Royal London Equity Funds

Fund Manager Commentary

March 2024

ROYAL LONDON
ASSET MANAGEMENT

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Royal London Asset Management Equity Performance

	1 month (%)	Rolling 12 Months (%)
RL UK Equity Income M Inc	**5.25**	**11.29**
IA UK Equity Income Sector	4.21	7.93
FTSE All Share Index	4.75	8.43
RL UK Dividend Growth Fund M Acc	**4.69**	**11.57**
IA UK All Companies Sector	4.16	8.07
FTSE All Share Index	4.75	8.43
RL UK Mid Cap Growth Fund M Acc	**4.27**	**7.98**
IA UK All Companies Sector	4.16	8.07
FTSE 250 ex-IT Index	5.70	10.05
RL UK Opportunities Fund M Acc	**3.33**	**5.79**
IA UK All Companies Sector	4.16	8.07
FTSE All Share Index	4.75	8.43
RL UK Smaller Companies Fund M Acc	**1.11**	**7.47**
IA UK Smaller Companies Sector	2.97	5.41
FTSE Small Cap ex-IT Index	2.70	11.03

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: RLAM and Morningstar, as at 31 March 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.

Royal London UK Equity Income Fund

Portfolio Commentary

- During March the fund returned 5.25%, which was ahead of both its benchmark and the peer group median, ranking 21st percentile. Year to date the fund has returned 3.15% and ranks 38th percentile.
- March was a strong month for UK equities. Expectations remain that as inflation continues to moderate, interest rate cuts are around the corner. The corporate reporting season, while mixed, also remained generally supportive, particularly in the financials sector where banks and insurance companies reported robust results. Investor enthusiasm was further fuelled by several deals being announced, including multiple parties expressing interest in acquiring the paper company DS Smith and the telecommunications testing business Spirent.
- The fund's outperformance was driven by a number of holdings in the financial sector including **3i**, **Nat West**, **Aviva**, **Close Brothers** and **Paragon**. 3i was particularly strong after announcing continued strong trading at its European retailing business Action, and Close Brother shares recovered sharply from their recent lows. The holding in **ITV** was also strong after the company announced that it was selling its stake in Britbox International to the BBC and using the proceeds received to execute a major share buyback.
- During the month the fund reduced the holdings in **3i**, **RELX** and **BP**. The holding in **Hikma** was added to, rebuilding the position, having trimmed last month at higher levels. A small position was established in the food retailer **Sainsbury**, whose shares had been relatively weak so far in 2024.

Investment Outlook

- We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

Richard Marwood

Head of Income Equities

Royal London UK Dividend Growth Fund

Portfolio Commentary

- During March, the fund returned 4.69% while the FTSE All-Share Total Return index returned 4.75%. Year to date the fund has returned 3.72% and ranks 35th percentile.
- March was a strong month for UK equities. Expectations remain that as inflation continues to moderate, interest rate cuts are around the corner. The corporate reporting season, while mixed, also remained generally supportive, particularly in the financials sector where banks and insurance companies reported robust results. Investor enthusiasm was further fuelled by several deals being announced, including multiple parties expressing interest in acquiring the paper company DS Smith and the telecommunications testing business Spirent.
- The fund's outperformance was driven by a number of holdings in the financial sector including **3i**, **Barclays** and **Close Brothers**. 3i was particularly strong after announcing continued strong trading at its European retailing business Action, and Close Brother shares recovered sharply from their recent lows. The holdings in **Clarkson**, **Coats** and **Bodycote** were all strong after reporting good results and **Glencore** also helped performance on improved sentiment towards the mining sector and the news that an activist investor has taken a stake in the business.
- The most significant trading in the month was to sell out of the positions in **Rentokil**, **St James Place** and **Spirax Sarco**. The holding in **Howden** was also trimmed after a strong run in the shares. Existing holdings in **Unilever**, **Spectris**, **Hikma** and **Drax** were added to and a new holding was started in the retailer **Watches of Switzerland**, which like many stocks in the luxury retail space, has been poor of late.

Investment Outlook

- We continue to feel that our approach of investing in a broad range of companies from different sectors and stages of their lifecycle is very appropriate and will allow performance to continue to be driven more by the success of our hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

Richard Marwood

Head of Income Equities

Niko de Walden

Fund Manager

Royal London UK Mid Cap Growth Fund

Portfolio Commentary

- The UK Mid Cap Growth underperformed the benchmark (FTSE 250 ex IT) in March. Longer term performance over the last six months has been positive in both absolute & relative terms, with the fund returning 10.8% and outperforming the benchmark by over 1%.
- UK equities performed strongly in March, & M&A, once again, was a feature during the month. A number of companies across the market cap spectrum were bid for – examples included **Spirent Communications**, **Virgin Money**, **DS Smith** and **Accrol**. The Bank of England continued to hold interest rates at current levels, but dovish commentary and no members of the Monetary Policy Committee voting to increase rates (for the first time since September 2021) gave hope for rate cuts in the near future. The government delivered its Budget for 2024, with one of the more relevant announcements being the launch of the British ISA. This will provide retail investors with an additional tax-free allowance should this be used to invest in UK equities or other UK investments.
- **Spirent Communications**, **Bodycote** and **Coats Group** were positive contributors. As mentioned above, Spirent Communications was bid for, from Viavi initially, and from Keysight later in the month, at premiums of c60% & c85% respectively to Spirent's undisturbed share price. Bodycote released a solid set of financial year end results which revealed positive revenue growth, further progression towards its 20+% margin target and strong cash generation. Coats revealed a solid set of year-end results especially considering the destocking headwinds which the business has battled during the last year. Whilst revenues declined, profits were somewhat protected as a result of its strategic programmes, higher-than-expected synergies from its two most recent acquisitions and focus on cost control.
- A reasonable proportion of the fund's underperformance came from the positive performance of a number of holdings not held in the fund – examples include retail bank **Virgin Money**, which was bid for by Nationwide Building Society, and housebuilder, **Vistry Group**, which delivered a well-received update during the month. For companies held in the fund, **FDM Group**, was a detractor. FDM's full year results were as expected, but challenging market conditions prompted the company to revise down its expectations for its financial performance for the coming year. Client engagement is reported to remain encouraging however, and we remain confident that a structural need for FDM's trained consultants still remains.

