For professional clients only, not suitable for retail clients.

Royal London Sustainable Growth Fund

Quarterly Investment Report

31 December 2023

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2023

The purpose of this report is to provide an update on the Royal London Sustainable Growth 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 capital growth (1) over the medium term, which should be considered as a period of 3-5 years, by investing in a diverse range of equity and fixed income assets. Investments in the Fund will adhere to the Investment Manager's ethical and sustainable investment policy. The fund is actively managed, meaning that the Investment Manager will use their expertise to select investments to meet the objective.

The IA Mixed Investments 40-85% Shares sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
31 December 2023	118.34

Asset Mix

	Holdings	Weight*
Equity	43	74.4%
Fixed Income	171	24.0%

* There is an additional 1.6% holding in cash within this fund

Fund analytics

	Fund
Fund launch date	24 May 2022
Base currency	GBP

Performance and activity

Performance

	Fund (%)
Quarter	7.80
1 Year	15.00
3 Years (p.a.)	-
5 Years (p.a.)	-
10 Years (p.a.)	-
Since inception (p.a.)	9.82

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 Royal London Sustainable Growth (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 24 May 2022.

Performance commentary

The fund performed well during the quarter, helped by strong gains in global equity markets. Generally supportive macroeconomic data, and more recently in December, the first signs of a pivot by the US Federal Reserve in terms of the interest rate narrative have meant that the fourth quarter has been one of the strongest for global equity markets for a long time. The best performing sectors in the quarter were information technology, real estate and industrials. The tech sector continues to benefit from the excitement around artificial intelligence (AI) and real estate is a sector that stands to benefit from falling interest rates. Industrials experienced a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The only sector that was negative in the quarter was energy, where we have zero exposure given our sustainable approach.

Within our equity exposure, our top contributor to performance was Dutch distributor of specialty chemicals IMCD. The company had been facing headwinds due to its customers holding excess inventory and we saw evidence in the quarter that those inventory levels were now starting to normalise, benefitting the company's share price. It was no surprise that the technology sector did well as this tends to be thought of as a long duration equity sector. Microsoft, which is a smaller holding, was up over 13% in the quarter also after producing good results. A key detractor during the quarter was Rentokil, the global leader in pest control and hygiene, where its share price declined after it reported a surprising slowdown in growth in its US business.

The credit exposure for the fund produced a positive absolute return for the quarter, with the impact of rising gilt yields mitigated by a narrowing in credit spreads and the income on the portfolios. On a relative basis, our credit exposure outperformed the market (iBoxx Sterling Non-Gilt index). The main positive driver of performance was our sector positioning, notably our underweight position in supranationals, which continued to lag the wider market.

There have been several macroeconomic headwinds through 2023 but these have turned out to be better than expected. This has driven a lot of the market performance and the portfolio has been on the right side of that. Furthermore, we've had some strong share price moves that have driven outperformance. Going into 2024, we have a portfolio exposed to some exciting and powerful multi-year structural growth themes – the key ones being the ongoing digitalisation of society through things such as cloud computing and AI, which we think we're incredibly early in.

Performance and activity

Top 10 holdings

	Weighting (%)
Microsoft Corporation	3.29
Alphabet Inc. Class A	3.17
Visa Inc. Class A	3.03
Schneider Electric SE	2.73
Canadian National Railway Company	2.69
Thermo Fisher Scientific Inc.	2.65
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	2.48
AstraZeneca PLC	2.42
London Stock Exchange Group plc	2.41
IMCD N.V.	2.38
Total	**27.25**

Fund activity

Our sustainable strategies are orientated to those companies that have a net benefit to society and create value for investors through their products and services and the way they manage environmental, social and governance (ESG) issues. Areas such as healthcare and technology remain at the core of the equity portfolios, complemented by engineering, utilities, selected financial services, and companies that lead their industries in ESG performance. This means that we do not invest in some sectors, such as oil & gas, extractive industries or tobacco. We believe that the exposure to those sectors which offer a positive contribution to society is consistent with outperformance over the medium term. While the sustainable funds have different mandates, risk profiles, asset mixes and geographical exposures, equity exposure is driven by the same underlying team, philosophy and process. Many of our key stocks will be held across several portfolios.

