Royal London GMAP Balanced Fund

Quarterly Report 31 March 2022

Fund data

	Fund
Fund size	£275.1m
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)
Q1 2022	**0.97**	**1.05**	**0.37**	**0.68**
Year-to-date	0.97	1.05	0.37	0.68
Rolling 12 months	8.55	8.53	8.13	0.40
3 years p.a.	5.59	5.65	5.54	0.10
5 years p.a.	4.41	4.44	4.71	-0.28
Since Inception p.a. 14.03.2016	5.66	5.68	6.06	-0.38

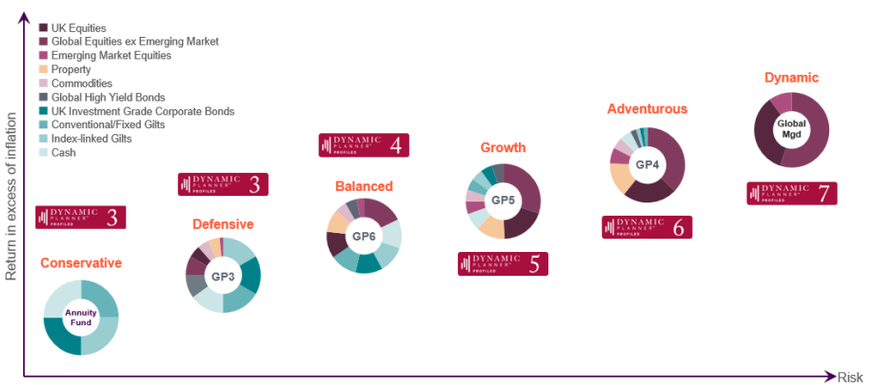
Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

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 Balanced 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.

As of 6 April 2017, the UK Government announced that funds paying interest distributions (funds more than 60% in interest bearing assets, such as fixed income securities/bonds and cash) will be required to pay those distributions gross of tax.

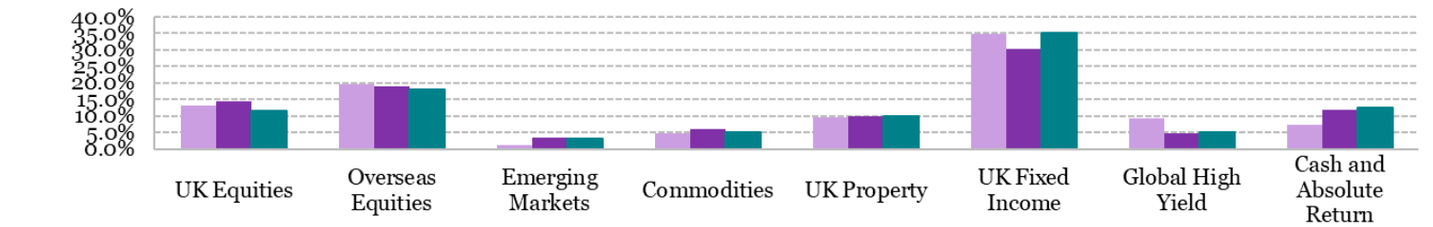
RL GMAP range



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.

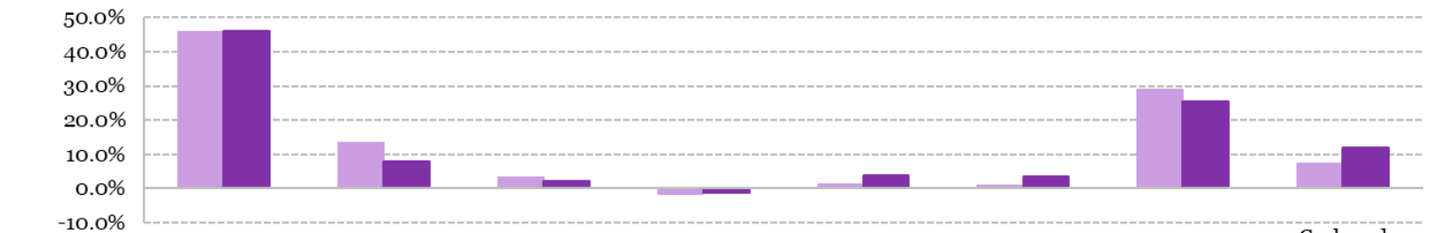
Asset split



	UK Equities	Overseas Equities	Emerging Markets	Commodities	UK Property	UK Fixed Income	Global High Yield	Cash and Absolute Return
GMAP50 Q4	13.1%	19.7%	1.1%	4.8%	9.7%	34.8%	9.4%	7.4%
GMAP50 Q1	14.4%	19.0%	3.6%	5.9%	9.9%	30.4%	4.8%	11.9%
Benchmark	11.4%	17.9%	3.3%	5.0%	10.0%	35.0%	5.0%	12.5%

