
GUIDE TO RATES AND CASH

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The role of cash, short term fixed income and government bonds

The bond market provides governments and enterprises with a means of raising capital for projects and managing their cashflows. As one of the largest financial markets, the bond market provides a broad range of investment opportunities that can support portfolio diversification and risk management.

Simplistically, government bonds seek to provide a greater degree of certainty around cashflows and capital, albeit with a lower yield, while corporate bonds offer a higher yield with more risk and less certainty.

Beyond this, bonds can play a number of different roles for investors, including income, diversification; and as a means of providing downside risk mitigation for portfolios, from rising inflation or an economic slowdown. In our view this gives investors a choice of bond investments to use to position portfolios for different environments.

The question as to which types of bonds are most suited to different market conditions is therefore a complex one. Various parts of the fixed income market can react differently to economic movements, meaning there is no single answer.

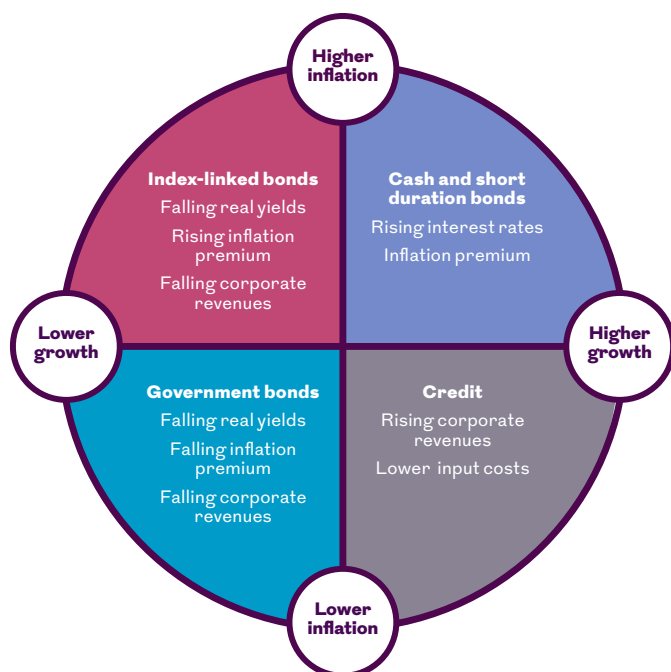
The diagram illustrates broadly which different fixed income asset types tend to perform well under different conditions. This document examines how different strategies can be used by investors at various stages of the economic cycle, as growth and inflation rise and fall, highlighting where Royal London Asset Management's funds fit within this.

Investing across the rates cycle

Our investment approach is built on a disciplined process that combines macroeconomic research with active risk management. We seek to identify opportunities across government bond markets while maintaining a strong focus on capital preservation and liquidity.

As such, our approach to managing government bond funds is based on risk control. Our managers in this space are focused on identifying a range of different investment strategies rather than relying on one significant position. In order to do this, our process relies on a combination of top-down macroeconomic research and bottom-up stock selection. Positions are then classified as strategic or tactical and monitored accordingly.

By continuously assessing economic conditions and market expectations, we aim to build resilient portfolios that can adapt to changing environments.



For illustrative purpose only.

Our fund range

The table below provides an overview of our rates and cash solutions.

Fund	Primary asset class focus	Has shown resilience during periods of
RL Sterling Liquidity Money Market Fund ¹ RL Short Term Money Market Fund ² RL Short Term Fixed Income Fund RL Short Term Fixed Income Enhanced Fund	Cash and floating rate notes	Rising rates environment 
RL Short Duration Gilt RL Short Duration Global Index Linked Fund	Short dated bonds	Rising inflation, rising growth 
RL International Government Bond Fund RL UK Government Bond Fund RL Global Government Bond Fund	Government bonds	Economic slowdown – falling inflation and falling growth 
RL Index Linked Fund RL Global Index Linked Fund	Index linked bonds	Rising inflation, falling growth 
RL Absolute Return Government Bond Fund	Discrete asset class exposures	Macro environment agnostic 

Source: Royal London Asset Management. For illustrative purposes only.

¹ A limited volatility net asset value money market fund

² A short-term variable net asset value money market fund



Rising rates environment

Rising rates tend to be negative for fixed income assets. This risk – known as duration – is larger in longer dated bonds. Assets with either short or no duration tend to perform better.