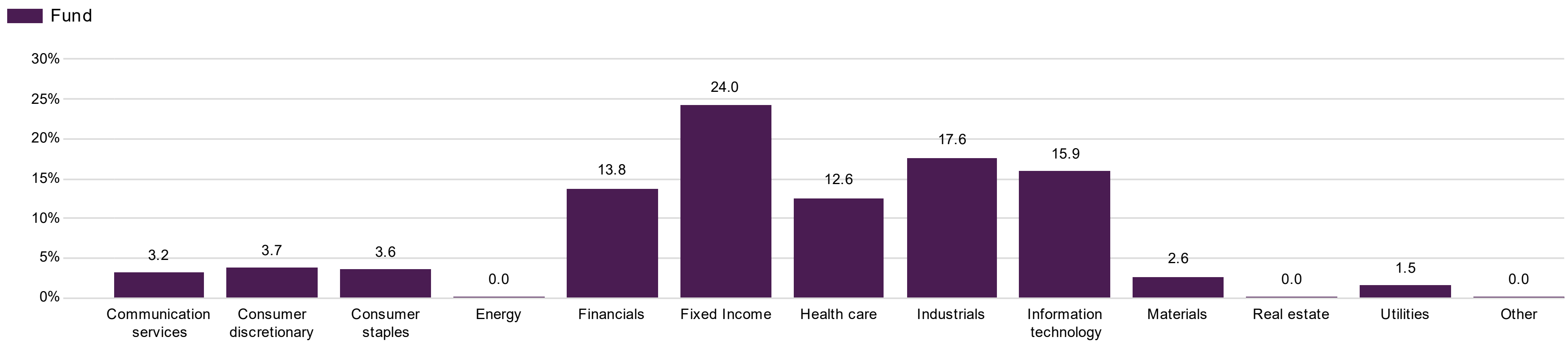
We started a position in Core and Main, a leading distributor of water infrastructure products in the United States. We also continued to build our stake in Comfort Systems, an installer of HVAC systems across the United States, along with Linde, a producer of industrial gases. Notable sales included reducing our position in Ferguson, a building products distributor, while fully exiting our position in Aptiv, a vehicle parts manufacturer with a focus on electric vehicles, along with credit bureau Experian.

Combined with ongoing macroeconomic uncertainty one thing likely to continue through 2024 is heightened geopolitical tensions around the world. That said, though, these tensions might be a tailwind to some of our construction and infrastructure related investments, as it will likely serve to only accelerate these trends towards onshoring and near shoring. The macro environment remains complex and confusing but we continue to have high conviction in the underlying drivers of the companies in which we are invested and in many cases find valuations to be undemanding. We consider our portfolio to be more diversified and lower risk than 18 months ago and would it to be relatively more resilient if we do enter a period of slowing economic growth or recession.

Financials remain the largest part of the sterling credit market and continued to dominate market issuance during the quarter. We added a subordinated new issue from defined benefit pension buy-in and buy-out specialist Pension Insurance Corporation. There were noteworthy new issues in the structured sector. We also added a five-year new issue from the RAC, these bonds yielding over 8% and benefiting from security over the business.

Fund breakdown

Sector weights



Characteristics and climate

ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society and that breach our Do No Significant Harm principle. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at www.rlam.com

ESG characteristics

	Yes	No
ESG integration	✓	
Promotes environmental or social characteristics		✓
Sustainable fund objective	✓	
Additional exclusions	✓	

Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

Adult entertainment	✓
Alcohol	✓
Animal welfare	✓
Armaments	✓
Controversial weapons	✓
Fossil fuels	✓
Gambling	✓

High environmental impact	✓
Human rights issues	✓
Nuclear power	✓
Nuclear weapons	✓
Tobacco	✓

