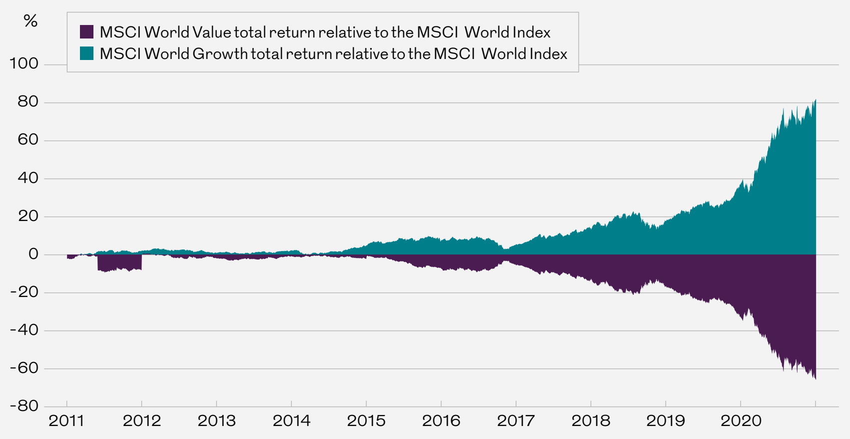
For professional clients only, not suitable for retail investors.

Finding alpha beyond style bias

In 2017, RLAM launched the Global Equity Select Fund. The fund has since produced three years of attractive absolute and relative returns, continuing an impressive track record for a strategy that was launched in 2002. Using a markedly differentiated stock selection approach which has been in place and run by the team since inception, the strategy has delivered a consistent track record of performance across economic cycles and differing periods of style leadership.

Figure 1: Growth has outperformed significantly in recent years



Source: RLAM as at 31 December 2020

Past performance is not reliable indicator of future results. 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.

The backdrop: Looking at market themes and impact on performance

Given the polarisation of Growth and Value (figure 1) style returns over this recent market cycle, the three year anniversary of the fund provides a good opportunity to look back and understand the drivers behind performance over the period. What we see is evidence of an approach that has idiosyncratic company insights driving outperformance, without depending on a favourable style environment.

We took a more in-depth look at style divergence earlier this year. While we feel that there are logical factors behind this trend, the last weeks of 2020 served to remind us that style risk remains elevated in many investor portfolios.

A differentiated approach to peers

The RL Global Equity Select Fund takes an approach that classifies stocks through the lens of an 'Economic Return Framework' and our proprietary 'Corporate Life Cycle'.

This provides a proven, superior and differentiated dataset within which to further evaluate 'shareholder wealth creating' companies for inclusion in our portfolios, which are then constructed to maximise stock specific risk rather than being dominated by exposure to style and other factors. (Details on how 'Thinking like a CEO' helps us to identify attractive wealth creating opportunities can be found here.)

Proprietary informational and analytical advantages

Our proprietary Economic Return Framework covers more than 5000 stocks across the globe and has been built to standardise both balance sheet and cashflow data across regions, sectors, time-lines and accounting practices. This provides us with an advantaged start point of economic value comparisons across our investible universe.

Our Life Cycle classification (figure 2) uses this standardised real economic return data to categorise companies into five distinct phases, each representing a different stage of a corporate's life cycle. This allows us to better compare and evaluate companies within each stage, mindful of the knowledge that the key drivers of success in each are different.

Our Shareholder Wealth Creation test seeks to identify companies that are creating shareholder wealth with superior business models, management skill and capital allocation opportunities, recognising that the drivers of this wealth creation are Life Cycle specific.

For example, a Compounding business creates wealth via maintaining high returns on productive capital and growing; however a Turnaround business should actually look to shrink weak assets, as a route to improve its returns on capital.

We capture shareholder wealth creation in a rating from 'A' to 'D' for each company that we analyse. Figure 3 demonstrates the reliable source of alpha potential generated for our subsequent stock selection and portfolio construction work, with approximately 600 Companies achieving A, B+ or B ratings at any time.

Stock selection and portfolio construction discipline

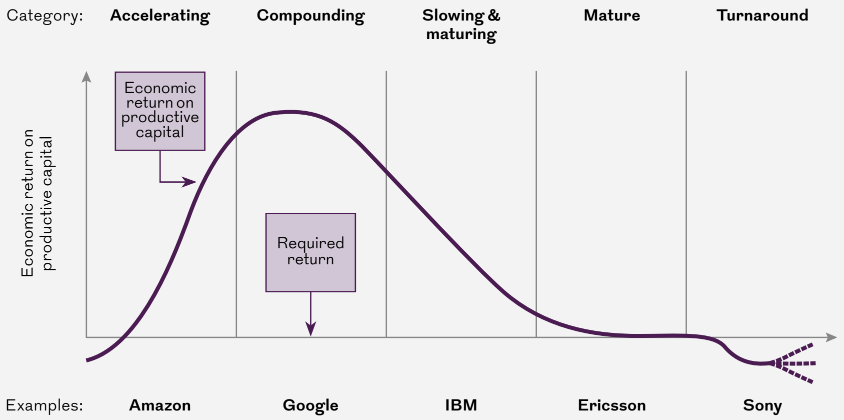
We perform deep-dive fundamental and valuation analysis on companies with the strongest evidence of long-term wealth creation and typically spend most of our time and energy in this phase. Importantly, the path of analysis is again informed by our proprietary Life Cycle stage considerations and with reference to industry structure and company-specific sources of competitive advantage. There is also an explicit focus on Life Cycle specific ESG analysis, further differentiating our work.

The output from this process is approximately 300 companies which have good or strong evidence of wealth creation together with attractive valuations (Figure 4). It is this pool of stocks that provides the source of potential investments for inclusion in our Global Equity Strategy.