Investors with a very low risk appetite and who are seeking to help mitigate loss may consider a greater allocation to cash or cash-like investments. By their short-term nature, cash portfolios are constructed with a shorter duration than other fixed income funds, meaning cash investments are favourable for a rising rates environment.

Rising yields on cash and short-term debt securities tend to benefit the performance of money market funds as much of their return comes from the income generated. Prolonged low interest rates have stunted returns from cash in recent years, but this may change if global interest rates start to rise.

RL Short-Term Money Market Fund

- A short-term variable net asset value money market fund.
- Invests predominantly in sterling denominated money market instruments.
- A diversified high quality cash portfolio seeking to meet investors' short-term cash needs.
- Aims to outperform SONIA over rolling 12-month periods.⁴

Launch date
22.07.1999 (Y Inc)

Fund managers
Craig Inches , Tony Cole and Adeline Derain

Sector
IA Short Term Money Market

Fund type
UK ICVC

RL Short Term Fixed Income Fund

- Invests in cash, deposits, money market instruments and government bonds with shorter maturities.
- A diversified fund with at least 70% invested in money market instruments* to cater to medium-term cash needs.
- Aims to outperform SONIA over rolling 12-months by 0.50%.⁴
- Invests in line with ethical criteria, excluding companies generating more than 10% of their revenue from armaments, tobacco and fossil fuels.

Launch date
21.05.2012 (Z Inc)

Fund managers
Craig Inches and Tony Cole

Sector
IA Unclassified

Fund type
UK ICVC

RL Short Term Fixed Income Enhanced Fund

- At least 60% of the fund will be invested in money market instruments* including cash, time deposits, certificates of deposit, commercial paper and floating rate notes.
- The fund can also invest in corporate and government bonds, supranational and agency bonds, asset backed securities and/or transferable securities and reverse repurchase agreements.
- Aims to outperform SONIA over rolling 12-months by 1%.⁴
- Invests in line with ethical criteria, excluding companies generating more than 10% of their revenue from armaments, tobacco and fossil fuels.

Launch date
18.05.2015

Fund managers
Craig Inches and Tony Cole

Sector
IA Unclassified

Fund type
UK ICVC

RL Sterling Liquidity Money Market Fund

- Aims to provide a return in line with money market rates or preserve the value of the investment.
- Invests only in high quality securities, money market instruments and deposits with credit institutions.

Launch date
25.02.2020 (S Inc)

Fund managers
Craig Inches , Tony Cole and Adeline Derain

Sector
IA Unclassified

Fund type
Irish ICVC

Capital invested in the fund is at risk and there is no guarantee that this target will be achieved.

* Fixed income securities which have a duration of 0 - 18 months

⁴ SONIA - Sterling Overnight Index Average



Rising inflation, rising growth

Duration measures the sensitivity of a bond's price to interest rate movements. Interest rates rise because inflation is expected to rise as a result of economic activity and earnings/wage growth. Higher growth expectations usually prompt a rise in bond yields, which pushes prices down. Longer dated bonds have a higher duration than shorter dated bonds, and are therefore more exposed to interest rate effects. In simple terms, short duration bonds are therefore those which are closer to maturity than the average bond in the market.

The closer a bond is to maturity; the quicker the principal can be reinvested at a new interest rate, which can be beneficial when interest rates start to rise, as maturing monies are reinvested at higher yields. Short duration credit funds are less exposed to inflation and offer the potential to generate excess returns above cash and government bonds.

Credit bonds have historically performed well in an environment of rising economic growth when the risk of corporate defaults typically decreases. We believe that the lower spread volatility associated with short duration credit is also well-suited to an inflationary environment.

We offer a number of different solutions in this area, investing across the credit ratings spectrum and with differing approaches to managing duration, yet all investing in line with our government bond or credit philosophies.

RL Short Duration Gilts Fund

- Invests predominantly in shorter dated bonds issued by the UK government.
- Overall short duration seeks to offer protection from interest rate rises.
- Short duration can offer volatility protection.

Launch date
08.11.2013

Fund managers
Craig Inches and Ben Nicholl

Sector
IA UK Gilts

Fund type
UK ICVC

RL Short Duration Global Index Linked Fund

- At least 80% of the fund will be invested in global bonds (index-linked government and corporate bonds) with a duration of 10 years.
- Aims to outperform its composite benchmark over rolling 3-year periods.
- A globally diversified fund seeking to generate alpha from multiple sources.