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO_2e)	1,547	n/a	n/a
Financed emissions coverage	84.20%	n/a	n/a
Carbon footprint (tCO_2e/$M invested)	10.44	n/a	n/a
Carbon footprint coverage	84.20%	n/a	n/a
Weighted average carbon intensity (tCO_2e/$M sales)	44.41	n/a	n/a
Weighted average carbon intensity coverage	94.75%	n/a	n/a

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

Implied temperature rise

	Fund (%)	Benchmark (%)	Difference (%)
Implied temperature rise (ITR) coverage	82.16	n/a	n/a
% of portfolio below 2°C ITR	60.59	n/a	n/a
% of portfolio below 1.5°C ITR	49.56	n/a	n/a

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	34.38	n/a	n/a
SBTi Near-Term committed	11.73	n/a	n/a
SBTi Near-Term targets set	44.60	n/a	n/a

Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	23	59
Number of engagements	32	118

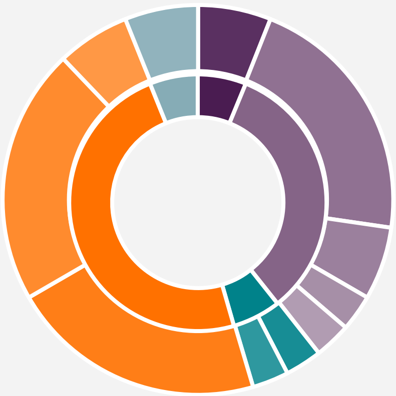
This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Total engagements by theme and topic



Climate	**2**
Climate - Transition Risk	2
Governance	**11**
Remuneration	7
Corporate Governance	2
Board	1
Strategy	1
Health	**2**
Health - Community	1
Mental Health	1
Social & Financial Inclusion	**16**
Just transition	7
Social & Financial inclusion	7
Labour & Human Rights	2
Technology, Innovation & Society	**2**
Cybersecurity	2

Fund Engagement

Engagement outcomes

National Grid Plc

Purpose:

Following the release of National Grid's Responsible Business Charter update, we engaged in a meeting with the Chief Sustainability Officer to offer feedback and suggest further enhancements to their climate transition plans.

Outcome:

National Grid was receptive to the majority of our feedback and sought additional guidance on their Just Transition plans. We positively acknowledged the company's improved emission reduction target and renewed emphasis on biodiversity. The company will be improving its lobbying disclosures and developing a Climate Transition Plan. However, it was unable to provide further clarity on forward looking expenditures and maintained that gas will continue to play a vital role in balancing the grid and, most notably, in their heating retail business in the US.

Severn Trent

Purpose:

As part of the Royal London Asset Management led collaborative engagement with water utilities, we met with Severn Trent to discuss the company's score against our investor expectations. It was an opportunity for the company to share its investment plans around climate physical risk, biodiversity, and antimicrobial resistance (AMR).

Outcome:

Our conversation with Severn Trent was productive and informative. The company demonstrated its adherence to best practices within the sector and provided evidence that it has incorporated most of our investor expectations into its long-term capital planning. The topic of AMR remains in the research phase for the company, and it may be several years before it is operationalised, depending on regulatory priorities. Our next steps are to rescore Severn Trent based on the information provided by the company during the engagement against our investor expectations. Using this, we will identify areas of improvement and encourage change.

Fund Engagement

Engagement outcomes

Standard Chartered

Purpose:

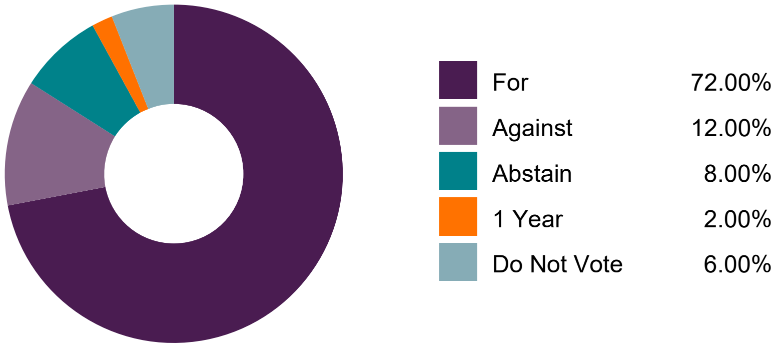
In a collaborative engagement on cybersecurity led by Royal London Asset Management, we engaged with Standard Chartered about its performance against our investor expectations. We used the opportunity to further understand its cybersecurity governance and risk management to assess whether it aligns with best practice.

