ROYAL LONDON GMAP GROWTH FUND

Quarterly Report 31 March 2021

For professional clients only, not suitable for retail investors

CONTENTS

ROYAL LONDON GMAP GROWTH FUND

Fund data

	Fund
Fund size	£231.1m
Launch date	14.03.2016

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

Performance

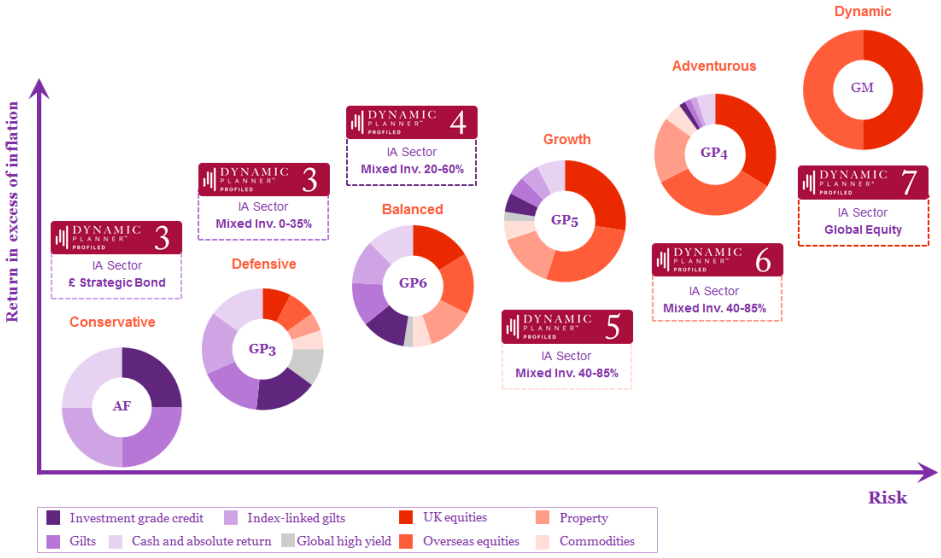
	Fund (%) (M Acc)	Fund (%) (M Inc)	Benchmark (%)	Relative (%) (as compared to M Inc)
Q1 2021	**3.45**	**3.57**	**2.34**	**1.22**
Year-to-date	3.45	3.57	2.34	1.22
Rolling 12 months	22.03	22.22	20.24	1.98
3 years p.a	5.46	5.48	6.27	-0.79
5 years p.a	7.08	7.10	7.95	-0.85
Since Inception p.a. 14.03.2016	7.09	7.11	8.00	-0.89

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. The fund returns in the table above are gross of standard management fees. 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

