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# Royal London GMAP Defensive Fund

Quarterly Investment Report

**31 December 2023**

# Quarterly Report

## The fund as at 31 December 2023

The purpose of this report is to provide an update on the Royal London GMAP Defensive Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

# Contents

The fund	3
Performance and activity	5
Fund breakdown	7
Market commentary	8
Further information	9
Disclaimers	10
Performance net and gross	12
Glossary	13

# The fund

## Fund performance objective and benchmark

The fund's investment objective is to achieve capital growth over the course of a market cycle, which should be considered as a period of 6-7 years, by investing at least 80% in other funds, known as collective investment schemes. The fund aims to achieve a relatively low level of risk and return relative to the other funds in the Royal London Global Multi-Asset Portfolio (GMAP) range.

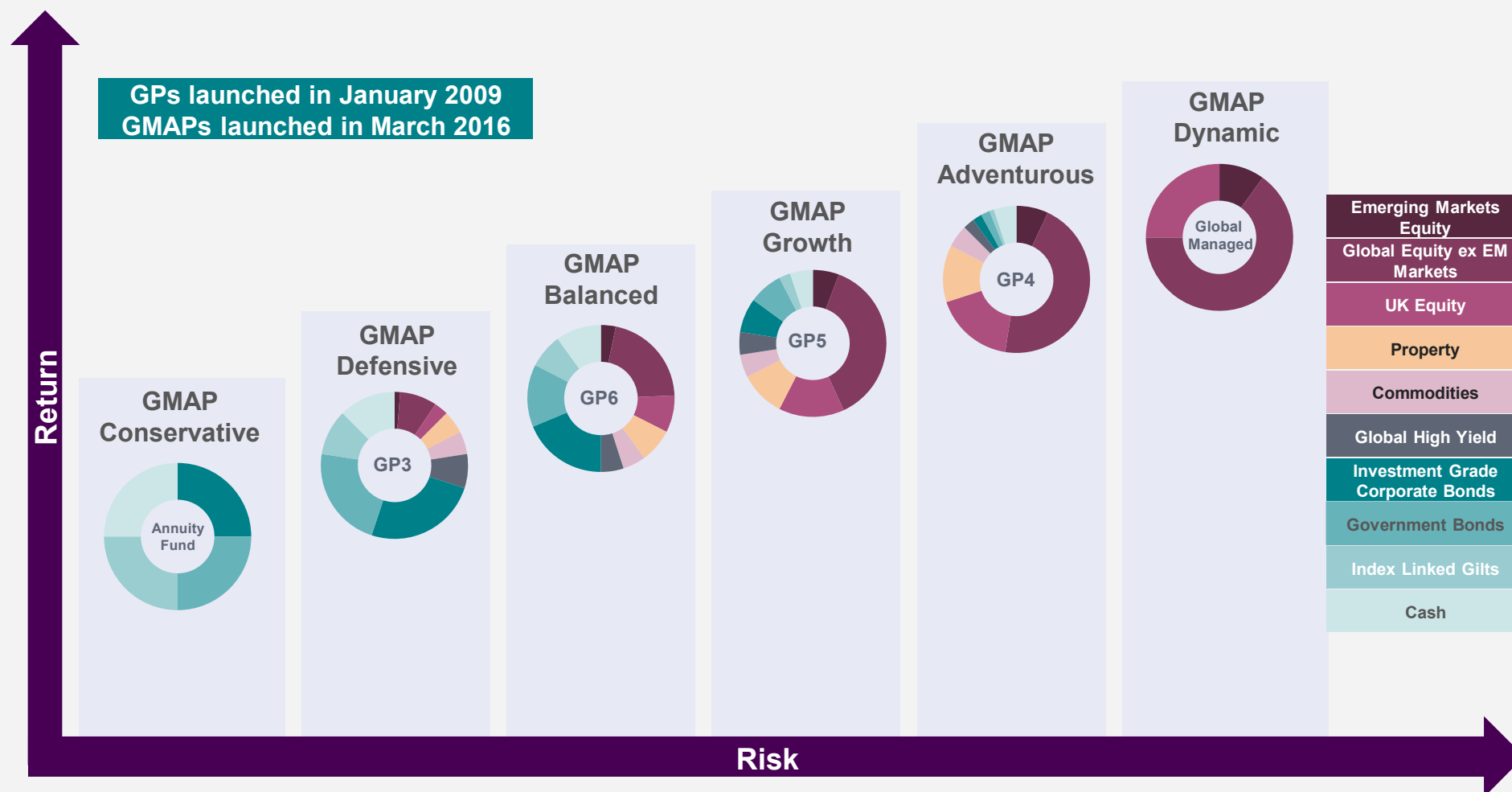
Benchmark: GMAP Defensive Composite Benchmark. The benchmark has been designed with the aim of maximising long run return in excess of inflation for a given level of risk.