Outcome:

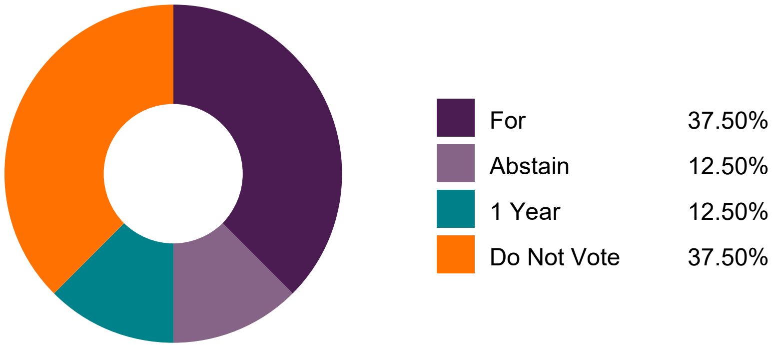
Our conversation with Standard Chartered was positive and the company welcomed our feedback on how its practices and disclosures could be improved. Standard Chartered demonstrate best practice on the governance and risk management processes surrounding cybersecurity. We were satisfied that appropriate improvements have been made following a 2021 fine for failure to report breaches and encouraged related public disclosures. The security of the information perimeter is another area for improvement, and we gained comfort that the company was focused on this area.

Fund Voting

Total proxy voting activity



Executive remuneration voting activity



Notable votes

Microsoft Corporation

Elect Satya Nadella - against: Combined roles of chair and CEO.

Advisory vote on executive compensation - against: We noted some improvement in disclosures of certain performance targets; however, concerns remained over the short performance period of long-term incentive awards.

Report on median compensation and benefits related to reproductive and gender dysphoria care (Shareholder Proposal - SHP) - against: Given the company's existing disclosures and due to some concerns over the ultimate aims of the proponent, we were not minded to support the proposal. Further, we acknowledged the company's broad-based policy approach in supporting new parents and women across their workforce and supply chains.

Risks of developing military weapons (SHP) - For: Given the substantial reputational and human-capital-related risks that come from operating in this area, we felt that further disclosure and consideration was warranted.

Report on AI misinformation and disinformation (SHP) - abstain: We noted the company's existing disclosures and Microsoft's commitment to publish an annual transparency repot on its AI governance practices by next year.

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.

Going into December, equities had sharply rebounded from their October lows as investor sentiment recovered thanks to the goldilocks scenario of falling inflation combined with generally resilient growth, with the fall in inflation and a change in narrative from the US Federal Reserve leading to hopes of rate cuts in 2024.

The sterling investment grade credit market (iBoxx non-gilt index) returned 7.35% over the quarter, helped by lower government bond yields and tighter credit spreads. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightened from 1.38% to 1.15% (iBoxx).

The US dollar appreciated by 5.85% against the yen, by 4.34% against the euro, and by 4.44% against sterling. On a translational basis, sterling's strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit any emerging markets countries and companies that have borrowed in dollars.

Outlook

As fund managers, we create our own investment identity which we imprint on markets. This identity can be a function of objective evidence as to what delivers performance in the long run, beliefs such as the importance of sustainability and the strengths and weaknesses of the people who are enacting it. Done thoughtfully and applied consistently, we believe this is the path to long-term investment success. Alongside this we are market observers. Each day there is messaging from within and across asset classes as to what is occurring in the global economy. Sometimes this is right, and sometimes this is wrong, but it is always worth paying attention to. What are the trends in the global economy markets are pointing to today?

