Royal London Sustainable Funds

Fund Manager Commentary
February 2024

FOR PROFESSIONAL INVESTORS ONLY, NOT SUITABLE FOR RETAIL CLIENTS.

Contents

Royal London Asset Management Sustainable Performance

	1 month (%)	Rolling 12 Months (%)
RL Sustainable Managed Income Trust C Acc	**-0.44**	**6.59**
IA Sterling Corporate Bond Sector	-0.70	5.77
iBoxx Sterling Non-Gilts All Maturities	-0.66	5.56
RL Sustainable Managed Growth Trust C Acc	**0.47**	**8.45**
IA Mixed Investment 0-35%	0.04	4.40
RL Sustainable Diversified Trust C Inc	**1.56**	**10.21**
IA Mixed Investment 20-60% Shares sector	0.55	4.82
RL Sustainable World Trust C Acc	**2.35**	**14.08**
IA Mixed Investment 40-85% Shares sector	1.40	6.49
RL Sustainable Leaders Trust C Acc	**2.42**	**5.72**
IA UK All Companies Sector	0.00	0.44
FTSE All-Share Index	0.19	0.57
RL Global Sustainable Equity Fund M Acc	**3.52**	**20.37**
IA Global Sector	3.92	13.85
MSCI World All Countries Net Index GBP	4.99	17.86
RL Global Sustainable Credit Fund M Acc USD	**-1.01**	**6.70**
Bloomberg Global Aggregate Corporate Total Return Index	-1.10	6.80
RL Sustainable Growth Fund M Acc	**1.91**	**12.75**
IA Mixed Investment 40-85% Shares section	1.40	6.49
RL Sustainable Short Duration Corporate Bond	**-0.28**	**6.09**
IA Sterling Corporate Bond Sector	-0.70	5.77
ICE Bank of America Sterling Non-Gilts – 1 to 5 Years	-0.38	5.19

Past performance is not a guide to 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: Royal London Asset Management and Morningstar, correct as of 29 February 2024. returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically. All IA sector performance shown is for the median.

Royal London Sustainable Managed Income Trust

Portfolio Commentary

- Net of fees, the fund saw negative absolute returns in February, but outperformed the iBoxx Sterling Non-Gilts All Maturities Index and the IA sector average.
- February was another weak month for global government bonds, with the strong run in late 2023 and tempered rate cut expectations leading to higher yields. In the UK, the benchmark 10-year gilt rose to 4.12% at the end of February, from 3.75% at the start of the month, reversing around half of the falls seen in the final two months of 2024, meaning the FTSE UK Conventional Gilt All-Stocks index returned -1.11% for the month.
- The sterling investment grade market (iBoxx) produced another negative return in February, marking two straight down months to start 2024, with a return of -0.66%. However, this was driven entirely by higher underlying government bond yields, with the average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightening to 1.07% from 1.13%.
- For February, the combination of sector and stock selection was the main driver of positive relative returns. The sector allocation returns were driven by our overweighting in structured bonds and insurance, as well as our significant underweight position in supranationals. By stock selection, our banking and insurance bonds stood out.
- The fund was focused on interesting opportunities in the secondary market over the month. In the financials sector, we continue to find high quality opportunities, adding senior bonds from **Co-Operative Bank**, where the potential merger with **Coventry Building Society** could result in potential spread tightening, and subordinated legacy bonds from the UK's largest mutual **Nationwide**.
- The AT1 market remains interesting, and we added bonds from **Virgin Money** at very attractive yields for an institution we feel is well capitalised and that we felt traded at a higher risk premium to than peers, as well as **Abrdn**, with the latter yielding over 11%.
- Outside of financials, we effected a switch out of **SSE** into **National Grid** – both longer-dated bonds in a key area for sustainable investors, picking up around 20bps in credit spread whilst maintaining credit quality.

