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Royal London Multi Asset Strategies 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 Multi Asset Strategies 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.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The fund's investment objective is to achieve a combination of capital growth and income, while employing diversified multi-asset strategies to manage volatility and the risk of loss. The fund aims to deliver an annualised total return of 4% above the return on cash, which is defined as the Bank of England Sterling Overnight Index Average, over rolling 5-year periods. For further information please refer to the Prospectus.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
31 December 2023	874.41
Fund launch date	23 November 2018

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	3.90	1.28	2.62
1 Year	7.76	4.61	3.15
3 Years (p.a.)	2.86	2.00	0.86
5 Years (p.a.)	2.44	1.38	1.06
10 Years (p.a.)	-	-	-
Since inception (p.a.)	1.99	1.36	0.63

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 Multi Asset Strategies Fund (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 23 November 2018.

Performance commentary

The Royal London Multi Asset Strategies Fund (MAST) is designed for investors looking to generate growth, over five-year rolling periods, through a diversified multi asset portfolio, while limiting losses during periods of financial market turbulence. MAST combines two complementary return drivers, each with its own separate in-built risk controls:

Multi Asset Core portfolio, which offers a diversified mix across a range of asset classes to capture upside during positive market trends; and

Tactical asset allocation (TAA) strategies designed to generate additional return irrespective of market direction.

Our TAA approach can reduce exposure to growth-sensitive assets as economic and market conditions deteriorate, and therefore works well alongside the Multi Asset Core portfolio, which we expect to add more value in bull markets. The combined approach is designed to generate consistent returns, over five-year rolling periods, while also being able to take advantage of opportunities as they arise.

The fourth quarter saw MAST (Accumulation - Class M) outperform the benchmark.

MAST aims to capture upside in positive market trends, while limiting downside during periods of market turbulence like this through diversification, active positioning, and volatility management.

Performance and activity

Top 10 holdings

	Weighting (%)
RL UK Government Bond Fund	10.16
RL Investment Grade Short Dated Credit Fund	10.00
RL Short Term Fixed Income Fund	9.84
RL Short Term Money Market Fund	6.06
Royal London Equity Funds ICVC - Royal London Asia Pacific	5.15
Government Of United Kingdom 1.0% 22-apr-2024	5.15
ROY LON SUS SH DUR CO BD-RGB	5.11
RL Europe Ex UK Equity Tilt Fund	5.11
RL UK Core Equity Tilt Fund	5.10
RL Japan Equity Tilt Fund	5.08
Total	**66.76**

Fund activity

Multi Asset Core strategies aim to benefit from positive market trends, while reducing exposure to risk assets during market turbulence.

The fund began the fourth quarter with an aggregate equity exposure at around 30%. With volatility remaining at relatively subdued levels over the quarter, the core portfolio allocation remained at 30%.

The aggregate allocation to equities increased over the quarter though, as equity markets started to recover and we added on tactical grounds.

Whilst recession risk remains, underlying levels of equity market volatility remain low, and equity markets saw very strong performance over Q4, driven by falling bond yields on the expectation that central banks will be cutting interest rates more sharply and sooner than previously expected. We continue to monitor market behaviour and geopolitical developments on a daily basis though. This helps us manage volatility, and the potential for loss.

Tactical asset allocation strategies build on the core portfolio and operate within a separate risk budget. We take an active approach to tactical asset allocation with a view to adding value irrespective of market direction and continue to see opportunities in relative value trades within and between the broad range of asset classes at our disposal.

Our overweight position in equities has added value over the year and continued to do so over the quarter. We also added value from our re-established commodity underweight position; commodities lost ground in Q4, driven by weakness in oil prices amid softer demand expectations. Despite the current difficult macroeconomic environment, we see great benefits in a well-diversified multi asset approach aiming to deliver positive risk-adjusted returns over the medium to long term.

The tone from central banks over the majority of the year was certainly more on the hawkish side, this saw bond yields rise, with 10 US treasury yields even reaching 5% in October, their highest levels since 2007. However, as the year came to an end, more dovish commentary from central banks 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 being underweight bonds but moved neutral over the first half of the quarter and then overweight into year-end as bond prices rose.

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 Japanese equities over the quarter but reduced our overweight as yen started to rise on expectations of

Performance and activity

Fund activity (continued)

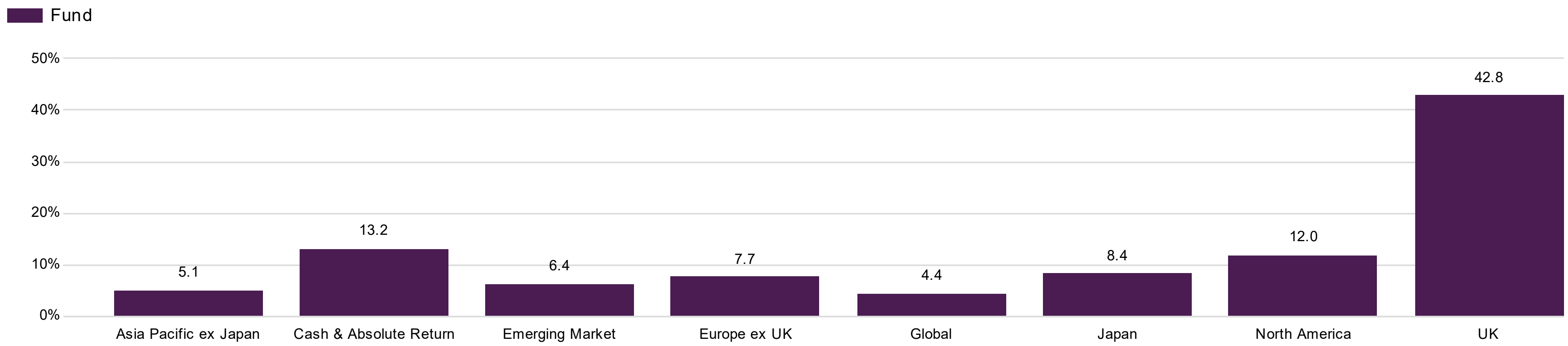
a policy shift by Bank of Japan, which weighed on Japanese equities. Our Japan position detracted value over the quarter. We also re-established an overweight position in US stocks in Q4, which added value as the region benefitted from a rally in growth sectors as interest rates fell.

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. These sector positions continued to add value over the quarter.

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 fell 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:

Stewardship and responsible investment at RLAM

The investment clock

TCFD climate report

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, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

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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.

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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.

Performance to 31 December 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	3.90	5.47	7.76	8.84	12.83
Fund (net)	3.76	5.18	7.17	7.06	9.82

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.86	2.44
Fund (net)	2.30	1.89

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
Fund (gross)	7.76	(5.56)	6.95	(4.94)	9.04
Fund (net)	7.17	(6.08)	6.37	(5.46)	8.49

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 Multi Asset Strategies 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.