ROYAL LONDON UK EQUITY INCOME FUND

Quarterly Report 30 June 2021

For professional clients only, not suitable for retail investors

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Asset split

	Fund (%)
Astrazeneca	5.6
British American Tobacco	4.1
Rio Tinto	4.0
GlaxoSmithKline	3.9
Royal Dutch Shell	3.8
IMI Plc	3.2
IG Group	3.0
Dunelm Group	3.0
BP Plc	2.8
Close Brothers	2.8
Total	**36.2**

Fund data

	Fund
No. of stocks	51
Fund size	£1,535.3m
Launch date	11.04.1984

Source: RLAM, based on the A share class.

Performance

	Fund (%)	Benchmark[1] (%)	Relative (%)
Q2 2021	**6.71**	**5.60**	**1.10**
Year-to-date	14.30	11.09	3.21
Rolling 12 months	25.16	21.45	3.70
3 years p.a.	2.67	2.05	0.62
5 years p.a.	6.93	6.48	0.46
10 years p.a.	9.73	6.37	3.35
Since inception p.a. 30.06.2000	7.48	4.89	2.60

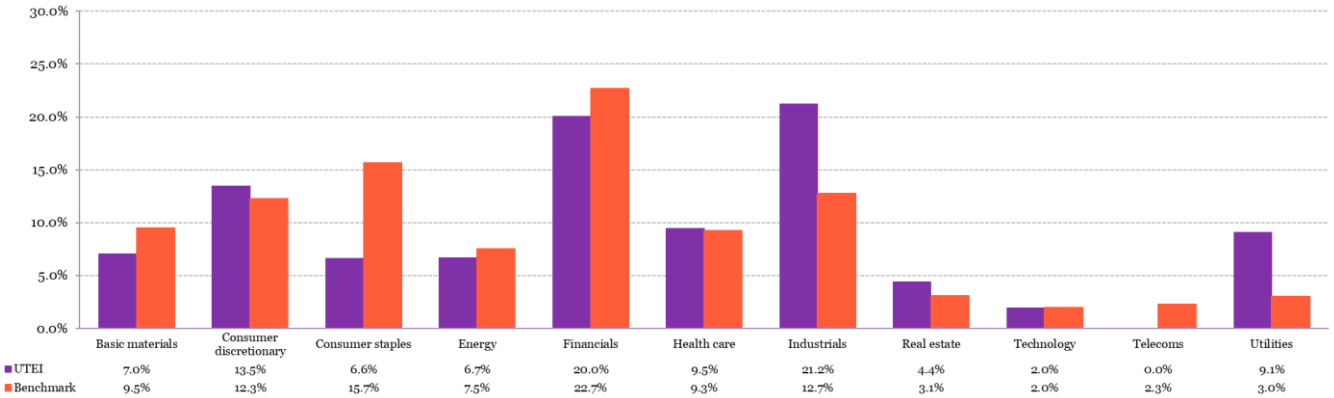
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated.

Source: RLAM, as at 31 March 2021, based on the A Income share class.

[1]Benchmark: FTSE® All Share Index.

Sector breakdown



Source: RLAM. Figures in relation to your portfolio exclude the impact of cash held.

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Fund performance

- During the second quarter, the fund was ahead of both the FTSE All-Share index and competitors. The financials sector was a key driver of performance, with holdings in **Paragon**, **Investec** and **Brewin Dolphin** noteworthy contributors. The holdings in the engineering company **IMI** and the homewares retailer **Dunelm** both performed well after releasing strong trading statements and the water utility **Pennon** also performed well after announcing a large return of capital to shareholders alongside results and the acquisition of Bristol Water.

Fund activity

- During the quarter, the fund sold its remaining shares of **Signature Aviation** and exited the position in **BT**. Two new positions were established: mining company **Anglo American** and food producer **Tate & Lyle**. Adding **Anglo American** to the portfolio diversifies the range of metals and minerals that the portfolio is exposed to, as the other mining holding in the fund, **Rio Tinto**, is predominantly exposed to iron ore. **Tate & Lyle** is a cash generative business that pays an attractive dividend, but which also has some interesting optionality, as it in the process of trying to reduce its exposure to more commoditised ingredients and focus down on its higher growth business areas. If this strategy can be successfully executed, it could add significant value to the company.

Market background and outlook

- The economy is showing strong signs of recovery as we emerge from Covid restrictions and the general tone of corporate reporting over the results season has been positive. Indeed many companies have reported results better than market expectations and gone on to guide for stronger future profitability. Against this more positive backdrop many companies are reinstating dividends that were passed in 2020.
- Takeover activity is a major theme so far in 2021 and looks likely to remain so. Private equity firms are taking advantage of depressed UK market valuations, and we have seen billions of pounds worth of bids in the quarter for, among others, Morrisons, UDG and St Modwen Property.
- As was discussed in last quarter's report, the strength of the recovery is prompting concerns in financial markets that inflation could be returning to the economy and the UK and US have both recently reported inflation numbers higher than expectations. Some see this as a transitory factor, fuelled by stronger commodity prices and pent up demand, but there are valid reasons to think that this could be a longer-term factor too. A key contributor to inflation that will need to be monitored is wage inflation, and there are signs that this is ticking up and labour shortages are definitely becoming apparent in some areas of the economy (for example hospitality, building and logistics). Many companies are also reporting supply chain issues which could have knock on effects for prices. Shipping rates are rising and the supply shocks seen last year are leading some companies to perhaps shift their focus from the cheapest sources of supply to the most reliable.
- Financial markets are in a state of uncertainty as to what the longer-term impacts on inflation and interest rates will result from the significant increase in money supply, pent up demand and cost inflation issues. Given this uncertainty, we feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle has never been more appropriate. Performance will continue to be driven more by stock picking and the success of our hunting for undervalued long-term cashflows rather than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

ROYAL LONDON
ASSET MANAGEMENT

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