CITYWIRE AA

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

Royal London Sustainable Managed Growth Trust

Portfolio Commentary

- Net of fees, the fund saw positive returns in February, outperforming the returns from the IA 0-35% Shares sector average.
- February was another weak month for global government bonds, with the strong run in late 2023 and tempered rate cut expectations leading to higher yields. In the UK, the benchmark 10-year gilt rose to 4.12% at the end of February, from 3.75% at the start of the month, reversing around half of the falls seen in the final two months of 2024, meaning the FTSE UK Conventional Gilt All-Stocks index returned -1.11% for the month.
- The sterling investment grade market (iBoxx) produced another negative return in February, marking two straight down months to start 2024, with a return of -0.66%. However, this was driven entirely by higher underlying government bond yields, with the average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightening to 1.07% from 1.13%.
- The fixed income portfolio outperformed over the month, with the combination of sector and stock selection the main driver of positive relative returns. The sector allocation returns were driven by our overweighting in structured bonds and insurance, as well as our significant underweight position in supranationals. By stock selection, our banking and insurance bonds stood out.
- The MSCI World gained 4.9% during February in sterling terms, while the FTSE All-Share index returned 0.2%. Global equities continued their move higher, as excitement around Nvidia earnings saw the company record the greatest ever one-day gain in market cap. The positivity was not limited to Nvidia as tech and growth sectors globally continued to see outperformance. Hotter than expected US inflation data pushed bond yields and the US dollar to higher levels. The US Federal Reserve is now only priced to cut interest rates by 80bps, down from 160bps expected in mid-Jan. Business optimism has notably improved, especially in the US, as corporates look forward to the prospect of easing interest rates this year.
- The equity portfolio produced positive returns over the month. The trust's top contributors to performance came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and **Trane Technologies**, which are beneficiaries of electrification of buildings and industry. Building products distributor **Ferguson** was also strong. Key detractors included **MercadoLibre**, where long-term investment decisions weighed on margins, while **Adobe** was also a little weaker as investors assessed threats from AI-driven competition.
- The fund was focused on interesting opportunities in the secondary market over the month. In the financials sector, we continue to find high quality opportunities, adding senior bonds from **Co-Operative Bank**, where the potential merger with **Coventry Building Society** could result in potential spread tightening, and subordinated legacy bonds from the UK's largest mutual **Nationwide**.
- Outside of financials, we effected a switch out of **SSE** into **National Grid** – both longer-dated bonds in a key area for sustainable investors, picking up around 20bps in credit spread whilst maintaining credit quality.

CITYWIRE AA

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

ROYAL LONDON
ASSET MANAGEMENT

Royal London Sustainable Diversified Trust

Portfolio Commentary

- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The positive impact which the emergence of newer forms of Artificial Intelligence has continued to influence stock markets and lead to some large gains from companies with direct exposure to the theme. The expectation for interest rate cuts, which was high at the start of the year, has now been pushed out as the rate of inflation remains sticky, with reductions now shifted towards the end of the year. The MSCI Index rose nearly 5% in sterling terms, with technology, industrial and consumer discretionary names performing the best, whilst defensive sectors like staples and utilities lagged. In the UK, the FTSE All-Share Index recovered during the month to record a small gain. While 2023 had begun with fears of a global recession, with a very large number of companies reporting their full year financial results for 2023, the outcome has largely been better than feared. General evidence is that corporate balance sheets are healthy, with a range of quality businesses reporting attractive growth in profits and cash generation.
- The Sterling credit market fell 0.56% in February; this was driven by higher gilt yields, with the yield on ten-year UK government bonds rising from 3.8% to 4.1% as market expectations of the timing of rate cuts continued to be pushed further out. This was partially offset by credit spreads tightening 8bps, ending the month at 1.01% above government bonds.
- The trust outperformed during February, ranking in the first quartile relative to its peer group.
- The trust's top contributors to performance in February came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and **Trane Technologies**, which are beneficiaries of electrification of buildings and industry. Building products distributor **Ferguson** was also strong. More defensive businesses including renewable utility provider **SSE** and oncology drug producer **AstraZeneca** were the key detractors, while **Adobe** was also a little weaker as investors assessed threats from AI-driven competition.
- The trust continued to build its stake in a number of recently initiated positions during February, including semiconductor and enterprise software company **Broadcom**, along with adding to its stake in Ashtead, the predominantly US plant hire company. These were funded through some profit taking in businesses which had performed strongly following robust financial results, including **Schneider Electric** and diabetes specialist **Novo Nordisk**.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Sustainable World Trust

