

**SHINING A LIGHT ON THE.....
Royal London Sustainable Leaders Trust**

AT A GLANCE

Investment Objective
The Scheme'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 predominantly in the shares of UK companies listed on the London Stock Exchange that are deemed to make a positive contribution to society. Investments in the Scheme will adhere to the Manager's ethical and sustainable investment policy. At least 80% of the Scheme will be invested in UK companies which are listed on the London Stock Exchange.

Inception Date	4 th May 2004
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000PGEJ

Management	
Manager Name	Start Date
Mike Fox	4 th May 2004

FUND PERFORMANCE

Performance from 1st January 2016 to 31st October 2022:

	2016	2017	2018	2019	2020	2021	2022
Royal London Sustainable Leaders Trust	8.80%	15.81%	-1.99%	29.51%	3.27%	22.23%	-15.07%
FTSE AllSh TR GBP	16.75%	13.10%	-9.47%	19.17%	-9.82%	18.32%	-5.00%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since Launch
Royal London Sustainable Leaders Trust	-12.02%	12.60%	36.71%	429.01%
FTSE AllSh TR GBP	-2.78%	7.09%	12.69%	232.68%

You should note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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Tracking Error	Information Ratio	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
9.62	0.18	71.34	104.83	96.59	50.00	0.81	2.23	Large / Growth

Volatility Measurements	
3-Yr Std Dev (volatility)	15.94%
3-Yr Mean Return (average)	4.03%

Investment Style Details	
Giant	21.55%
Large	37.21%
Medium	35.61%
Small	2.98%
Micro	0.00%

Top 5 Holdings – 40 Equity Holdings		
AstraZeneca PLC	Healthcare	5.75%
London Stock Exchange Group PLC	Financial Services	5.31%
Compass Group PLC	Consumer Cyclical	5.29%
SSE PLC	Utilities	5.06%
Experian PLC	Industrials	4.39%

Top 5 Sectors	
Industrials	18.44%
Healthcare	17.19%
Financial Services	16.18%
Technology	9.94%
Utilities	8.89%

Fund Benchmark	FTSE AllSh TR
Fund size (Mil)	GBP 3082.81
Ongoing Charge	0.76%

Bull points (pros)	Bear points (cons)
<ul style="list-style-type: none"> Investing in high quality companies Focus on sustainable businesses Exclusion policy with active engagement Concentrated portfolio Stable team Specialism within this area of the market 	<ul style="list-style-type: none"> Invests in high quality companies which tend to be negatively impacted the most in bear markets No exposure to oil and gas and therefore can lag the market when these are in favour

UPDATE....

The team started by outlining the market we are in. They feel we are in a bear market for asset prices. Everything is coming down and this is because interest rates are rising. Rising rates have been driven by inflation, over stimulating economies, and the war in the Ukraine. Through all of this they have remained focused on their process.


They focus on high quality businesses, and although this period is difficult they know it will pass because it always does. And when it does then it is these businesses that will come out stronger than when they went in. Where this strategy has an extra element is the sustainability aspect. It is not just about a high-quality business but it is also about those that have sustainability at their heart.











Sustainability delivers three additional important elements: better revenue opportunities, better staff (more connected) and help with costs (as sustainability brings down costs).

The strategy has exclusions:

Appendix

Avoidance Criteria and Do No Significant Harm (DNSH)



 Breach the UN Global Compact 10 Principles	 Industries which fail to satisfactorily mitigate their negative environmental or social impact e.g. fossil fuel extraction
 Armament manufacture	 Tobacco production
 Nuclear power generation	 Animal testing for anything other than human or animal health purposes
 Pornography	 Sell animal fur products
 Irresponsible Gambling	 Irresponsible drinking

Source: RLAM, for illustrative purposes only.

It is important to understand that if sectors like oil and gas are doing well then this fund will miss out on that. This fund will invest in energy, but it wants to invest in renewable rather than fossil fuel.

The strategy starts from a point of sustainability. It looks to invest in those businesses that deliver products and services that are cleaner, healthier, safer and deliver a more inclusive society. They also focus on ESG leadership, i.e., those companies which encourage good corporate behaviour.

On the other side, they then look at the financial aspect – value creation and valuation. Each company receives a score. This is best demonstrated below SSE is one of the holdings, BP is not.

Strategy and team update SSE vs BP

Sustainable Score 45/50		Financial Score 35/50	
Products & Services 22/25	Industry Impact	Value Creation 15/25	Duration of Growth
	Company Impact		Return on Capital
	Avoidance Criteria		Key Risks
Operations 23/25	Corporate Governance	Valuation 20/25	Cash Flow Driven Valuation
	SASB* Materiality		Market Implied Expectations
	Climate		Resilience And Adaptability

Sustainable Score 18/50		Financial Score 23/50	
Products & Services 6/25	Industry Impact	Value Creation 8/25	Duration of Growth
	Company Impact		Return on Capital
	Avoidance Criteria		Key Risks
Operations 12/25	Corporate Governance	Valuation 15/25	Cash Flow Driven Valuation
	SASB* Materiality		Market Implied Expectations
	Climate		Resilience and Adaptability

* Sustainability Accounting Standards Board.

Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

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Investing is not passive for them. It is not just about finding the most sustainable businesses but it also about actively engaging with businesses. This can be through engagement directly with businesses as well as voting at AGMs and other meetings.

Some of the key themes the fund is invested in include circular economy and environmental efficiency, financial inclusion and resilience, hygiene and wellbeing and next generation medicine.

Some examples of holdings include:

Next generation medicine

- Better diagnosis – Agilent (cell analysis)
- Precise medicine – AstraZeneca (immunology)
- Human genome – GSK (genetic medicine)

Energy transition

- From carbon to renewables – SSE (UK leader in renewable energy)
- Electrification – Schneider Electric (leader in energy efficiency)
- Global warming – National Grid (energy networks)

Some of the recent changes are:

- Buy – Schneider Electric (energy transition), Haleon (hygiene and wellbeing) and Standard Charter (financial inclusion)

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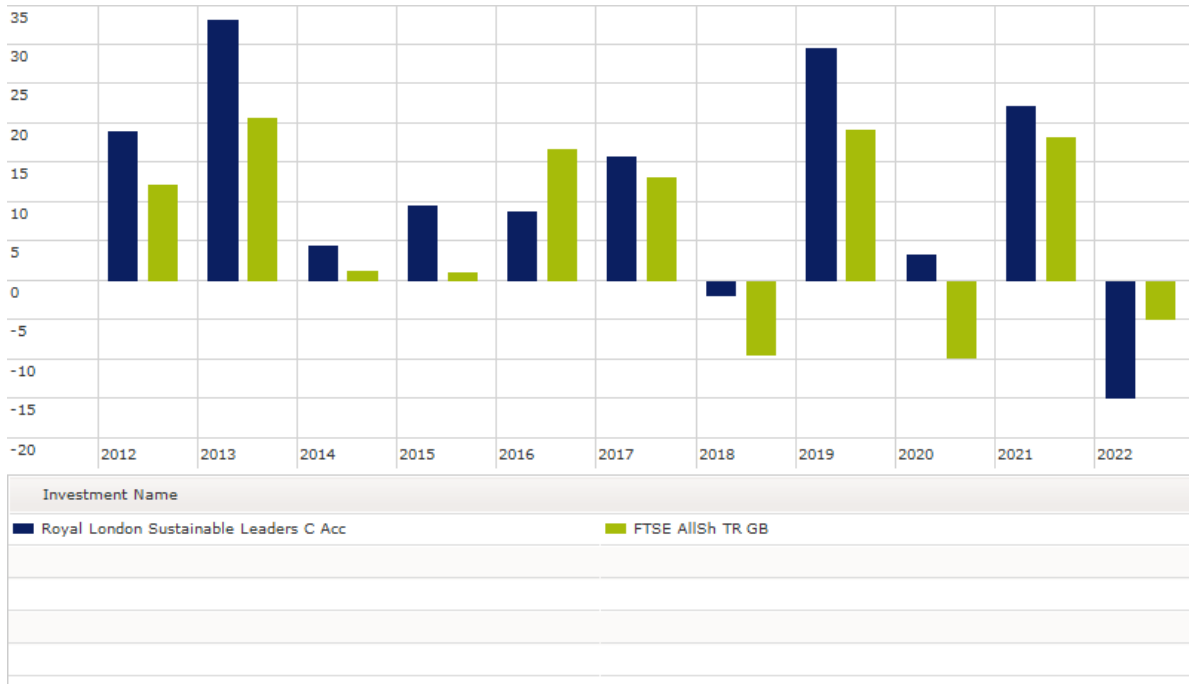
Sales – Smith & Nephew (next generation medicine), TSMC (digital world) and Adidas (hygiene and wellbeing)

They feel that forecasts for profits do not fully reflect a recession and so they are underweight consumer cyclical and debt. This means the portfolio is more defensive in nature, but they feel this is where it needs to be when the recovery comes.

The tables below demonstrate the long-term performance. Although in the short term the performance has been disappointing, they argue that they want to invest in a company for the long-term and therefore if they are invested in a good business, those returns will be delivered over the years. They don't know when the markets will turn but they believe when it comes the fund will return to outperforming the benchmark.



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In summary, often the argument is that investing sustainably means compromising returns. This strategy has demonstrated that that doesn't need to be the case. It has underperformed recently, in part due to what it doesn't hold. However, longer term the focus on quality and sustainability is what will drive those returns. We hold this within our sustainable portfolios.

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The source of information in this note has been provided by Royal London and is correct as of November 2022. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.