

Short duration bonds

RL Short Duration Gilt Fund

RL Short Duration Global Index Linked Bond Fund

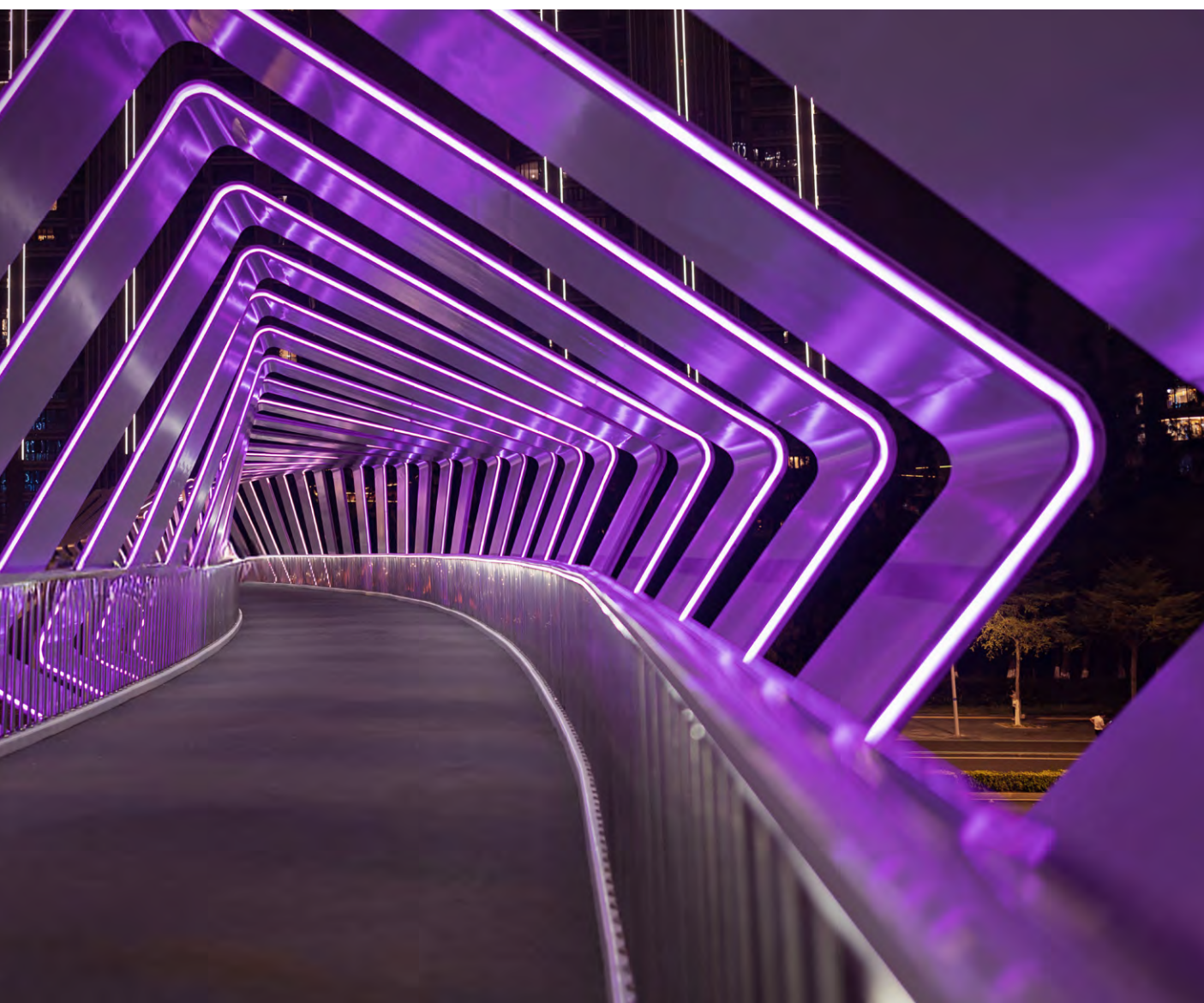
RL Short Duration Credit Fund

RL Investment Grade Short Dated Credit Fund

RL Sustainable Short Duration Corporate Bond Fund

RL Short Duration Global High Yield Bond Fund

RL Short Duration Emerging Markets Corporate Bond Fund



For professional clients only, not suitable for retail investors.