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



	UK	North America	Europe ex UK	Asia Pacific ex Japan	Japan	Emerging Market	Global	Cash and currency forwards
GMAP50 Q4	46.1%	13.5%	3.3%	-1.7%	1.2%	1.1%	29.1%	7.4%
GMAP50 Q1	46.2%	7.9%	2.2%	-1.0%	3.8%	3.6%	25.6%	11.9%

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	11.9
RL Short Duration Global Index Linked	UK Fixed Income	11.1
RL Short Duration Gilts Fund	UK Fixed Income	8.0
RL Property (PAIF) Feeder Fund	UK Property	7.7
RL Investment Grade Short Dated Credit Fund	UK Fixed Income	7.0
Invesco Bloomberg Commodity UCITS ETF	Commodities	5.4
UK Treasury 1.75% 2022	UK Fixed Income	5.4
RL Sterling Credit Fund	UK Fixed Income	5.3
RL US Equity Tilt Fund	Overseas Equities	3.7
RL Emerging Markets ESG Leaders Equity Tracker	Overseas Equities	3.6
Total		**69.0**

Source: RLAM. Information as at 31 March 2022 and correct at that date, unless otherwise stated. Total weight reflects rounding.

Executive summary

- Geopolitical events and a changing outlook for growth and inflation have been the backdrop to a volatile quarter for investment markets. The year began with markets starting to focus on inflation, with hawkish comments from the Federal Reserve (Fed) and Bank of England (BoE) leading to expectations that rates would rise faster than previously anticipated. Both the Fed and BoE increased interest rates during the quarter citing inflation concerns, while the European Central Bank signalled the end of its net asset purchases programme. The Russian invasion of Ukraine dominated the second half of the quarter, with markets reacting to the immediate impact and the knock-on effects of sanctions, reduced trade and higher energy prices.
- As central banks around the globe began to raise rates, bond yields rose sharply from their lows, now anticipating further policy tightening to come over the year. This saw bonds record their worst quarterly return since 1980. Equities also experienced a negative quarter, for the first time since 2020, as uncertainty around the war in Ukraine compounded with higher bond yields and saw technology stocks lead a market sell off. The best performing asset class over the quarter was commodities, with the broad commodity index recording a staggering 29.2% gain in sterling terms – the largest quarterly return since 1974 – on geopolitical uncertainty and supply chain issues.

GMAP fund	Q1 2022 performance (M class, Acc – net of fee)	GMAP custom benchmark	IA sector	IA sector average performance
Conservative	-3.79	-3.69%	£ Strategic Bond	-4.27%
Defensive	-0.32%	-0.24%	Mixed Investments: 0-35% shares	-3.75%
Balanced	0.82%	0.37%	Mixed Investments: 20-65% shares	-3.40%
Growth	0.33%	0.36%	Mixed Investments: 40-85% shares	-3.63%
Adventurous	0.93%	0.92%	Mixed Investments: 40-85% shares	-3.63%
Dynamic	-1.16%	-1.24%	IA Global	-4.78%

Market overview

- Market volatility spiked towards the end of February as news broke that Russia had invaded Ukraine. Russian forces pushed towards Ukraine's capital Kyiv in a move that has left Moscow increasingly isolated from the international economy. The situation remains highly uncertain with the humanitarian catastrophe compounded by threats of military strikes on the EU and NATO.
- The potential for supply chain disruptions and the downstream impact of sanctions on oil and gas supplies pushed energy prices to new all-time highs, adding to the challenges facing central banks. These two factors caused significant volatility in global financial markets. Equity markets recovered some of their losses from mid-March as companies continued to deliver strong performances despite the increased uncertainty about the global economy.
- The MSCI All Countries World Index (ACWI) returned -2.4% to sterling investors in the first quarter. The UK was the strongest regional market according to MSCI regional data, returning +4.8% to sterling investors; in sterling terms returns from EM Eastern Europe and EMU were -77.6% and -8.84 respectively. Energy, materials and utilities contributed positively to market performance during the quarter, while consumer services and consumer discretionary sectors detracted.
- Over the first quarter, the benchmark 10-year gilt yield rose from 0.97% to 1.61%, leading gilts to return -7.17% on an all-maturities basis (FTSE Actuaries). Yields began moving upwards towards the end of December last year, as the BoE ended its QE programme, rose interest rates for the first time since 2017, and prepared markets for further rises to come. The Russian invasion of Ukraine drove a significant if temporary dip in yields in the period: 10-year gilt yields reached around 1.55% in late February but fell to around 1.20% following the onset of war. The flight

to safety was temporary, however, as yields again trended higher from the first week of March. The same pattern is visible in the US and Germany, where yields rose throughout the period but temporarily dipped around the onset of war in Ukraine: in the US, the benchmark 10-year US treasury yield rose from 1.51% to 2.34% in the quarter, while the German 10-year bund yield rose from 0.14% to 0.55%.

