Fixed income investing

For professional clients only, not suitable for retail clients. This is a marketing communication.

Introduction

Bonds have long been an essential component of a diversified portfolio. After more than a decade of yields at or near record lows, today fixed income investors face a different challenge: generating attractive returns in an environment of higher inflation and interest rates.

At Royal London Asset Management, we believe active management undertaken by experienced investment specialists will become of ever-increasing importance within fixed income against the backdrop of these complexities. Royal London Asset Management's range of fixed income strategies offers exposure across the fixed income universe, with flexible and asset class specific solutions that meet a broad range of investor needs.

Fixed income at Royal London Asset Management

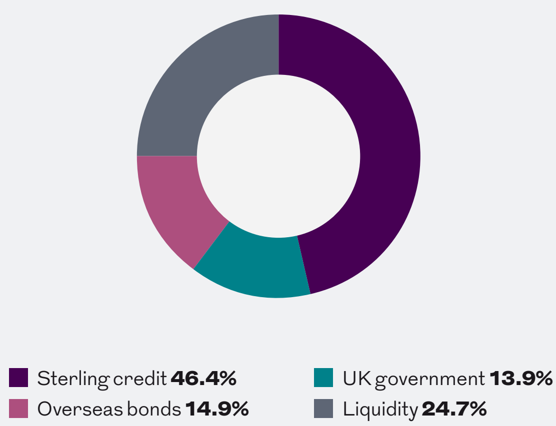
Royal London Asset Management is a leading provider of fixed income solutions. We manage £162.3 billion of assets, with around half of that allocated to fixed income and liquidity (as at 31 December 2023).

Royal London Asset Management's long-established Fixed Income team has managed assets through a succession of economic cycles. Our experienced team of investment professionals offer deep insight into investing across all stages of the fixed income cycle. The structure and expertise within our team are integral to our investment process. We adopt a collegiate approach, whereby the whole team's experience is reflected within decision-making.

We believe that research should be at the heart of any fixed income strategy. We therefore rely heavily on our team's research and analysis capabilities. Our systematic approach to research is aimed at helping our fund managers identify key strategies that optimise value relative to the amount of risk taken. We are able to look widely for tactical, often overlooked opportunities, seeking to exploit valuation anomalies as they occur, in a risk controlled manner.

We aim to deliver returns for our investors over the long run through active management. We use a range of differentiated strategies in targeting this. Our success is based on a deep understanding of our clients' investment objectives and the use of our in-depth market knowledge to exploit investment opportunities that help us meet these aims.