Launch date
23.02.2016

Fund managers
Paul Rayner and Gareth Hill

Sector
IA Global Inflation Linked Bond

Fund type
UK ICVC



Economic slowdown – falling inflation and falling growth

Bonds can help reduce the impact of an economic slowdown on investors for a number of reasons. Income from bonds is generally made more attractive during periods where both economic growth and inflation are low. Equity returns tend to suffer and assets generating a yield with which investors can have a greater degree of confidence can be a popular choice at this time, particularly as this income maintains attractive purchasing power amid deflationary conditions.

In this environment, bonds issued by governments, particularly those deemed to be most credit worthy, can be attractive as investors seek assets where they feel their capital is less exposed to economic conditions and that the income generated from it will be consistently paid.

There are a number of different options available to government bond investors. Gilts can be attractive to domestic investors who are more familiar with the drivers impacting their home economy. For those wanting to take on more risk, there can be relative value opportunities within other government bond markets globally.

RL International Government Bond Fund

- At least 80% of the fund will be invested in bonds issued by governments across the developed markets, not including the UK.
- A globally diversified portfolio seeking to add value from multiple sources.
- An active approach, looking to balance long-term strategic positions with short-term tactical opportunities.

Launch date
04.11.2011

Fund managers
Paul Rayner and Gareth Hill

Sector
IA Global Government Bond

Fund type
UK ICVC

RL UK Government Bond Fund

- Invests predominantly in UK government bonds, also known as gilts.
- An actively managed fund seeking returns from multiple sources.

Launch date
26.11.2012 (M Acc)

Fund managers
Craig Inches and Ben Nicholl

Sector
IA UK Gilts

Fund type
UK ICVC

RL Global Government Bond Fund

- At least 80% of the fund will be invested in bonds issued by governments across the developed markets, including the UK.
- A globally diversified portfolio seeking to add value from multiple sources.
- An active approach, looking to balance long-term strategic positions with short-term tactical opportunities.

Launch date
17.10.2025

Fund managers
Gareth Hill and Paul Rayner

Sector
IA Global Government Bond

Fund type
Irish OEIC



Rising inflation, falling growth

Index linked bonds are widely used as a means of securing a real rate of return for investors who need their cashflow to be adjusted in line with inflation.

They are also attractive to investors with a lower risk appetite, as they tend to be less volatile than other fixed income securities. However, this is not always the case and recent years have proved to be the exception to this rule, with rapid and significant fluctuations within the government bond market.

Index linked government bonds are better suited than other bonds to an inflationary environment as their yields are closely correlated with inflation, based on the retail price index (RPI). Investors wanting a lower exposure to inflation could be better served for the medium term by short duration index linked bonds, which are much less sensitive to any move in real yields.

RL Index Linked Fund

- Invests predominantly in index linked bonds issued by the UK government, known as gilts.
- Aims to provide a return greater than that of the FTSE Actuaries UK Index Linked Gilts (All Stocks) Total Return GBP Index (the "Index") over a rolling 5-year period.

Launch date
26.11.2012 (M Acc)

Fund managers
Paul Rayner and Ben Nicholl

Sector
IA UK Index Linked Gilts

Fund type
UK ICVC

RL Global Index Linked Fund

- Invests over rolling 3-year periods, by investing predominantly in index linked bonds issued by governments globally.
- A globally diversified fund for investors seeking an alternative real yield.
- Seeks to exploit macroeconomic drivers of global government bond markets.

Launch date
27.01.2010 (Z Inc)

Fund managers
Paul Rayner and Gareth Hill

Sector
IA Global Inflation Linked Bond

Fund type
UK ICVC



Macro environment agnostic

In addition to those funds with a flexible remit, funds that seek to deliver positive performance irrespective of market conditions can also be well-suited to a range of different environments. Royal London Absolute Return Government Bond Fund has an investment objective to target absolute positive capital growth while the RL Short Duration Global High Yield Fund and RL Short Duration Emerging Market Corporate Bond Fund seek to deliver consistent lower-volatility positive total returns. The strategy seeks to generate returns across a range of market conditions by focusing on a single asset class.