- Currencies were volatile in the first quarter impacted by geopolitical tensions, interest rates and the rise in commodity prices. The US dollar played its traditional role as a safe haven, strengthening against other major currencies. Sterling was relatively weak, other than against the yen, which marginally enhanced the returns from global equities to sterling investors. Brent crude oil soared 38.7% to nearly $105 a barrel during the quarter as the invasion of Ukraine raised supply concerns, while spot gold and front-month copper futures gained 6.3% and 6.7%, respectively.

Asset allocation overview

- Our proprietary Investment Clock model was in its 'Stagflation' phase during the quarter reflecting a fall in the pace of growth but with significant inflationary pressures present. Rising oil prices in response to the Russia-Ukraine crisis could provide further headwinds to the global economy. Our tactical asset allocation added value over the quarter, helped by an overweight position in commodities and an underweight position in government bonds. We maintain a small positive weight in stocks, having bought dips during the sentiment panic. The first quarter showed the benefits of the diverse multi asset approach used in our funds. The inclusion of commodities and property, in addition to a greater exposure to UK equities than our peers, helped to provide resilience over a volatile quarter.

What we thought	What we did	What happened	Effect on portfolio
We feared that policy tightening and geopolitical escalations could prove to be headwinds to stocks in an already unfavourable macro environment. We expected this to be particularly negative for growth stocks.	We started the period with a small overweight to stocks. We remained lightly positioned for most of the quarter owing to the unfavourable macro environment and rising level of geopolitical uncertainty. We then added to our exposure as markets dipped and we judged investor sentiment to be at overly bearish levels. We were overweight defensive stocks and underweight growth stocks.	Equities moved lower over the quarter, as the Ukraine war and expectations of policy tightening unnerved investors. Growth stocks led declines over the quarter, with technology and consumer discretionary underperforming at the sector level – a stark contrast to last year. Stocks did rebound from their bottom, however still finished the quarter lower.	Increasing overweight positions in equities when markets offered great buying opportunities was positive for performance.
With central banks starting their hiking cycles, we expected sovereign bond yields to rise, which could relatively benefit regions that have lower weights to interest rate sensitive sectors. Furthermore, with the rise of commodity prices, we expected more resilience from the resource-heavy UK market.	We remained tactically overweight the UK, given its more defensive sectoral composition and cheaper valuations. We also moved overweight Japan, which benefitted from a weaker currency and strong analyst earnings revisions. We maintained our underweight position in emerging markets, as rising Covid cases in China led to lockdowns in major cities.	UK equities proved to be more resilient at the regional level, helped by a higher allocation to resource stocks.	Our regional tactical allocations in equities were positive contributors to performance – our UK overweight and emerging markets underweight proved particularly beneficial.

What we thought	What we did	What happened	Effect on portfolio
With inflation high and central banks beginning to tighten policy, we remained underweight bonds, expecting yields to rise. Our Investment Clock is in Stagflation (slowing growth with inflation), a phase that historically is not supportive for bonds.	We maintained a significant underweight position in bonds.	Over the first quarter, Europe, UK and the US all experienced a rise in yields at the key maturity points despite a temporary dip in the US and Germany around the onset of war in Ukraine. In the US, the benchmark 10-year US treasury yield rose from 1.51% to 2.34% over the quarter, while the German 10-year bund yield rose from 0.14% to 0.55%. The benchmark 10-year gilt yield rose from 0.97% to 1.61%, leading gilts to return -7.17% on an all-maturities basis (FTSE Actuaries).	Our underweight in bonds added value as the asset class experienced its worst return since the 1980s.
With inflation high and the continuation of supply chain issues, we believed that commodities were set to appreciate over the quarter. Furthermore, with geopolitical tensions high, we believed commodities could offer resilience.	We were overweight commodities at the start of the year before taking profits given the strong performance.	Commodities were the strongest asset class over the quarter, rising over 25% with spot prices in several commodities hitting record highs.	Our commodities overweight 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 remained neutral to property in diversified portfolios.	Commercial property performed well over the quarter as global activity and confidence continued to improve.	Our exposure to property had a positive 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

- Persistently high inflation and expectations of tighter policy have seen bond yields continue their sharp rise. We expect that yields will continue to rise and provide a challenging environment for both equities and bond markets. This environment would emphasise the benefit of broader diversification including real assets like property and commodities.
- Please see our Investment Clock blog for our latest views.
- 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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