Royal London Equity Income Trust

Short Final Report to 31 July 2009

royal london asset management

Royal London Equity Income Trust

Investment Objective and Policy

The investment objective and policy of the fund is to achieve a combination of income and some capital growth by investing mainly in UK higher yielding and other equities, as well as convertible stocks.

Risk Profile

Any stock market investment involves risks. Some of these risks are general, which means that they apply to all investments. Others are specific, which means that they apply to individual Funds. For full details of the investment risk that affect this Fund please refer to your copy of the Funds Simplified Prospectus. Before you decide to invest, it is important to understand these risks. If you are unsure, please seek professional advice from a Financial Adviser.

Trust performance

During the twelve months under review to 31st July 2009, the fund delivered a return of -9.69%. This can be compared to a return of -10.56% for the IMA Equity Income Sector Average.

The fund's performance against competitor funds over the last twelve months has been assisted by some of the fund's holdings in economically resilient businesses with international earnings, such as BP, Astra Zeneca and BAT Industries, as well as latterly by some economically sensitive businesses such as Dunelm, Restaurant Group and Hargreaves Lansdown. Against this, the fund's holdings in Lloyds TSB and HBOS detracted from performance. I retain my position in the new Lloyds Banking Group as I believe it looks cheap on a longer term basis, if the business now has sufficient capital to withstand the current recession.

Economic and stockmarket background

The last twelve months have been a very challenging period for financial markets in general, including the UK stockmarket. Over the first six months under review the UK economic outlook steadily deteriorated, with economic forecasts being progressively downgraded over the period. Lehman Brothers went into administration, and Royal Bank of Scotland, HBOS and Lloyds TSB all had major fund raisings underwritten by the UK Government to strengthen their balance sheets and this has resulted in the UK Government taking significant equity stakes in all of them.

Weakness in corporate bond markets exacerbated equity investors' concerns about companies where there is balance sheet risk and companies which may need to refinance their existing debt facilities expensively. Economic activity was adversely affected by difficult credit market conditions, with trade and creditor finance difficult to come by at a reasonable price for many companies. Worldwide, the authorities were quick to announce significant initiatives to counter the credit crunch and recession, including quantitative easing (i.e. printing money). Interest rates fell globally to extremely low levels by historic standards. In January, official statistics confirmed that the UK economy was in recession and external forecasts from the International Monetary Fund suggested that the UK economy would be particularly hard hit by the global recession.

The severity of the global recession was confirmed by 1st quarter 2009 GDP statistics, which showed significant declines in economic activity. The downturn was exacerbated by destocking in many industries, as companies responded quickly to fewer orders and protected their financial positions. Reflecting this difficult backdrop, the stockmarket fell steadily until the end of February when it bottomed out. Since then the stockmarket has recovered some lost ground and by the end of the year under review it had rallied 32% from its low point. This has been fuelled by hopes of economic recovery. Since March there has been a range of indicators suggesting a stabilisation in economic activity, albeit at lower levels. Visibility remains very low in many industries, but management teams have been quick to reduce costs and put in place contingency plans should the outlook deteriorate further.

So far there have been relatively few high profile corporate casualties, although we have seen widespread equity fund raising by companies which in many instances have been accompanied by significant dividend cuts. In 2009 we are likely to see a significant fall in total dividend payments by UK companies; I believe this is a rebasing of dividends paid rather than the first of many years of dividend cuts. Corporate cashflows are currently being diverted to reduce borrowing, reflecting changed attitudes on the optimum level of debt financing. Once this adjustment period is complete, there is no reason why many companies cannot return to distributing a significant proportion of their free cashflow as dividends to shareholders.

Portfolio Commentary

The fund has continued to focus on trying to identify stocks I believe to be undervalued and offer a premium yield and some prospect of sustainable dividend growth. During the first six months the fund maintained a defensive stance, with a focus on cashflow, robust balance sheets and international earnings. Over the most recent six months greater economic sensitivity has been introduced into the portfolio.

The following examples give a flavour of the fund's activity during the year.

In August the fund started a new holding in Northumbrian Water Group, taking advantage of a period of weak relative share price performance to accumulate a holding. The stock offers a premium dividend yield, inflation index linking of revenues, a lack of economic sensitivity and growth in its underlying Regulated Asset Base, all of which look attractive against a challenging economic background.

The fund sold its holding in Lonmin during Xstrata's bid approach for the company at a premium to the indicated £33 offer. Given its historic production issues, a rapidly slowing global economy and unsustainably high commodity prices, this gave a good opportunity to exit the shares at a good price. By the end of January the shares were trading at a price of under £9, following the bursting of the bubble in commodity prices which had occurred since the summer.