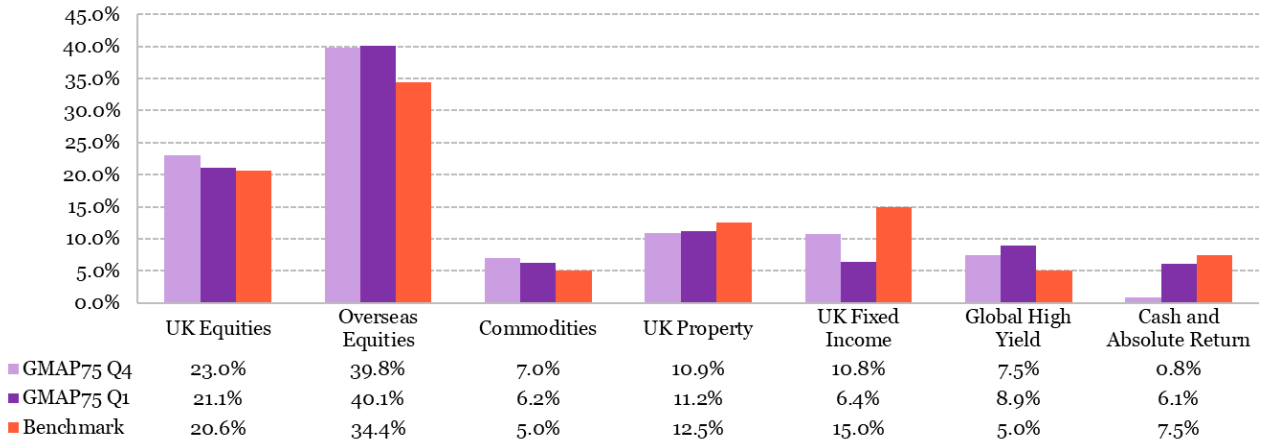


Risk rating is established by Distribution Technology (DT) and is out of 10. For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation.

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.

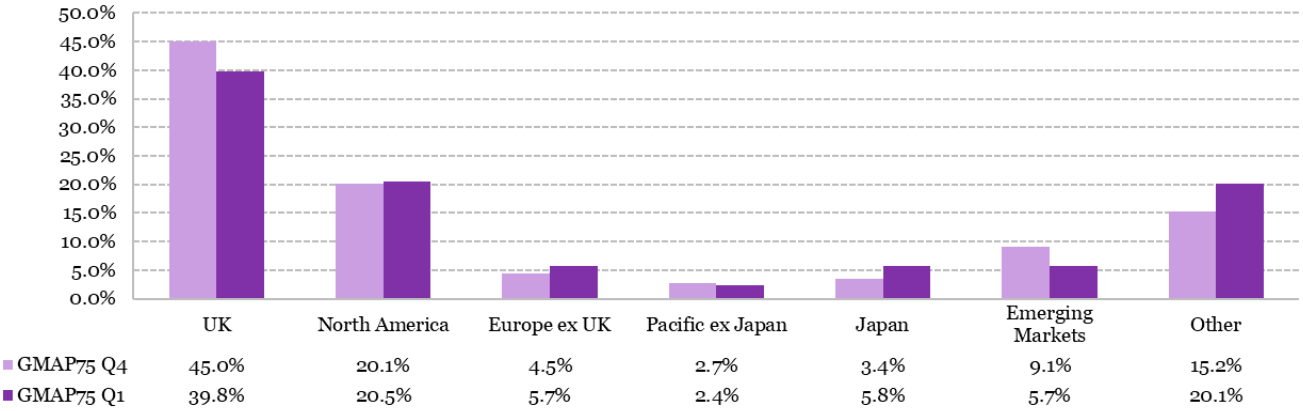
ROYAL LONDON GMAP GROWTH FUND

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. Figures calculated on a 'look through' basis, reflecting underlying assets, not fund component weights.

Geographical breakdown



Source: RLAM. 'Other' region includes global fixed income exposures, which are sterling hedged and commodity exposures. Figures calculated on a 'look through' basis, reflecting underlying assets, not fund component weights.

Ten largest holdings

	Asset type	Weighting (%)
RL UK All Share Tracker Fund	UK Equities	20.7
RL Property (PAIF) Feeder Fund	UK Property	11.2
RL US Index Tracker Fund	Overseas Equities	10.4
RL Emerging Markets ESG Leaders Equity Fund	Overseas Equities	6.2
Commodities ETF	Commodities	6.2
RL Global High Yield	High Yield	6.0
RL Sterling Credit Fund	UK Fixed Income	5.0
RL UK Government Bond Fund	UK Fixed Income	4.9
RL Europe Ex UK Tracker Fund	Overseas Equities	4.3
RL Short Duration Global Index Linked Fund	UK Fixed Income	3.7
Total		**78.6**