Portfolio Commentary

- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The positive impact from significant investments in generative artificial intelligence has continued to influence stock markets and lead to some large gains from companies with direct exposure to the theme. The expectations for interest rate cuts, which were high at the start of the year, have now been pushed out as the rate of inflation remains sticky, with reductions now shifted towards the end of the year. The MSCI Index rose nearly 5% in sterling terms, with technology, industrial and consumer discretionary names performing the best, whilst defensive sectors like consumer staples and utilities lagged. In the UK, the FTSE All-Share Index recovered during the month to record a small gain. While 2023 had begun with fears of a global recession, with a very large number of companies reporting their full year financial results for 2023, the outcome has largely been better than feared. General evidence is that corporate balance sheets are healthy, with a range of quality businesses reporting attractive growth in profits and cash generation.
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- The Trust outperformed during February, ranking in the first quartile relative to its peer group.
- The Trust's top contributors to performance in February came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and **Comfort Systems**, which are beneficiaries of electrification of buildings and industry. Semiconductor company **TSMC** was also strong. Key detractors included Latin American ecommerce company **MercadoLibre**, where long-term investment decisions weighed on short-term margins. Software provider **Adobe** was also weaker as investors assessed threats from AI-driven competition.
- The Trust continued to build its stake in recently initiated positions during February, including semiconductor and enterprise software company Broadcom and water products distributor **Core & Main**. These purchases were funded through some profit taking in businesses which had performed strongly following robust financial results, including **TSMC** and diabetes specialist **Novo Nordisk**.

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ALPHA MANAGER 2023
Mike Fox

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Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Sustainable Growth Fund

Portfolio Commentary

- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The positive impact from significant investments in generative artificial intelligence has continued to influence stock markets and lead to some large gains from companies with direct exposure to the theme. The expectations for interest rate cuts, which were high at the start of the year, have now been pushed out as the rate of inflation remains sticky, with reductions now shifted towards the end of the year. The MSCI Index rose nearly 5% in sterling terms, with technology, industrial and consumer discretionary names performing the best, whilst defensive sectors like consumer staples and utilities lagged. In the UK, the FTSE All-Share Index recovered during the month to record a small gain. While 2023 had begun with fears of a global recession, with a very large number of companies reporting their full year financial results for 2023, the outcome has largely been better than feared. General evidence is that corporate balance sheets are healthy, with a range of quality businesses reporting attractive growth in profits and cash generation.
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- The fund outperformed during February, ranking in the first quartile relative to its peer group.
- The fund's top contributors to performance in February came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and **Comfort Systems**, which are beneficiaries of electrification of buildings and industry. Semiconductor giant **TSMC** was also strong. Key detractors included **MercadoLibre**, where long-term investment decisions weighed on margins, while Adobe was also a little weaker as investors assessed threats from AI-driven competition.
- The Trust continued to build its stake in recently initiated positions during February, including semiconductor and enterprise software company Broadcom and water products distributor **Core & Main**. These purchases were funded through some profit taking in businesses which had performed strongly following robust financial results, including **TSMC** and diabetes specialist **Novo Nordisk**.

ALPHA MANAGER 2023
Mike Fox

Mike Fox

Head of Sustainable Investments

George Crowdy

Fund Manager

Sebastien Beguelin

Fund Manager

Royal London Sustainable Leaders Trust

Portfolio Commentary

- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The positive impact which the emergence of newer forms of Artificial Intelligence has continued to influence stock markets and lead to some large gains from companies with direct exposure to the theme. The expectation for interest rate cuts, which was high at the start of the year, has now been pushed out as the rate of inflation remains sticky, with reductions now shifted towards the end of the year.
- In the UK, the FTSE All-Share Index recovered during the month to record a small gain, whilst the Mid-250 Index was -2% reflecting caution on the rate of growth in the UK economy. While 2023 had begun with fears of a global recession, with a very large number of companies reporting their full year financial results for 2023, the outcome has largely been better than feared. General evidence is that corporate balance sheets are healthy, with a range of quality businesses reporting attractive growth in profits and cash generation. During the month industrials were the best performing sector, whilst mining and its exposure to China the worst.
- During February, the Trust outperformed the FTSE All-Share Index, and was ranked in the first quartile relative to its peer group.
- The Trust's top contributors to performance in February came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and building products distributor **Ferguson**. Asia-focused banking group **Standard Chartered** also rose following its latest financial results, which are beneficiaries of electrification of buildings and industry. More defensive businesses were the key detractors, including renewable utility provider **SSE**, while life insurer **Prudential** also lagged, led by concerns over the strength of the Chinese economy.
- The Trust added to its position in **GSK** during the month, where we have increasing confidence in the opportunities within the company's research pipeline and find the relative valuation to be compelling, while further building its positions in equipment rental business **Ashtead**, along with industrial seals and medical distributor **Diploma**. These were funded by taking some profits in a number of companies which have continued to perform strongly, including diabetes and obesity specialist Novo Nordisk and housebuilder **Vistry**.

