer goods and technology sectors. Sector allocation was a modest contributor to relative returns, primarily due to the overweight allocation to the healthcare sector.
- **Clinigen**, the pharma services group, and **Alpha FMC**, the consulting firm, were amongst the top contributors during January. Clinigen delivered a solid interim trading update despite headwinds due to Covid impacting some of its customers, while investors welcomed impressive cash conversion and a new plan to simplify the group's operating and reporting structures. This should in time enable better alignment with customers and wider growth opportunities. Alpha FMC continue to benefit from their asset management clients investing in technology and back office simplification, and the shares rallied as analysts increased earnings forecasts following a positive update in December. **Genus**, the global leader in pork and beef genetics, was also a major contributor after posting record interim results.
- **IG Design**, the gift wrap and greeting card group, was the largest individual detractor following a share sale by the CEO in December. Management share sales have become relatively common in the UK equity market of late due to rumours that the Treasury is likely to alter Capital Gains Tax rules. IG Design put out a healthy trading statement at the end of January, which should assuage investor concerns. **GB Group**, the digital identity specialist, was also amongst the largest detractors, as the shares gave up some of their recent gains following a strong performance in December.

Investment Outlook

- The UK's first month outside the European Union passed relatively uneventfully, despite some challenges at the ports. The main impact on financial markets was the continued strength of sterling against the US dollar, and this could cause some headwinds to corporate earnings if it persists. However any impact is likely to be minimal compared to the recovery from Covid related disruption, and macroeconomic data remains relatively encouraging. Forward looking indicators continue to suggest a sharp recovery in industrial orders across the eurozone, the US and China, due to corporate supply chains restocking. As vaccine rollouts continue across the globe, this demand squeeze may persist for some time given the sharp fall in inventories last year, and this would be very supportive of corporate earnings growth.
- We focus our efforts on investing in cash generative smaller companies with strong balance sheets, structural earnings growth opportunities and valuation optionality.

ALPHA MANAGER 2020
Henry Lowson
citywire AA

Henry Lowson

Head of UK Alpha Equities

Henry Burrell

Fund Manager

ROYAL LONDON GLOBAL EQUITY INCOME FUND

Portfolio commentary

- From a sector point of view, the fund benefitted amongst its industrial holdings from its quality tilt, reversing the trends of the previous couple of months where the industrials with leverage and lower wealth creation performed best in response to vaccines. More generally, however, it was individual stocks driving the outperformance in January, with **Fuyao Glass** again leading the pack as platforms such as Tesla's Model Y and BMW X7 both announced all glass roofs as standard, with Fuyao as key supplier. With the stock up nearly 300% from its March lows, we see much of the increased future wealth creation from market growth and market share gains now reflected in valuation and took the opportunity to reduce the position. **Eli Lilly** and **Johnson Matthey** were also both up more than 20%, the former on yet more positive pipeline developments, while **JMAT** was up due to contract wins in its nascent Battery materials and Hydrogen divisions, both areas with significant ESG tailwinds.
- During the month, the fund sold out of its position in UK retailer, **B&M**, on valuation grounds. The stock had rallied 50% since purchase and paid an additional 12% of its market cap out in special dividends, and the risk reward appears balanced at best with a high range of short-term outcomes as the retailer now laps the big benefits it received from Covid and a weak dollar. The fund also reduced its position in aerospace giant, **Honeywell**, where again valuation looked to have got slightly ahead of our base case expectations for wealth creation, following the excitement of positive vaccine news. We increased our positions in **Anglo American** and **Steel Dynamics**, both commodity producers but with ESG advantages over competitors. There is an assumption in forecasts and market perception that following moves up in most commodity prices, mean reversion will promptly follow, but this leaves an attractive risk reward given that valuation places this probability at a near certainty when we think the range of outcomes is far more balanced.

Investment outlook

- The diversification within the fund, not only by sector and country, but, most importantly, by stage of lifecycle, has borne fruit in recent months, as despite a complete change in market leadership, performance has continued to be pleasing. We do feel there is a risk in markets of some inflation returning which could raise bond yields and impact the valuations of quality growth stocks that have led the market for many years. We are confident that the fund will perform well in this environment given small overweights to materials and financials sectors, both of whom would benefit from inflation and low starting valuations. Amongst the early lifecycle stocks which have benefitted so much from falling discount rates, we continue to focus on owning those ones whose wealth creation is most undervalued on a relative basis. We are confident that this approach can lead to consistent performance in a range of macro outcomes.

Niko De Walden

Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

IMPORTANT INFORMATION

For professional clients only, not suitable for retail investors. The views expressed are the author's own and do not constitute investment advice.

This document is a financial promotion. It does not provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. For more information on the fund or the risks of investing, please refer to the fund factsheet, Prospectus or Key Investor Information Document (KIID), available via the Fund Information page on www.rlam.co.uk.

Past performance is not a reliable indicator of future results. 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.

Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only, methodology available on request. Information derived from sources other than Royal London Asset Management is believed to be reliable; however, we do not independently verify or guarantee its accuracy or validity.

All rights in the FTSE All Stocks Gilt Index, FTSE Over 15 Year Gilts Index, FTSE A Index Linked Over 5 Years Gilt Index and FTSE A Maturities Gilt Index (the "Index") vest in FTSE International Limited ("FTSE"). All rights in the FTSE 350, FTSE All Share, FTSE 100, FTSE 250, FTSE 350 Higher Yield and FTSE Small Cap (the "Index") vest in FTSE International Limited ("FTSE"). "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. The Royal London Funds (the "funds") has been developed solely by Royal London Asset Management. The Index is calculated by FTSE or its agent. FTSE and its licensors are not connected to and do not sponsor, advise, recommend, endorse or promote the fund and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the fund. FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Funds or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

All confidential information relating to any Royal London Group company must be treated by you in the strictest confidence. It may only be used for the purposes of assessing the proposal to engage Royal London Asset Management Limited (RLAM). Confidential information should not be disclosed to any third party and should only be disclosed to those of your employees and professional advisers who are required to see such information for the purpose set out above. You should ensure that these persons are made aware of the confidential nature of such information and treat it accordingly. You agree to return and/ or destroy all confidential information on receipt of our written request to do so.

Issued by Royal London Asset Management Limited, Firm Registration Number: 141665, registered in England and Wales number 2244297; Royal London Unit Trust Managers Limited, Firm Registration Number: 144037, registered in England and Wales number 2372439; RLUM Limited, Firm Registration Number: 144032, registered in England and Wales number 2369965. All of these companies are authorised and regulated by the Financial Conduct Authority. Royal London Asset Management Bond Funds Plc, an umbrella company with segregated liability between sub-funds, authorised and regulated by the Central Bank of Ireland, registered in Ireland number 364259. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

All of these companies are subsidiaries of The Royal London Mutual Insurance Society Limited, registered in England and Wales number 99064. Registered Office: 55 Gracechurch Street, London, EC3V 0RL. The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Royal London Mutual Insurance Society Limited is on the Financial Services Register, registration number 117672. Registered in England and Wales number 99064. FC RLAM ON 0271.