Henry Lowson

Head of UK Alpha Equities

Royal London UK Opportunities Fund

Portfolio Commentary

- The RLAM UK Opportunities fund underperformed the benchmark index (FTSE All Share) in March.
- UK equities performed strongly in March, & M&A, once again, was a feature during the month. A number of companies across the market cap spectrum were bid for – examples included **Spirent Communications**, **Virgin Money**, **DS Smith** and **Accrol.** The Bank of England continued to hold interest rates at current levels, but dovish commentary and no members of the Monetary Policy Committee voting to increase rates (for the first time since September 2021) gave hope for rate cuts in the near future. The government delivered its Budget for 2024, with one of the more relevant announcements being the launch of the British ISA. This will provide retail investors with an additional tax-free allowance should this be used to invest in UK equities or other UK investments.
- **ConvaTec** and **Hill & Smith** were contributors to performance during the month. ConvaTec reported its full year results broadly in line with analysts' expectations, but investors reacted positively as the company guided to higher expected revenue growth in the medium term. Hill & Smith delivered a strong set of full year results which was largely driven by positive trading in its US divisions. High cash generation during the period was also a highlight, and the company's strong balance sheet should enable it to pursue M&A to drive further growth.
- **One Savings Bank** (OSB) and **Marshalls** were detractors during the month. OSB declined as the company guided towards a lower Net Interest Margin for its current year, primarily as a result of higher funding costs. Despite this, we still expect the group to generate a high return on equity for this year, and the credit quality of OSB's loan book remains robust which is particularly pleasing given the macroeconomic backdrop. Marshalls detracted following comments made in the outlook statement of its full year results about continued subdued activity levels in the end markets it serves - this largely relates to new build housing and private housing RMI (Repair, Maintenance, & Improvement). Whilst disappointing, its full results for the year just gone were in line with expectations, & the actions the business has taken with regards to its cost base over the last year or so, combined with its high operational gearing, will enable it to perform well as and when its end markets recover.
- The fund has recently initiated a new position in **Premier Foods**. Premier Foods is a food manufacturer and producer, and it owns a number of well-known brands such as Mr Kipling, Sharwoods and Loyd Grossman. The company has gone through a complete transformation in the last five years under its current management team. From a financial perspective, the balance sheet has been repaired and the pension scheme contributions have now been suspended, and this leaves the business in an exciting place to pursue growth opportunities organically or inorganically via M&A.

Royal London UK Smaller Companies Fund

Portfolio Commentary

- The UK Smaller Companies fund underperformed the benchmark (FTSE Small Cap ex IT) in March.
- UK equities performed strongly in March, & M&A, once again, was a feature during the month. A number of companies across the market cap spectrum were bid for – examples included **Spirent Communications**, **Virgin Money**, **DS Smith** and **Accrol**. The Bank of England continued to hold interest rates at current levels, but dovish commentary and no members of the Monetary Policy Committee voting to increase rates (for the first time since September 2021) gave hope for rate cuts in the near future. The government delivered its Budget for 2024, with one of the more relevant announcements being the launch of the British ISA. This will provide retail investors with an additional tax-free allowance should this be used to invest in UK equities or other UK investments.
- **Boku** and **Cohort** were contributors to performance during the month. Boku released a strong set of results which revealed significant growth in its profits and revenues. The company also reported that its current financial year has started strongly, and we believe the significant number of new payment methods that it has launched with new and existing merchants during the previous financial year should underpin its growth expectations for the near term. Cohort, the defence group, performed strongly following the announcement of two contract wins during the month - one of which resulted in material upgrades to the group's earnings forecasts. As a result of these contracts, the order book now exceeds £500m and is significantly up from the £354m reported at its interim results in October 2023.
- **Focusrite** and **YouGov** were detractors to performance during the month. Focusrite's trading update revealed that it still faces challenging market conditions for its Content Creation division. The company has also suffered as it transitions to newer generation products in its Scarlett product range. These new products have however, received excellent reviews which provides us with some comfort that this is a short-term issue linked to the market backdrop. In more positive news, the group's other division, Audio Reproduction, is performing robustly. **YouGov** detracted as the company revealed disappointing organic revenue and profit performance at its interim results as a result of a tough market backdrop. However, the group has noted that sales momentum improved in Q2, and a healthy sales pipeline and good revenue visibility provides management with confidence that the business should perform in line with current market expectations for the full year.
- The fund has recently initiated a position in **Brooks Macdonald**. Brooks Macdonald provides investment management and financial planning services, and the current management team have made positive steps in simplifying and improving the operations and tech infrastructure of the business. The company has also recently announced a strategic review of the international business, which has historically struggled to generate organic growth, and any action taken here will likely improve the financial performance of the company. Brooks also has significant excess capital on its balance sheet and is attractively valued on a low double digital forward price earnings ratio. The fund disposed of **Liontrust**, following the departure of a number of key individuals from the business. We are increasingly concerned about the potential this may have for further outflows and indeed the strategy.

Henry Lowson

Head of UK Alpha Equities

Henry Burrell

Fund Manager