One message we've been giving consistently through 2023 has been that whilst the macro-outlook for the economy and markets is unclear, the micro-outlook for industries and companies is much more certain. There are many definable societal and investment trends (the two often go hand in hand) which we believe will occur regardless of whatever path interest rates, inflation and the economic cycle take.

The first of these is digitisation. This is an area which was supercharged by the pandemic as working from home and hybrid working became more embedded in society. As this has lessened as a driver of future digitisation. generative artificial intelligence has come along to increase investor interest in this area again. Like all forms of new technology, hype and fact need to be carefully separated, but it seems likely to us this form of AI will be transformative.

The first reason for this is the speed in which it has been released. It took seven years to reach 100 million internet users, while it has taken two months for generative AI. Never has such a powerful piece of technology been scaled so fast. Although there will inevitably be concerns about this, the productivity and skills improvement that will come along with it could solve many of the problems, including inflation and shortage of labour, that we see today.

The second area is decarbonisation. On some levels this has seen something of a setback as the war in Ukraine and subsequent withdrawal of Russian gas has meant more coal has had to be burnt to create the energy will all need. The recent roll back of net zero initiatives by some governments has also increased the sense that decarbonisation is being put on hold. At the corporate level though, nothing could be further from the truth.

Carbon is an expensive commodity. Most corporates see this through the energy they use. Energy efficiency, and cheaper forms of energy such as solar, are effective cost saving mechanisms regardless of the environmental implications of carbon burning. Also, many companies will only deal with other companies which are committed to their own decarbonisation, due supply chain carbon emissions impacting calculations of the carbon intensity of their own businesses. These factors and others are creating a strong drive to decarbonisation whatever the political backdrop.

Finally, healthcare outcomes are on a defined and improving trend. This is not new, but there are new disease categories, such as obesity and Alzheimer's, which are now becoming treatable. This adds to the increasing treatability of other areas such as cancer, which could lead to this disease becoming a chronic, rather than fatal one, within the next decade or so.

Perhaps the only certainty for 2024 is it will turn out differently to how we expect. Our solution is to follow the greater certainty of industry and company trends, which should remain robust whatever happens to broader economic trends.

Further Information

Please click on the links below for further information:

- Stewardship and responsible investment at RLAM
- Responsible investment at RLAM
- Royal London voting and engagement
- 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

Important information

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The Fund is a sub-fund of Royal London Equity Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000807.

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 Key Investor Information Document (KIID), 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.

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.

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.

Responsible Investment Risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Performance to 31 December 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	7.80	7.71	15.00	-	16.23
Fund (net)	7.59	7.29	14.12	-	14.80

Annualised (%)

	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	-	9.82
Fund (net)	-	8.98

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)	15.00	-	-	-	-
Fund (net)	14.12	-	-	-	-

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 Royal London Sustainable Growth (M Acc); Since inception date 24 May 2022.

ROYAL LONDON ASSET MANAGEMENT

Glossary

Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO2e/$M invested. Financed emissions (explained above) are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

ESG Integration

The systematic and explicit inclusion of environmental, social and governance (ESG) factors into investment analysis and investment decisions.

Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO2e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

Fund restrictions definitions

Adult Entertainment: Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.
Alcohol: Companies which have involvement in brewing, distillation or sale of alcoholic drinks.
Animal Welfare: Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).
Armaments: Companies who manufacture armaments or nuclear weapons or associated products.
Controversial Weapons: Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.
Fossil Fuels: Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.
Gambling: Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.
High Environmental Impact: Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.
Human Rights Risks: Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.
Nuclear Power: Companies who generate energy from Nuclear Power.
Nuclear Weapons: Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.
Tobacco: Companies which are growing, processing or selling tobacco products.

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.

Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

Regional weights

Breakdown of holdings by country of risk relative to the benchmark index and grouped using RLAM's proprietary regional classification scheme.

SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.

Glossary

Sector weights

Breakdown of holdings by FTSE ICB (Industry Classification Benchmark) sector relative to the benchmark index.

Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

Top 10 holdings

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

Tracking error

Tracking error measures how closely a portfolio follows its benchmark. It quantifies the standard deviation of the difference in return between the portfolio and benchmark.

Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO2e / $M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.