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

ROYAL LONDON GMAP GROWTH FUND

Executive summary – GMAP range

- Global equity returns were robust in the first quarter of 2021, particularly in February and March, driven by expectations of a strong global recovery; sentiment was positive with vaccination programmes progressing while supportive fiscal and monetary policy remained in place globally. President Biden pushed through a vast $1.9trillion stimulus program in the US while the Federal Reserve Bank's Chairman Powell signalled rising bond yields did not mean imminent monetary policy tightening. The Bank of England (BoE) also led markets not to expect an imminent rate rise, while Chancellor Rishi Sunak continued high levels of government borrowing and spending. In continental Europe, stocks made progress despite the EU's faltering vaccine programme. Our overweight to equities, combined with regional tilts to the US and UK (and away from Europe), was positive for performance in the relevant GMAP funds.
- Increased optimism of a global re-opening led to concerns around potential future Fed tapering. In February, this triggered a sell-off in US treasuries and caused global bond yields to rise. The 10-year gilt yield rose by 0.49% in February alone, closing out the quarter 0.65% higher. US 10-year treasury yields rose by 0.83% in the quarter, the largest quarterly rise since 2016. Long-dated government bond yields suffered most during the quarter due to concern about potential future inflation. The Merrill Lynch UK Gilts 15+ Years Index returned -12.4% over the period compared to -6.86% for its sister 10-15 years index. Considering this market environment, our significant tactical underweight to government bonds was beneficial to the performance of relevant GMAP funds.
- We participated in the ongoing rally in risk assets, remaining overweight in equities, global high yield bonds and commodities through the quarter. Extended stimulus helped global high yield hold its position as the best performing asset class in fixed income. In addition, China's continued recovery, and positive activity data in comparison to earlier periods of lockdown, underpinned the continued uptick in commodity prices. The price of Brent crude oil rose by +22.7% to almost $63 a barrel, supported by the decision OPEC+ to keep supply cuts fully in place at current levels. Our overweights to these asset classes, especially commodities, helped performance.
- US breakeven inflation typically rises when nominal growth picks up and this is associated with risk assets outperforming bonds, as they are at present. Markets may encounter turbulence if real yields continue to rise sharply but a short-term sell-off could be an opportunity to add to cyclical risk. Furthermore, regional market volatility could be caused by new variants of Covid-19 or vaccine distribution stalling. Global growth is, however, expected to be strong in 2021 and supportive of markets generally.

GMAP fund	Q1 2021 performance (M class, Acc – net of fee)	GMAP custom benchmark	IA sector	IA sector average performance
Conservative	-2.71%	-3.25%	£ Strategic Bond	-1.13%
Defensive	1.30%	0.33%	Mixed Investments: 0-35% shares	-0.78%
Balanced	2.12%	1.40%	Mixed Investments: 20-65% shares	0.96%
Growth	3.30%	2.34%	Mixed Investments: 40-85% shares	1.66%
Adventurous	4.14%	3.31%	Mixed Investments: 40-85% shares	1.66%
Dynamic	4.55%	4.47%	IA Global	3.32%