RL Absolute Return Government Bond Fund

- Invests primarily in government bonds and inflation linked bonds issued by G10 member states and financial derivatives.
- Seeks to achieve absolute positive capital growth over a 12-month period, irrespective of market conditions.
- Aims to exploit valuation differences across government bond markets using long and short positions.
- Simultaneously seeks to smooth volatility and minimise downside risks.

Launch date
17.11.2014 (Z Acc)
Fund manager
Paul Rayner, Gareth Hill and Ben Nicholl
Sector
IA Targeted Absolute Return
Fund type
Irish OEIC

Our fixed income team

Royal London Asset Management has a highly experienced, award-winning fixed income team that has developed a reputation as one of the UK’s leading managers of government and corporate bonds. We have steered our portfolios through changing economic conditions and business cycles. We believe that the

most effective way of implementing our investment philosophy is by experienced managers undertaking the right type of analysis, operating with the right team structure. This means a collegiate team approach rather than a silo and bureaucratic mentality.

We strongly believe that the team’s collective working knowledge of the market is part of our competitive edge and enables the team to cover a large universe of investment opportunities.



Will Nicoll
Chief Investment Officer



Craig Inches
Head of Rates & Cash



Paul Rayner
Head of Alpha Strategy Rates



Tony Cole
Senior Fund Manager



Gareth Hill
Senior Fund Manager



Ben Nicholl
Senior Fund Manager



Adeline Derain
Fund Manager



Ella Gale
Investment Analyst

Investment risks

Past performance risk: Past performance is not a guide to future performance.

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.

Charges from capital risk: Charges are taken from the capital of the fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Leverage risk: The fund employs leverage with the aim of increasing the fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the fund's losses can be magnified significantly.

Government and public securities risk: The fund can invest more than 35% of net assets in different transferable securities and money market instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

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.

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.

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.

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.

Exchange rate risk: Changes in currency exchange rates may affect the value of your investment.

Efficient Portfolio Management (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.

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.

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.

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.

Inflation risk: Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Money market fund risks: A money market fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The fund does not rely on external support for guaranteeing the liquidity of the fund or stabilising the NAV per share.

Responsible Investment Style Risk: The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Important information

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The RL Short Term Money Market Fund, the RL Short Term Fixed Income Fund, the RL Short Term Fixed Income Enhanced Fund, the RL Short Duration Gilt Fund, the RL Short Duration Global Index Linked Fund, the RL Diversified Asset-Backed Securities Fund, the RL Investment Grade Short Dated Credit Fund, the RL Corporate Bond Fund, the RL Sterling Credit Fund, the RL International Government Bond Fund, the RL UK Government Bond Fund, the RL Index Linked Fund and the RL Global Index Linked Fund are sub-funds of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797. 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.

The RL Ethical Bond Fund, RL Sustainable Short Duration Corporate Bond Fund and the RL Short Duration Credit Fund are sub-funds of Royal London Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

The RL Sustainable Corporate Bond Trust is an authorised unit trust scheme. The Manager is RLUM Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144032.

The RL Multi Asset Credit Fund is a sub-fund of Royal London Asset Management Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations and has been established as an umbrella fund with segregated liability between Funds. It is not a recognised scheme under the Financial Services and Markets Act 2000. The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L – 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Investment Manager is Royal London Asset Management Limited.

The RL Global High Yield Bond Fund, the RL Sterling Extra Yield Bond Fund, the RL Global Bond Opportunities Fund, the RL Absolute Return Government Bond Fund, RL Global Sustainable Credit Fund, RL Short Duration Emerging Markets Corporate Bond Fund, RL Short Duration Global High Yield Bond Fund and the RL Short Duration Global High Yield Bond Fund are sub-funds of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between subfunds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000. The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L – 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Investment Manager is Royal London Asset Management Limited.

Notice for UK Investors. The RL Absolute Return Government Bond Fund is recognised in the UK under the Overseas Fund Regime (OFR) but is not a UK authorised fund and is not authorised by the Financial Conduct Authority (FCA). It is therefore not subject to the same regulatory oversight as UK authorised Funds and is not required to adhere to the UK sustainable investment labelling disclosure requirements. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available. Investors are strongly encouraged to seek independent financial advice before making any investment decisions.

For more information on the trust or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page www.rlam.com. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

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Contact us

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