In October the fund started a holding in Thomas Cook following a period of share price weakness. The valuation looks very depressed and its balance sheet is strong. At its purchase price, it was offering a sustainable dividend yield of 7%. Industry pricing discipline should benefit them and Tui Travel on a two year view, now that the industry has consolidated down to two disciplined players from four.

In March the fund started a new holding in Restaurant Group, increasing the fund's consumer exposure. I believe this company is well managed and will be one of the survivors of the mass eating out market with a reasonably robust balance sheet and could get some attractive opportunities to pick up cheap assets as highly indebted groups are forced sellers.

During July the fund switched its remaining Scottish and Southern Energy holding into BT Group and Vodafone. The whole telecoms sector to my mind is currently cheap and offers an attractive combination of cashflow and high dividend yields. In addition, I believe that BT Group's pension fund issue is now agreed with the regulator and factored into people's numbers.

Investment outlook

Economic conditions remain challenging around the world and visibility on the outlook remains low, although there are some signs that global economic activity may be stabilising. Recently, quantitative easing has been increased further in the UK which, in conjunction with policy initiatives by other governments, gives increased confidence that a 1930s style global depression should be avoided.

UK policy tightening is likely to be an issue for next year, with the market having to contend with the implications of increased taxation, reduced government spending and a recovery in the economy which, in the early stages at least, is likely to be a jobless one. However, I do believe that the stockmarket continues to look undervalued on any longer term view and that even with a modest economic recovery many companies will see significant benefits from operational gearing having taken action on their cost bases.

Against this background, I continue to invest in companies I believe will be corporate survivors and remain wary of financially distressed companies. I expect the eventual UK recovery to be quite muted as the economy is weaned off quantitative easing and interest rates that are unsustainably low over the longer term. My efforts are focussed on identifying longer term winners with robust balance sheets and sustainable cashflow that will survive the recession and then flourish again once the eventual recovery begins.

Martin Cholwill
Fund Manager
September 2009

Fund Facts

Sedol number	0565673
Fund Type	Authorised Unit Trust
Initial Charge	4%
Total Expense Ratio (ter)[1] 31/07/2009	1.36%
Total Expense Ratio (ter)[1] 31/07/2008	1.32%
Annual Management Charge (amc)	1.25%
Portfolio Turnover Rate 31/07/2009	55.87%
Portfolio Turnover Rate 31/07/2008	30.80%
Initial Commission	3%
Domiciled	UK
Min Lump Sum Investment	£1,000
Min Monthly Investment	£50
ISA Qualifying	Yes
Available in savings scheme	Yes
Launch Date	11 April 1984
Unit Type(s)	Income
Distribution Calculation Dates (XD)	1 Feb, 1 Aug
Distribution Payment Dates	31 Mar, 30 Sep

[1] the total expense ratio: consists of the AMC and any other additional expenses charged to a fund, such as a trustee fees.

Fund Performance Data

Bid Price	375.00p
Offer Price	394.10p
Fund Size	£151.6m
Net Asset Value at start of accounting period	426.82p
Net Asset Value at end of accounting period	365.60p

Net Income Information

Year	Pence per unit	Per £1,000 invested at 2 January 2004
2009*	19.62	49.23
2008	21.95	55.08
2007	19.85	49.81
2006	18.07	45.35
2005	15.34	38.49
2004	13.90	34.88

* To 31 July 2009

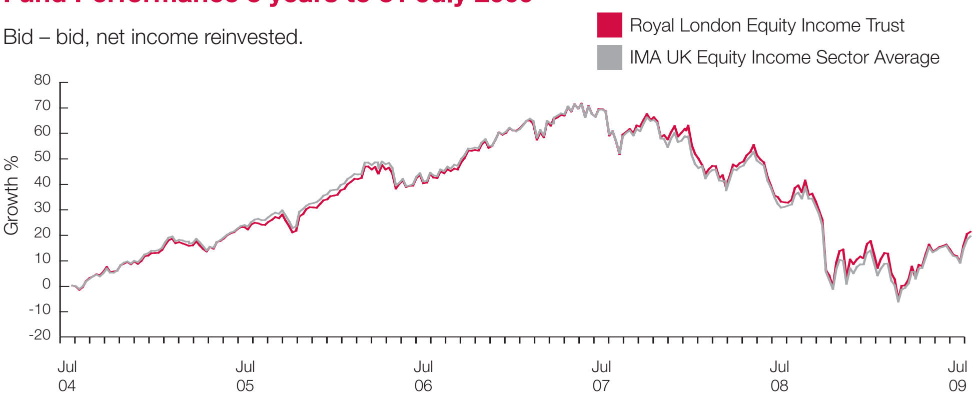
Fund vs Sector Average Out-Performance

	1 year	2 years	3 years	4 years	5 years
To 31 July 2009	31/07/08 to 31/07/09	31/07/07 to 31/07/08	31/07/06 to 31/07/07	31/07/05 to 31/07/06	31/07/04 to 31/07/05
Royal London Equity Income	-9.69%	-17.61%	10.91%	15.93%	24.90%
IMA UK Equity Income	-10.56%	-16.69%	11.44%	16.55%	23.92%
Out-Performance	0.87%	-0.92%	-0.53%	-0.62%	0.98%