ROYAL LONDON GMAP GROWTH FUND

Market overview

- The MSCI World Index posted growth of 3.9% through the quarter, gathering strength through February and March. Regional performance was mixed, which reflects the different conditions being experienced by markets under their unique pandemic-driven circumstances. All leading markets posted positive returns in the period, except for Japan where returns to Sterling were marginally negative.
- UK stocks recovered after lagging last year; while a successful vaccination programme laid foundations for opening the economy, Rishi Sunak's Budget in March was also constructive for UK equities. Monetary policy in the period was also constructive for growth. Given significant exposure to financials, energy and mining, UK equities were also benefited from a global rotation away from growth stocks and into value stocks; The MSCI World Value Index rose by 8.6% in the period, financials were up 16.8% while energy rose 10.4%.
- Successful vaccine distribution, especially in the UK and US, increased optimism of a global re-opening. This recovery hope triggered a sell-off in US treasuries and caused global bond yields to rise. The 10yr gilt yield rose by 0.49% in February, the biggest increase of all leading markets in the month, finishing 0.65% higher for the quarter. US 10yr treasury yields rose by 0.83% in the quarter, the largest quarterly rise since 2016. The average sterling investment grade spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) ended the quarter 3bps tighter at 0.96%. This is remarkable considering that the average spread was as wide as 2.25% at the peak of the market sell-off in March last year. The Markit iBoxx Sterling Non-Gilt All Maturities index delivered total returns of -4.11% for the quarter, significantly outperforming gilts through the period.
- The $1.9trillion of additional stimulus secured by President Biden's American Rescue Package was at the top end of analysts' expectations. While the package underpinned the outlook for a long-term recovery, it also stoked concern for potential future inflation. Dovish monetary policy throughout the period added to concerns, as most central banks remained relaxed on inflationary pressures, preferring to focus on growth: the Bank of England's (BoE) Monetary Policy Committee (MPC) signalled in January that no rate rises would be come for the next six-months; and the Federal Reserve (the Fed) Chair Powell repeatedly played down concerns around yield rises. The European Central Bank (ECB) is the main exception, opting to increase the speed of its bond buying programme (the PEPP). Potential for inflationary pressure has hit long-dated bonds the worst: the Merrill Lynch UK Gilts 15+ Years Index returned -12.4% over the period compared to -6.86% for its sister 10-15 years index.
- High yield bonds have continued to provide strong returns relative to investment grade, especially the shorter duration assets. The asset class has been supported by loose fiscal and monetary policy, which have made the default on debt less likely. Because of this, we still think that high yield credit spreads continue to overcompensate for their risks.
- Sterling remained among the stronger major currencies over the quarter, rising 1.1% against the US dollar, as the trade deal with the EU began to reduce Brexit uncertainties. It strengthened more significantly against the euro and against the yen. This strength tempered the returns for sterling investors in global equities.
- Commodities rallied to thirteen-year highs, leading cross-asset returns. Oil prices continued to recover strongly, reaching their highest levels since October 2018 in March following a surprise decision by OPEC+ to keep supply cuts fully in place at current levels. The price of Brent crude oil rose by +22.7% to almost $63 a barrel. Copper continued to strengthen as economic activity strengthened in China, rising +13.4% over the quarter. Gold fell -9.6% to $1,713/oz.

Asset allocation overview

- Our proprietary Investment Clock model remained firmly in the 'Overheat' zone through the period, as promise for a sustained economic recovery edged closer. Inflation and interest rates remained low, although concern regarding potential future inflation rose. This was dovetailed by the Fed and the BoE signalling little intent to raise interest rates and instead prioritising growth. This should continue to be constructive for equities, industrial commodities and corporate bonds, including global high yield.