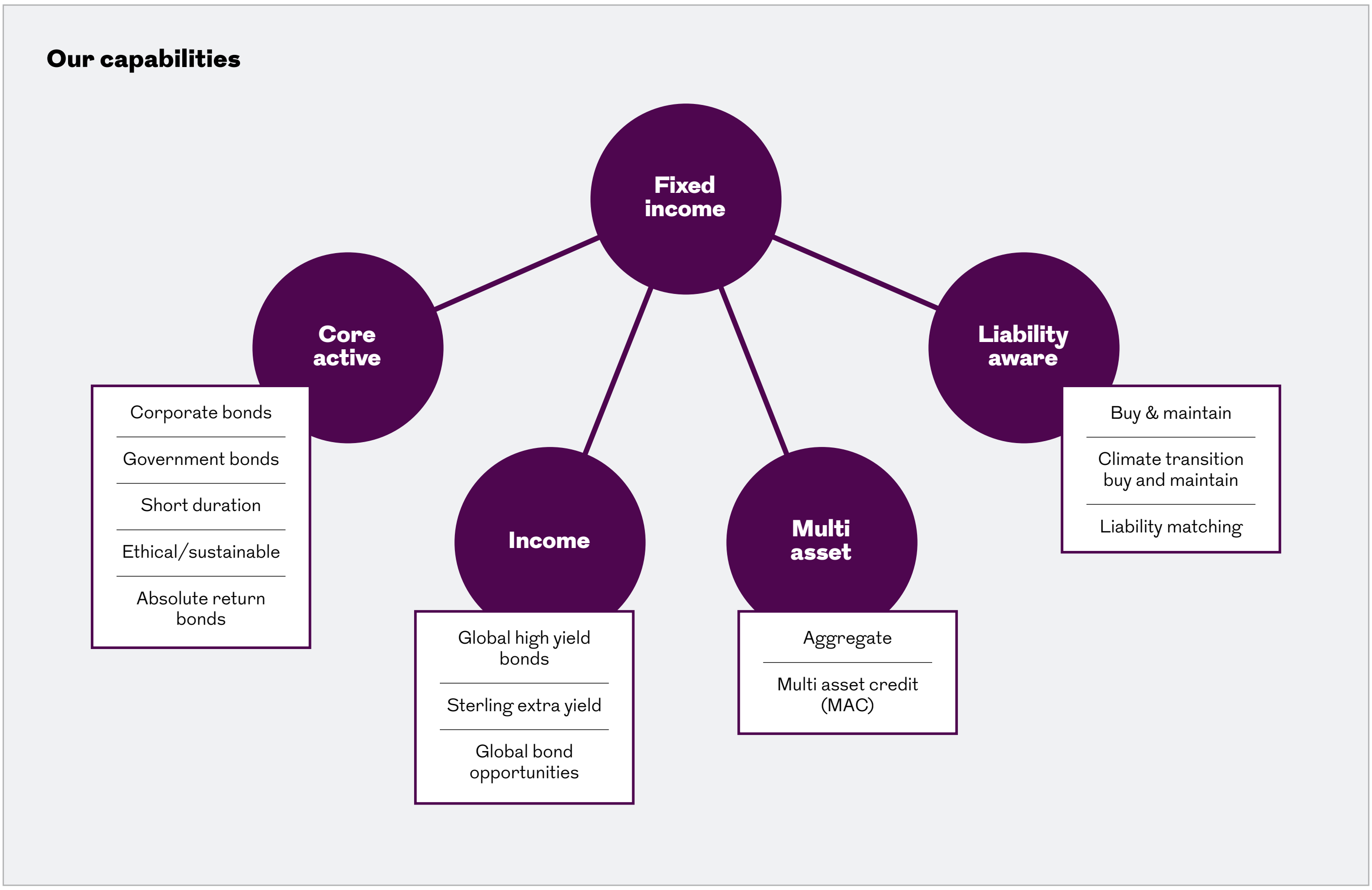
Fixed income asset split



Source: Royal London Asset Management as at 31 December 2023. Subject to rounding.

Our capabilities

We pride ourselves on the depth and quality of the capabilities we have developed for our clients. We understand that different clients have different investment needs and have developed funds to meet a range of risk and return profiles. Our expertise covers government, corporate and high yield bonds across approaches including multi asset credit (MAC), liability focused, cashflow aware and short duration solutions. In addition to our range of funds we offer bespoke, segregated solutions to enable larger clients to meet their specific benchmark and performance requirements



Source: Royal London Asset Management, for illustrative purposes only

Investment team

Will Nicoll
Head of Fixed Income and Private Assets

Ewan McAlpine
Investment Director (Rates & Cash and Sterling Credit)

Paola Binns
Head of Credit

Azhar Hussain
Head of Leveraged Finance

Craig Inches
Head of Rates & Cash

Martin Foden
Head of Credit Research

Sebastien Poulin
Head of Leveraged Finance Research

Paul Rayner
Head of Alpha Strategy Rates

Source: Royal London Asset Management at end December 2024.

Liquidity

Royal London Asset Management has been providing specialist liquidity and treasury management services since 1987. We manage over £19 billion of liquidity assets (as at 31 December 2023) for a diverse range of clients. We consider liquidity as a distinct asset class and our extensive experience has helped us to develop a range of funds that truly meet our clients' needs. These have been created with the aim of delivering a combination of security and liquidity through a well-diversified portfolio consisting of high quality, diversified names. Our investments are screened to ensure they meet the funds' predefined criteria. The funds will not invest in companies or issuers that generate more than 10% of their revenues from armaments, tobacco or fossil fuel extraction.

Government bonds

We believe that government bond markets are relatively efficient. However, our approach is still very much an active one, and we look to balance long-term strategic positions with short-term tactical opportunities. Our fund managers are focused on identifying a range of different investment strategies rather than relying on one significant position. They seek out small valuation anomalies and undertake active yield curve management and duration positioning with the aim of adding value.

We believe that having a variety of investment strategies offers the greatest potential for outperformance in a risk controlled manner. In order to do this, our philosophy relies on a combination of top-down macroeconomic research and bottom-up stock selection.

We provide government bond funds that focus on conventional or index-linked bonds with either a global or UK focus.

Corporate bonds

Royal London Asset Management has developed a credit philosophy that we believe is unique in the asset management industry. Central to this philosophy is the premise that there are inefficiencies within corporate bond markets that can be exploited to generate returns.

We believe these inefficiencies arise as a result of the market being constrained by the benchmark orientation of many investors and their over-reliance on credit ratings. Bond benchmarks are weighted by indebtedness and we believe replicating them offers little opportunity to identify sources of value. Credit ratings provide a convenient means of assessing the likelihood of default and are often used as a determinant of risk. However, ratings make no assessment of the likely recovery in the event of default, a feature which creates further inefficiencies. Liquidity concerns also cause distortions as larger investors naturally have a bias towards certain issues, leading to less research on smaller, less liquid bonds.