FTSE All Share Total Return GBP Index 3.12%  
 FTSE World Total Return GBP Index 8.13%  
 MSCI Emerging Markets ESG Leaders Net Return Index (expressed in GBP) 1.25%  
 Bloomberg Commodity Total Return Index (expressed in GBP) 5.00%  
 MSCI/AREF UK All Property Fund Index 5.00%  
 FTSE Actuaries UK Conventional Gilts (All Stocks) Total Return GBP Index 9.50%  
 FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index 10.00%  
 Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index 2.25%  
 Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year (GBP Hedged) 5.25%  
 iBoxx Sterling Non-Gilt Total Return GBP Index 9.00%  
 FTSE Actuaries UK Index Linked Gilts (All Stocks) Total Return GBP 2.50%  
 ICE Bank of America Merrill Lynch 1-5 Year Sterling Non-Gilt Index 12.50%  
 BoAML BB-B Global Non-Financial High Yield Constrained Index (GBP Hedged) 7.50%  
 JPM Global ex-UK Traded Index GBP Hedged 3.00%  
 Bloomberg Global Aggregate Corporate Total Return Index GBP Hedged 3.50%  
 Bank of England Sterling Overnight Index Average (SONIA) 12.50

## Fund value

	Total £m
31 December 2023	69.31
Fund launch date	14 March 2016

## 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.

Our 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

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	4.32	3.97	0.35
1 Year	6.14	5.53	0.61
3 Years (p.a.)	2.56	1.67	0.89
5 Years (p.a.)	3.23	2.92	0.31
10 Years (p.a.)	-	-	-
Since inception (p.a.)	3.20	3.31	(0.12)

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on RL GMAP Defensive Fund (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 14 March 2016.

## Performance commentary

### Equities

Equity markets ended the year with another positive quarter to end the year up over 16%. Over Q4, the gains in equity markets were largely helped by a pullback in bond yields, as markets moved to expect more aggressive rate cuts next year. On a tactical level, we held a positive view on stocks for most of the year, viewing the underlying resilience of the global economy as supportive for the asset class. Our overweight position added value over the quarter.

### Bonds

The tone from central banks over the majority of the year was certainly hawkish, pushing bond yields higher, with US treasury 10-year yields even reaching their highest levels since 2007 in October. However, as 2023 came to an end, more dovish central bank guidance and downside surprises in economic data saw markets sharply move to expect more rate cuts in 2024, which led to a sharp move lower in bond yields. We entered Q4 underweight bonds, but moved neutral over the first half of the quarter and then overweight into year-end as bond prices rose.

### Equity regions

We were overweight Japanese equities for most of 2023, which benefitted from a weaker yen, loose monetary policy and improving corporate profits. We continued to prefer Japan, but reduced our overweight as yen started to rise on expectations of a policy shift by Bank of Japan, which weighed on Japanese equities. Our Japan position detracted value over the quarter. We re-established an overweight position in US stocks in Q4, as the region benefitted from a rally in growth sectors as interest rates fell; our US position added value over the quarter.

### Equity sectors

The technology sector was the biggest beneficiary of the '2024 rate cuts' rhetoric, followed by cyclical sectors. We increased our overweight position in growth stocks over the quarter. We also initiated an underweight position in the energy sector amid weakness in oil prices. Our sector positions continued to add value over the quarter.

### Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. However, in the near term, we see downside risks to the asset class as growth slows. We remained tactically underweight property on recessionary concerns. Commercial property was flat over the period. Elevated recession fears and the sluggish UK economy have continued to weigh on property, while hints of a potential BoE pause is seen as a positive signal.

# Performance and activity

## Top 10 holdings

	Weighting (%)
RL Investment Grade Short Dated Credit Fund	12.49
RL Short Duration Gilts Fund	9.89
RL UK Government Bond Fund	9.57
RL Sterling Credit Fund	8.96
RL Short Term Money Market Fund	7.93
Royal London Asset Global High Yield Bond R Acc	7.57
RL Short Duration Global Index Fund	7.47
RL Property Feeder Fund (PAIF)	4.20
RL Global Sustainable Credit Fund	3.52
Royal London Equity Funds ICVC - Royal London UK Broad Equity	3.38
<b>Total</b>	<b>74.98</b>