ROYAL LONDON GMAP GROWTH FUND

What we thought	What we did	What happened	Effect on portfolio
We were constructive on global equities through the quarter, as global vaccine distribution picked up pace. Also, the new US President Biden raised prospects of significant fiscal stimulus, which was duly delivered. Potential market volatility caused by rising bond yields made the US look a good defensive option, especially relative to European markets which stumbled on poor vaccine distribution. We viewed a weak yen as positive for exports in Japan. We remained positive on emerging markets, which offer better long-term growth prospects.	We remained overweight equities in the quarter but in March were slightly less overweight than at the start of January, having taken some profits. We maintained an underweight in Pacific ex. Japan throughout the quarter and built an overweight in Japanese equities having started from a neutral position in January. We built a slight overweight to US equities in the quarter and moved overweight US financials and energy through February. We were overweight emerging markets through most of Q1, before ending the quarter marginally underweight.	US equities returned 4.35% to sterling investors in the quarter, leading global markets except for the UK. Energy and Financials led sector returns according to MSCI indices. Emerging markets and Asia ex Japan were more pedestrian, returning 1.11% and 1.19% respectively. The Japanese market offered marginally negative returns through the period for sterling investors.	Our broad overweight to equities through the period was beneficial to performance, as were our regional tilts, especially overweights in the US and underweights in Asia ex Japan. Our movement underweight in emerging markets in March helped negate a marginally negative impact from our earlier held overweight. Our regional tilt towards Japanese equities in March slightly detracted from fund performance, as it lagged other leading markets through the period. Our sectoral overweight in energy also added to outperformance.
We took a positive view on the UK in Q1 given the trade deal agreed with the EU last year, its successful vaccination programme and continued fiscal and monetary support for the economy. In addition, a large proportion of value-oriented stocks on UK indices made it an attractive given the ongoing market rotation. Europe ex. UK looked less promising, as the vaccination programme there stumbled, and Covid-19 case numbers picked up in the period.	We were broadly neutral UK equities in Q1, having added at the end of last year, maintaining a marginal overweight into January before ending the quarter slightly underweight. Our underweight in Europe ex UK was slight throughout the quarter.	UK equities led markets in February, returning 5.22% for the quarter. The MSCI Value Index also grew by 8.57%. Europe ex UK lagged leading markets in the period returning 2.59% to sterling investors.	Our overweight in the UK and underweight position in Europe ex UK both benefitted performance in Q1.
We maintained our view that corporate credit will outperform government bonds as the global economy recovers.	We maintained the moderate underweight position in gilts and were overweight in investment grade credit for much of the quarter before moving to neutral.	Gilts (all maturities) returned -7.47% in the period. The long end performed extremely negatively on fears over potential future inflation. Index-linked gilts returned -6.35%. Sterling credit outperformed, returning -4.12%%.	Staying underweight in government bonds and overweight in investment grade credit was positive for performance.
We felt that high yield bonds offered potential for further outperformance given elevated spreads and the huge financial support from governments and central banks.	We remained overweight global high yield bonds, particularly short duration high yield.	Global high yield bonds continued to perform strongly over the quarter and the high yield spread tightened further. Global high yield funds returned -0.03%, with short duration delivering 0.01%.	The overweight allocation to global high yield was positive for performance, with short duration high yield performing well on a risk-adjusted basis.
As the recovery in the real economy continued, particularly in industrial production in China, we remained constructive on commodities.	We maintained our overweight in commodities throughout the quarter	Commodities rallied to a thirteen-year high, leading cross-asset returns, as oil continued its rebound.	The overweight exposure to commodities was positive for performance.
With the economic shock, we believed UK commercial property would underperform, at least until there is a sustained economic recovery.	While recognising its diversifying benefits we maintained an underweight position in property through the quarter and increased this over the period.	Commercial property performed poorly over the quarter as lockdowns resumed and the retail and hospitality sectors continued to struggle.	Our underweight property position had a positive impact on performance.

ROYAL LONDON GMAP GROWTH FUND

Outlook

- A year on from the March 2020 low, vaccine optimism, fresh fiscal stimulus in the US and the prospect of a re-opening of the world economy into 2022 saw stocks move to record levels. Meanwhile, fear of growth eventually leading to interest rates rising from very low levels currently (monetary tightening) triggered a sharp sell-off in government bonds with US Treasuries experiencing their greatest quarterly rise in yield since Donald Trump's 2016 election victory. Commodities rallied to thirteen-year highs, leading cross-asset returns, as oil continued its rebound. Value stocks were a big beneficiary of the re-opening trade as leadership rotated away from the highly valued technology shares which performed so strongly last year. Our multi asset funds performed well given a broadly diversified asset mix less exposed to US technology and government bonds. Tactical overweighs in stocks, commodities, and value sectors such as financials and energy also paid off. We remain optimistic as we expect strong cyclical recovery to continue. A service sector catch-up may push yields higher but do less for the profits of the quoted sector, however, and we are mindful of the impact of rising yields. Please see the Investment Clock blog for our latest views.
- Regular updates on our strategy are available in the Investment Clock section of www.rlam.co.uk

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