Perhaps most importantly, we believe that security is undervalued. We believe that our emphasis on covenants, structure and security (for example, a claim on specific assets or cashflows) has underpinned our consistently strong performance. We place strong emphasis on our own research, preferring companies with sound long-term business models and bonds that offer strong covenant protection and asset backing. We then create highly diversified portfolios, in which holding size is a true reflection of risk, that are designed to be robust under a wide variety of scenarios. We believe that this process produces higher and more consistent returns and gives us the greatest opportunity to deliver our clients' objectives.

Investment philosophies - potential repeatable sources of performance are open to the active manager

Our government bond investment philosophy

Drivers	Opportunities
Passive • Index events • Supply and demand • Seasonal factors	**Strategic (themes vs consensus)** • Value-driven • Long-term
Leveraged • Macroeconomic data • Supply and demand • Technical factors	**Tactical (deviation vs themes)** • Mean reverting • Time-critical

Our corporate bond investment philosophy

Benchmarks	Ratings	Security	Liquidity
Rule-based Debt weightings	Default, not recovery Increasing inflexibility	Credit enhancements underappreciated	Perceived liquidity over-valued
We search out overlooked & under researched bonds	**We focus on "true" risk**	**We appreciate the advantages of security & covenants**	**We recognise the liquidity Illusion**

Source: Royal London Asset Management, for illustrative purposes only

Buy and maintain credit

Our buy and maintain credit strategies apply the same investment philosophy as our other credit offerings to low turnover portfolios. These seek to exploit market inefficiencies while providing risk adjusted returns across an actively constructed, diversified portfolio of high quality corporate bonds. They also go some way to meeting the cashflow requirements of liabilities. We feel that corporate bonds can provide a genuine opportunity for pension schemes to match their liabilities and 'lock-in' excess return for the long term.

Our core buy and maintain strategy focuses on the sterling credit market. However, we can tailor this approach to client needs, including a more global focus, or including greater consideration for characteristics such as carbon weighting, climate transition or other ESG factors.

Short duration

Less exposed to economic cycles, shorter duration bonds can be invaluable in helping manage interest rate risk in particular. Short duration bonds offer protection not just from any hike in interest rates but also from any ensuing increase in market volatility and liquidity challenges that resultant outflows could create.

Our range of short duration bond funds spans the fixed income spectrum from gilts to high yield, offering a broad range of options for fixed income investors seeking to either diversify their fixed income allocation, reduce volatility or manage interest rate risk.

Global high yield

Our global high yield strategy is managed using a similar philosophy and approach to our credit funds, focusing on security selection combined with top-down macroeconomic analysis. Our value-orientated approach seeks to exploit the inefficiencies that can be found within high yield credit markets across the globe.

Our emphasis within high yield is very much on risk management and we seek to construct diversified portfolios that are not reliant on a particular sector.

The high yield market is global in nature, with the larger, more liquid US, diverse European and rapidly growing emerging markets all offering different features. We believe that a genuinely global approach offers greater diversification potential and more opportunities to find attractive bonds. We look at all areas of the high yield market in seeking multiple potential drivers of return.

Absolute return bonds

For investors seeking diversified sources of return, our absolute return fixed income solution offers low correlation with other asset classes while seeking to deliver a smoothing of returns, irrespective of market conditions. Our absolute return strategy focuses on G10 government bond markets as well as bonds issued by supranationals and other quasi-sovereign agencies, typically targeting relative value opportunities between different markets.

We look for opportunities through a number of strategies – including duration, yield curve, cross market, breakeven and volatility – to target positive absolute returns whether yields are rising or falling. The absolute return strategy harnesses the established investment philosophy and process of our Government Bond team, adding the expertise of our in-house derivatives team.

Multi asset credit (MAC)

Building on the proven success of our investment grade credit and global high yield capabilities, Royal London Asset Management has developed a MAC proposition to meet client demand for greater diversification of credit in a low yield environment. Our MAC strategy invests across a broad universe of assets including high yield and investment grade bonds as well as emerging market debt, loans and asset backed securities. We aim to build a portfolio focused on security of income, with sufficient income to bolster the portfolio against volatility.

Our MAC strategy combines asset allocation with fundamental stock picking to create diversified portfolios. We believe that different parts of the credit universe perform strongly under different economic conditions, and therefore reflect this in strategic portfolio positioning while seeking to ensure that we are investing in the best credits in each part of the market.

Cashflow aware investing

We offer a distinctive approach to cashflow aware investing, with a focus on bonds with protective features and certainty of cashflows. This encompasses a range of assets with the aim of sourcing predictable income over the nearer term. We have the flexibility to select from a broad mix of assets that are specifically identified to not only match the liability cashflows with a large degree of accuracy and certainty, but also do so cost effectively. Using this range of strategies means that we can cater to clients seeking a tailored approach to liability matching.

Investment risk

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.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative Risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

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.