Annual, bid-bid, net income reinvested. Source: RLAM and Financial Express as at 31 July 2009

Fund Performance 5 years to 31 July 2009

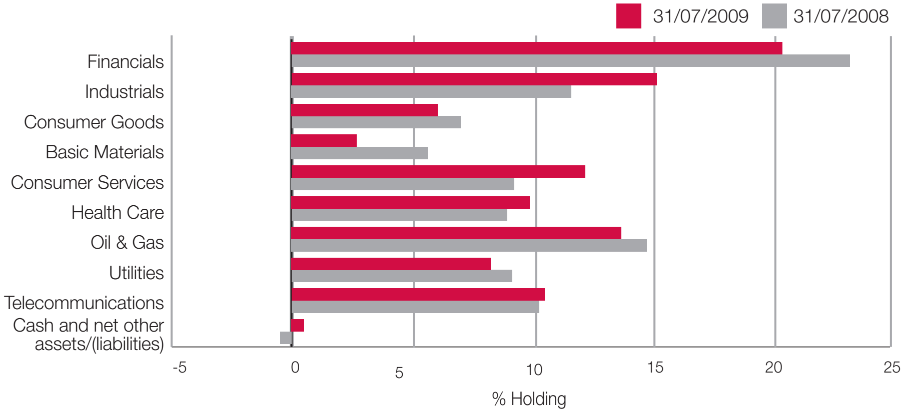
Bid – bid, net income reinvested.



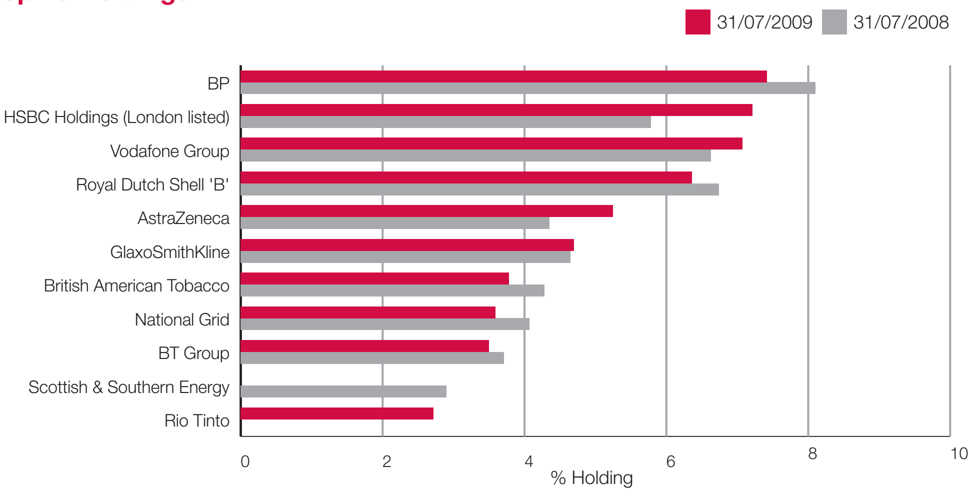
Source: RLAM & Financial Express as at 31 July 2009

Past performance is no guarantee to the future. The value of units can go down as well as up and the return from your investment is not guaranteed and can fall as well as rise due to stock market movements and changes in long term interest rates, so you may not get back the amount that you originally invested.

Sector Breakdown



Top 10 Holdings



A copy of the Long Form Report and Accounts is available on request.

The Manager of the Royal London Equity Income Trust is Royal London Unit Trust Management Ltd.
55 Gracechurch Street
London EC3V 0UF
Dealing line: 08456 04 04 04
Website: www.rlam.co.uk

The Trustee of the Royal London Equity
HSBC Bank plc
8 Canada Square
Canary Wharf
London
E14 5HQ

The Auditor of the Royal London Equity Income Trust is PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH

International Financial Data services Limited
The register may be inspected at:
IFDS House,
St Nicholas Lane,
Basildon, Essex,
SS15 5FS

RLEIT_FINAL_SF_310709 325-RET-07/2009-MJ