Introduction

The past two decades have seen huge moves in bond prices driven by factors such as the global financial crisis, the Covid pandemic, and more recently, an apparent resurgence in inflation. In addition, the geopolitical backdrop continues to surprise, raising questions over portfolio positioning.



Short duration bonds

Uncertain economic outlook

The past few years have been characterised by significant economic and geopolitical change, from the Covid crisis, to the Russian invasion of Ukraine, a sustained period of high inflation and changes in government in many major western economies.

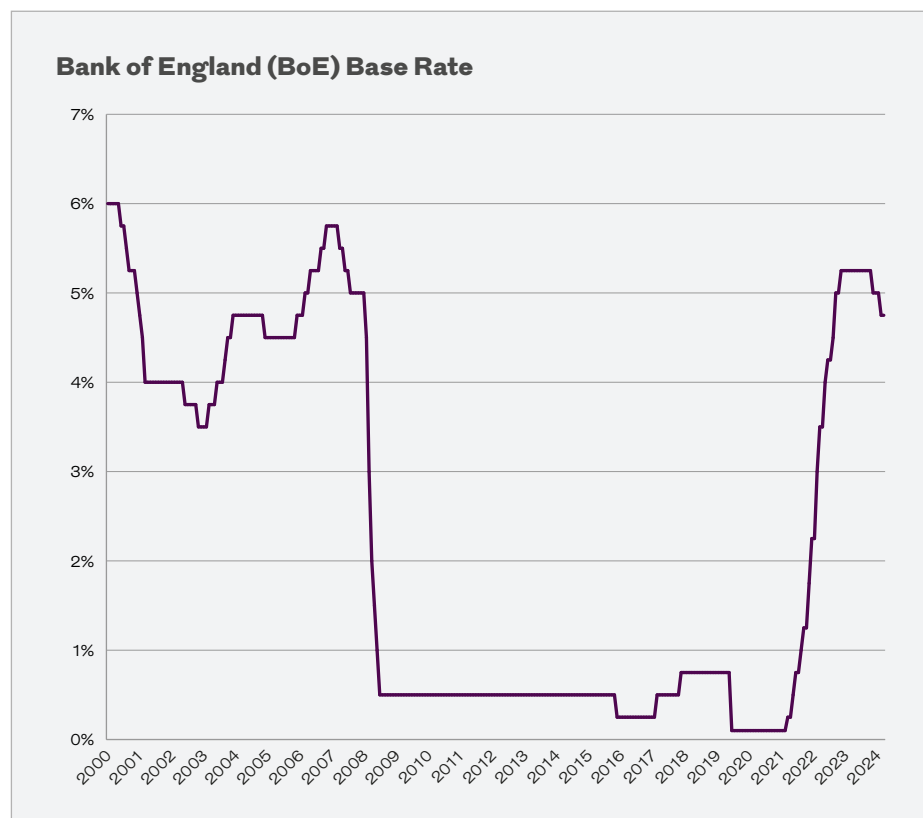
As a result, there have been major changes in monetary policy, from interest rates at near-zero levels in 2020 and then two years of rate rises through 2022 and 2023, before levelling off in 2024. This has led to large scale, prolonged moves both up and down in government bond yields.

Changing bond yields naturally have a greater impact on longer maturity bonds, creating material price gains or losses. Including some exposure to shorter duration bonds could help reduce interest rate sensitivity and balance this risk, while also offering attractive yields.

Investing for this environment

Regardless of the extent and pace of interest rate and yield rises, the returns from bonds are likely to remain uncertain given ongoing market volatility.

Short duration strategies are typically used by investors who are wary of near-term interest rate movements and rising or volatile yields.



Source: Bank of England as at 31 December 2024

Why short duration?

Duration is an important tool for bond fund managers. Allowing managers to compare potential price sensitivity across bonds with varying yields, prices and maturities, duration can be adjusted to control portfolio risk. Less exposed to economic cycles, shorter duration bonds can be invaluable in helping manage interest rate risk in particular. The closer the bond maturity, the quicker the principal can be reinvested at a new interest rate, which can be beneficial when interest rates rise, offering potential for a higher yield.