ALPHA MANAGER 2023
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Head of Sustainable Investments

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ROYAL LONDON
ASSET MANAGEMENT

Royal London Global Sustainable Equity Fund

Portfolio Commentary

- Globally, February was a good month for risk assets with the Nasdaq in the US and the Nikkei in Japan both hitting all-time highs. The positive impact from significant investment in generative artificial intelligence has continued to influence stock markets and led to some large gains from companies with direct exposure to the theme. The expectation for interest rate cuts, which was high at the start of the year, has now been pushed out as the rate of inflation remains sticky, with reductions now shifted towards the end of the year. The MSCI All Countries World Index rose 5% in sterling terms, with technology, industrial and consumer discretionary names performing the best, whilst defensive sectors like staples and utilities lagged. While 2023 had begun with fears of a global recession, with a very large number of companies reporting their full year financial results for 2023, the outcome has largely been better than feared. General evidence is that corporate balance sheets are healthy, with a range of quality businesses reporting attractive growth in profits and cash generation.
- During February the fund underperformed the MSCI ACWI and ranked in the third quartile relative to its peer group.
- The fund's top contributors to performance in February came from a number of industrial and infrastructure focused businesses, including **Schneider Electric** and **Comfort Systems**, which are enablers of electrification of buildings and industry. Semiconductor giant **TSMC** was also strong, as was building products distributor **Ferguson**. Key detractors included **Adobe**, as investors assessed potential threats to its business model from AI-driven competition, while agricultural equipment manufacturer **Agco** lagged, led by near-term concerns around its South American division.
- The fund continued to build its stakes in precision bicycle components manufacturer **Shimano**, along with water products distributor **Core & Main**, and **Hologic**, a healthcare company with a focus on diagnostics, medical imaging and surgical products.
- There were no notable reductions or sales during the month.

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ALPHA MANAGER 2023
Mike Fox

CITYWIRE +

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Head of Sustainable Investments

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Fund Manager

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Fund Manager

Royal London Global Sustainable Credit Fund

Macroeconomics and market highlights

- In the US, Federal Reserve speakers continued to signal rate cuts this year, but without signalling urgency and while reiterating the need for more confidence in the path of inflation first. Inflation data was mostly stronger than expected. January CPI came in a touch stronger than expected at 0.3% versus the previous month, core inflation rose 0.4% on both PCE and CPI measures and so-called 'super-core' inflation rose further above 0.2% on both CPI and PCE measures. January nonfarm payrolls were much stronger than expected and the unemployment rate remained 3.7% rather than rising a tenth as expected. However, quite a large proportion of the activity data over the month disappointed.
- Several European Central Bank speakers mentioned that they see a first cut as possible/likely in the summer/June. President Christine Lagarde reiterated that upcoming wage data would be important in their analysis. January CPI fell to 2.8% year-on-year after 2.9%, a touch above expectations. Core CPI fell slightly, but annual services CPI again remained at 4.0%. Activity data released over the month were mixed.
- As expected, the Bank of England kept rates on hold at their February meeting. Although one committee member voted for a rate cut, two still voted for a hike. Data released in February again painted a mixed picture of economic activity, while inflation remained above the central bank's 2% target. Year-on-year January CPI inflation remained at 4.0% and core inflation was also steady on the month at 5.1%; both figures were lower than expected, as was services CPI. Fourth quarter GDP fell 0.3% quarter-on-quarter, weaker than expected and meaning that the UK recorded a technical recession in the second half of 2023.
- February was another weak month for global government bonds, with the strong run in late 2023 and tempered rate cut expectations leading to higher yields. US treasury 10-year yields rose to 4.25% from 3.88%, while German bund 10-year yields climbed to 2.41% from 2.15%. In the UK, the benchmark 10-year gilt rose to 4.12% at the end of February, from 3.75% at the start of the month, reversing around half of the falls seen in the final two months of 2024, meaning the FTSE UK Conventional Gilt All-Stocks index returned -1.11% for the month.
- US, euro and sterling investment grade markets produced more negative returns in February, marking two straight down months to start 2024. However, this was driven entirely by higher underlying government bond yields, with the average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) tightening slightly in all three markets.