The Global Equity Select Fund is invested across a portfolio of 25-40 stocks which our process has identified as having the best combination of shareholder wealth creation and attractive valuation.

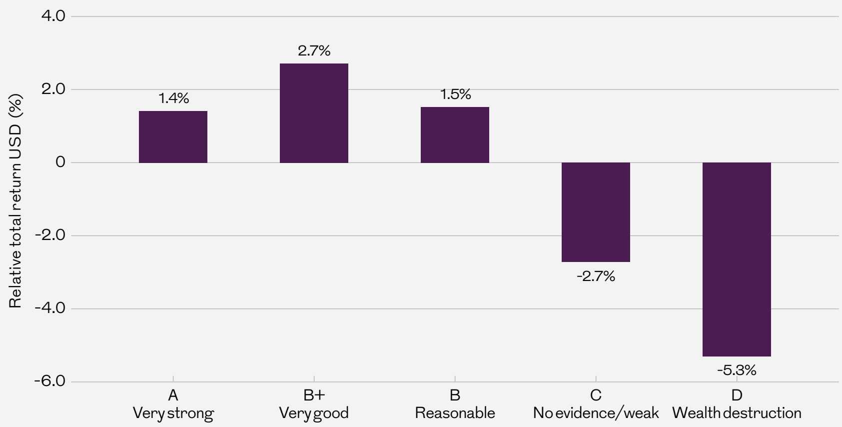
Given our Life Cycle approach, the combination of these stocks within a portfolio leads us naturally to high stock specific drivers of risk and return rather than reliance on thematic or other factor positioning. We target a tracking error in line with a 2.5-3% outperformance objective,the approach has delivered consistently high information ratios, and has provided investors with a

Figure 2: Life cycle classifications graph



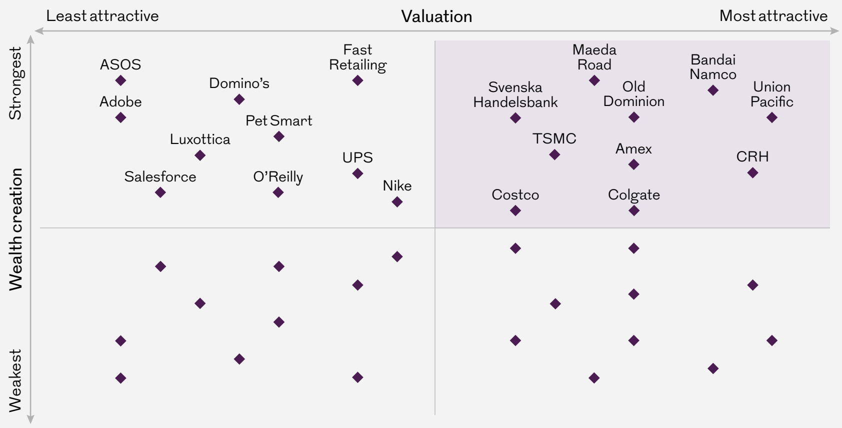
Source: RLAM for illustrative purposes only.

Figure 3: Shareholder wealth creation grades relative to MSCI World



Past performance is not a reliable indicator of future results. 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 Bloomberg. Data for newest individual stock rating. 1,750+ entries, performance is average US$ % Annualised Total Return vs MSCI World during period 30 June 2013 to 11 January 2021.

Figure 4: Shareholder wealth creation based on structured forward-looking qualitative analysis



Source: RLAM, for illustrative purposes only.

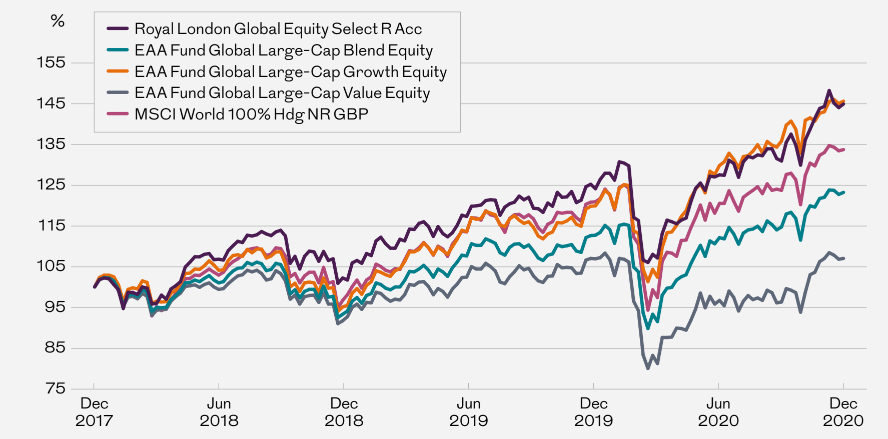
differentiated return stream that has delivered across and within different style cycles.

Ultimately this process leads to portfolios that are balanced across regions, sectors, styles and life cycle segments. It also leads to portfolios with a high active share – typically 85% or more, which is consistent with our view that stock selection will normally account for 70% or more of our total risk budget.

The outcome: consistent alpha across different style cycles

Despite the portfolio tending to be relatively balanced in terms of growth and value, performance has not been negatively impacted by the strong performance of the former (figure 5). We believe that this approach creates portfolios with better quality and value characteristics than the broader market. After a period of strong performance for growth-oriented strategies, this may be an attractive proposition for investors looking to diversify their global equity exposure.

Figure 5: Fund and style performance



Source: RLAM & Morningstar as at 31 December 2020.

Past performance is not reliable indicator of future results. 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.

Investment risks

Past performance is not a guide to future performance.

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.

Concentration risk: The price of funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

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For more information about our range of products and services, please contact us.

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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 Company is a UCITS umbrella fund. 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 concerning 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.co.uk.

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