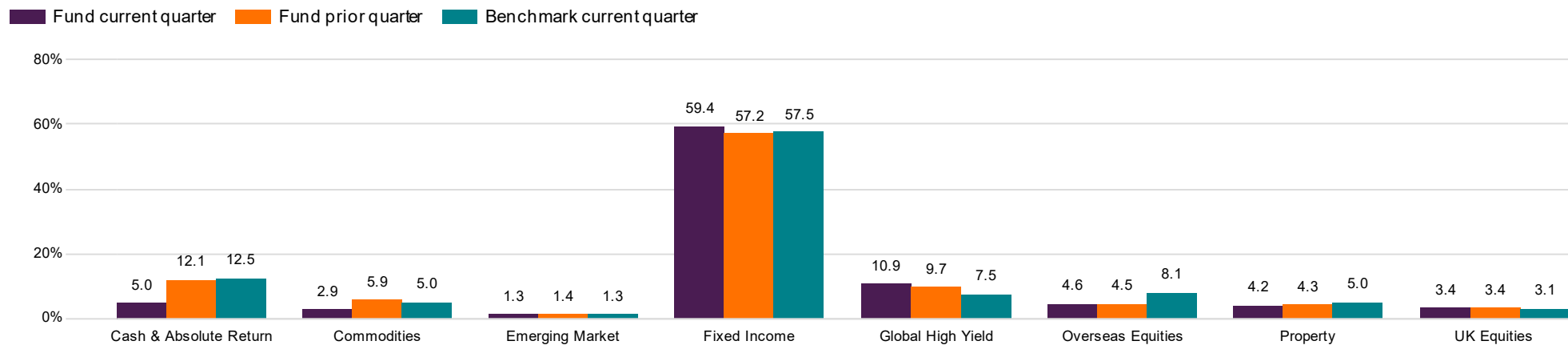
## Fund activity

### Asset allocation overview

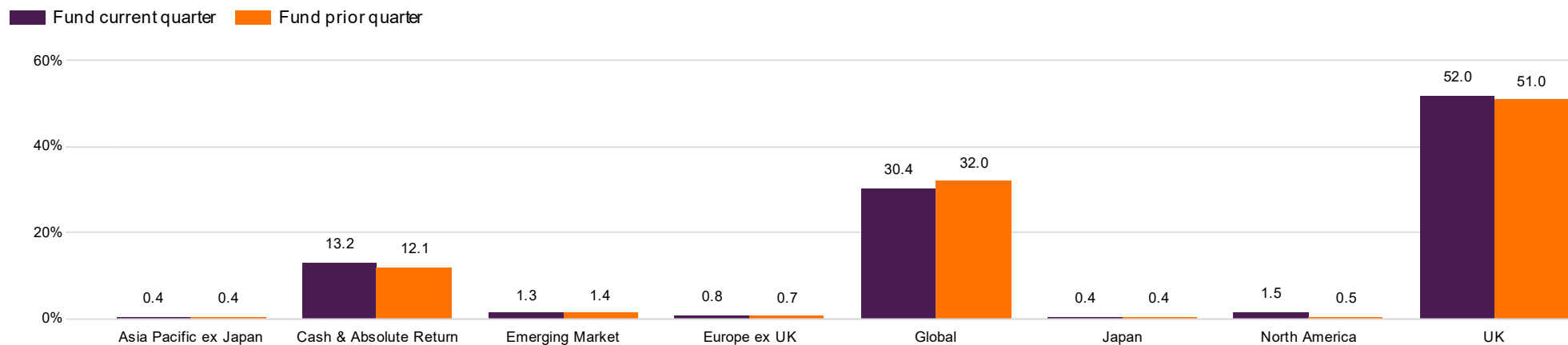
At the tactical asset allocation level, we maintained an overweight position in equities over the quarter, having benefitted from this for most of the year. We also added to our position in bonds over the quarter, moving from underweight to overweight as softer data and dovish central bank comments saw markets reprice policy expectations for next year. Overweight positions in US equities and growth sectors also added value over the quarter. With much uncertainty around the macroeconomic environment heading into the new year, we continue to see great benefits in a well-diversified multi asset approach aiming to deliver positive risk-adjusted returns over the medium to long term.

# Fund breakdown

## Asset split



## Geographical breakdown



# Market commentary

## Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

In tune with the other major central banks, and potentially marking the high point in the UK interest rate cycle, the Bank of England left interest rates unchanged over the period. The Monetary Policy Committee continued to be split – at the December meeting three of the nine members were still voting for a rate hike. UK inflation has fallen significantly, with the annual inflation rate falling to 3.9% in November. This is the lowest rate of increase in over two years. However, this remains well above the BoE 2% target, with core and wage inflation significantly higher than the headline rate.