Important information

For Professional Clients only, not suitable for Retail Clients.

This marketing communication is a financial promotion and is not investment advice. The views expressed are those of Royal London Asset Management at the date of publication unless otherwise indicated, which are subject to change, and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy policy at www.rlam.com

Issued in July 2024 (reissued in February 2025) by Royal London Asset Management Limited, 80 Fenchurch Street, London, EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

BR RLAM PD 0188

Contact us

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

Royal London Asset Management
80 Fenchurch Street,
London EC3M 4BY

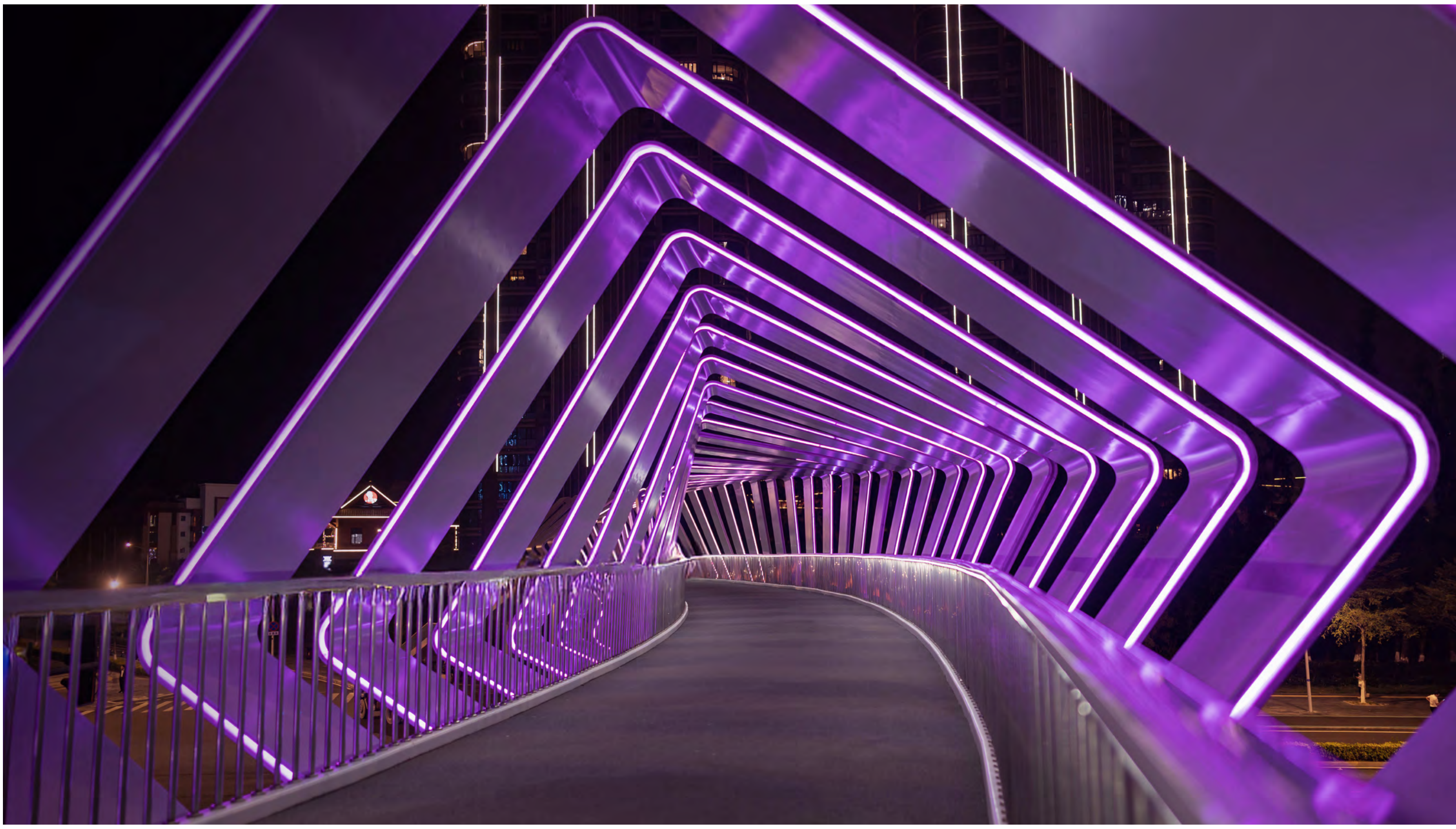
For advisers and wealth managers
bdsupport@rlam.co.uk
+44 (0)20 3272 5950

For institutional client queries
institutional@rlam.co.uk
+44 (0)20 7506 6500

For further information, please visit **www.rlam.com**

We are happy to provide this document in braille, large print and audio.

138853 01 2025



ROYAL LONDON

ASSET MANAGEMENT