Portfolio commentary

- Following an active January, February again saw a number of opportunities to add to attractively priced new issues. With the AT1 market more active, we added euro AT1 bonds from **ABN Amro** at a very attractive yield, also adding . Elsewhere in financials, we added a US dollar subordinated bond new issue from **NatWest** and a euro subordinated issue from **BPCE**. Away from financials, we picked up a new 2036 euro-denominated issue from Dutch telecommunications company KPN. The company has strong ESG credentials, and the bonds came at an attractive yield premium to the market. We also added euro new issues from Norwegian power grid operator Statnett and US telecoms giant Verizon.

Investment outlook

- Inflation came down significantly in 2023 but remains well above central bank targets, and now does not have the 'easy' wins of base effects to push this lower. Although the economic data remain very mixed, we still believe that higher interest rates will contribute to a slowdown in economic growth. This could well impact company earnings and lead to some increase in pressure on credit markets. However, consumer resilience has been greater than expected across most major economies, particularly in the US, which has helped support growth and prevent a recession. How this continues into 2024 could prove critical.
- As we came into 2024, we felt that the all-in yield on investment grade credit was still attractive, despite the falls in yields in November and December. Moves higher in January and February have reversed much of this. Our credit strategy focuses on three sources of return: underlying government bond yields, market credit spreads, and the additional credit spread we generate over credit benchmarks. Whilst 10-year bund yields at around 2.5% are obviously are not as attractive as the levels seen in October, we feel that the yield available across investment grade and high yield credit overcompensates for default risk. Further, the additional yield embedded in our credit strategies, over that available from credit benchmarks, gives us confidence in our ability to deliver long-term outperformance.
- Although recent outperformance means that the relative attractiveness of credit bonds has reduced, we still favour holding them compared to government debt as credit spreads remain at levels that more than compensate for the credit risk. Given the potential challenges in the outlook, we remain focused on identifying companies with attractive sustainable and financial characteristics and ensuring that we are diversified across issuers and sectors.

Rachid Semaoune
Senior Fund Manager

Khuram Sharih
Senior Fund Manager

Royal London Sustainable Short Duration Corporate Bond

Portfolio commentary

- Net of fees, the fund saw negative absolute returns in February, but outperformed the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index and the IA sector average.
- February was another weak month for global government bonds, with the strong run in late 2023 and tempered rate cut expectations leading to higher yields. In the UK, the benchmark 10-year gilt rose to 4.12% at the end of February, from 3.75% at the start of the month, reversing around half of the falls seen in the final two months of 2024, meaning the FTSE UK Conventional Gilt All-Stocks index returned -1.11% for the month.
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- For February, the combination of sector and stock selection was the main driver of positive relative returns. The sector allocation returns were driven by our positions in structured bonds and insurance, as well as our significant underweight position in supranationals.
- The fund was focused on interesting opportunities in the secondary market over the month. In the financials sector, we continue to find high quality opportunities, adding senior bonds from **Co-Operative Bank**, where the potential merger with **Coventry Building Society** could result in potential spread tightening, and subordinated bonds from **Yorkshire Building Society**. The AT1 market remains interesting, and we added bonds from **Virgin Money** at very attractive yields for an institution we feel is well capitalised and that we felt traded at a higher risk premium to than peers, as well as **Abrdn**, with the latter yielding over 11%.
- Also in the secondary market, we added to our position in **Annington Funding**, a property firm that refurbishes homes previously owned by the Ministry of Defence and then sells or rents them. It is a firm where we see good cashflow visibility and are paid a material yield premium to the market.

Shalin Shah
Senior Fund Manager

Matt Franklin
Fund Manager

IMPORTANT INFORMATION