The Fed kept rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, but with inflation continuing to cool. As of their December meeting, the median forecast of participants had 75bp of rate cuts in it for 2024 with a further 100bp of cuts pencilled in for 2025. Over the quarter, CPI inflation fell from 3.7% year-on-year in August, to 3.1% in November. That is still above June 2023 levels, but core continued a more consistent drift lower over the period. The core PCE measure of inflation fell over the quarter and month-on-month was only 0.1% in November. Third quarter GDP recorded a strong 4.9% quarter-on-quarter annualised growth. More timely economic activity indicators were mixed over the fourth quarter. The House passed a spending package that pushed the effective next government spending deal/shutdown deadline into early 2024.

Global government bond yields started the quarter continuing the rising trend that started in mid-2020. This reflected market views that rising inflation would necessitate even higher interest rates and the mantra of higher for longer. Yet, with inflation starting to come down, expectations of rate cuts in 2024 contributed to significant falls in bond yields in November and December. The fall in yields was such that yields along the length of the curve ended the quarter lower than they started, and closed 2023 at roughly the same levels as they started.

UK government bonds produced strong returns due to falling yields, delivering an 8.1% return (FTSE Actuaries) over the fourth quarter with the benchmark 10-year gilt yield falling from 4.44% to 3.54%. The falling yield environment was helpful for longer duration assets, with longer-dated bonds outperforming shorter-dated bonds.

Going into December, equities had sharply rebounded from their October lows as investor sentiment recovered thanks to the 'bad news' of weaker growth and inflation data, raising hopes of early and deep rate cuts in 2024. For the fourth quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced positive returns for the quarter in US dollar terms. Looking at national MSCI indices, the strongest market was Sweden, while the weakest was China. In terms of style, the MSCI World Growth Index produced stronger returns versus the MSCI World Value Index.

## Outlook

While we expect headline inflation to continue to fall, but we are not expecting a return to the previous disinflationary world. We see a more normal new regime characterised by periodic spikes in inflation and short boom-bust cycles. Tactical asset allocation is important when business cycles are shorter given inflation causing more movement in interest rates. We benefitted from a positive tactical view in equities over most of 2023 as the macro backdrop proved resilient. However, risks remain, and markets have gone a long way into pricing in rate cuts and a soft landing. More defensive positioning could be necessary this year should growth weaken and the business cycle dip further into Reflation.



## Further Information

Please click on the links below for further information:



### Find out more

Royal London Asset Management's Outlook 2024 document and podcasts are both available on our website. In this year's Outlook document, our fund managers assess the challenges and opportunities in their respective asset classes for 2024. With an environment of falling inflation and modest recession, the benefits or risk for equities or credit is not so clear cut and knowing your companies is key. We analyse the areas of concern and potential growth within this environment.

In our Outlook 2024 podcast, Piers Hillier, CIO, looks ahead to 2024 and discusses the issues he believes will be prominent over the next 12 months, and where the key investment risks and opportunities may lie.

Articles, videos and webinars explaining our investment thinking can be found in the Our Views section of [www.rlam.com](http://www.rlam.com), including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# Disclaimers

## Important information

For professional clients only, not suitable for retail clients.

The portfolio has no index as a comparison.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at [www.rlam.com](http://www.rlam.com).

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The Fund is a sub-fund of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058.

The Company is a non-UCITS retail scheme. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on [www.rlam.com](http://www.rlam.com).

# Risks and Warnings

## Investment Risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

## Credit Risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

## Derivative Risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

## EPM Techniques

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

## Exchange Rate Risk

Changes in currency exchange rates may affect the value of your investment.

## Interest Rate Risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

## Liquidity Risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

## Emerging Markets Risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

## Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

## Fund investing in Funds Risk

The Fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the Fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the Fund itself, may be deferred or suspended.

## Liquidity and Dealing Risk

The Fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the Fund, or receive less than may otherwise be expected when selling your investment.

# Performance to 31 December 2023

## Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
<b>Fund (gross)</b>	4.32	5.83	6.14	7.88	17.22	2.56	3.23
<b>Fund (net)</b>	4.16	5.51	5.51	5.96	13.83	1.95	2.62

## Annualised (%)

## Year on year performance (%)

	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019
<b>Fund (gross)</b>	6.14	(5.19)	7.21	0.86	7.73
<b>Fund (net)</b>	5.51	(5.76)	6.57	0.26	7.15

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 December 2023. All figures are mid-price to mid-price in GBP for the RL GMAP Defensive Fund (M Acc).

# Glossary

## Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

## Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

## Geographical breakdown

Breakdown of assets by geographical regions. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

## Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces the return.

## Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.