It's this protection against interest rate rises that makes short duration bonds so well-suited to uncertain market conditions. Short duration bonds offer protection not just from any hike in interest rates but also from an ensuing increase in market volatility and liquidity challenges that resultant outflows could create. Longer duration bonds — which have a higher sensitivity to rate rises — carry a greater risk of capital loss than short dated bonds.

In addition to the aim of reducing interest rate sensitivity, short duration bonds can also offer a number of other advantages:

Income — as with all fixed income assets, coupons from short dated bonds address the need for income, an important requirement as the demand for yield remains strong.

Liquidity — short duration bond funds are inherently liquid (relative to longer dated bond funds) given that the bonds within the portfolio are regularly maturing.

Diversification — short duration bonds can produce returns that are less correlated with traditional bond markets, can benefit from inflation and hedge downside risk.

Reduced costs — shorter dated bonds tend to be held until maturity, potentially reducing turnover and associated dealing costs.

Reduced volatility — short duration bonds offer greater price stability and lower volatility than longer dated issues.

While we believe short duration bonds are well positioned to gain a performance advantage in the longer term, their other characteristics mean that they can play an important role within a well-diversified fixed income portfolio.

Our process

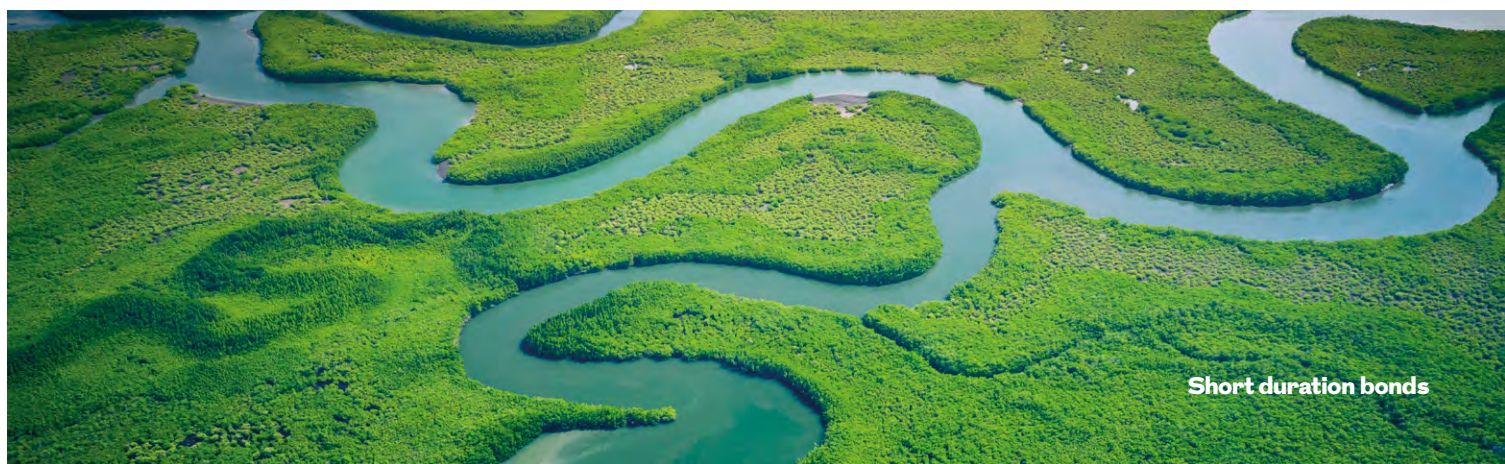
Royal London Asset Management's short duration bond funds are managed using a combination of top-down analysis, based on our macroeconomic views overlaid with bottom-up security selection. At the macro level, the process starts with a quarterly economic review assessing all major economic regions, focusing upon key variables such as growth rates and inflation. This meeting is also used to formulate our outlook scenarios, including short-term, medium-term and long-term yield as well as interest rate forecasts, all of which underpin our investment strategy.

Moving to the micro level, our selection of the individual bonds within the portfolios is driven by our assessment of value. To achieve this we use our proprietary relative value model. The output from this model is reviewed daily and used alongside other regression based models to assist with the selection of individual bonds. In addition we also look at stock specific factors that are vitally important. Overall, we aim to construct diversified portfolios with the potential to deliver consistent alpha from multiple sources.

Flexibility

At Royal London Asset Management, our value-oriented fixed income philosophy is based on the premise that credit and sovereign bond markets, to greater and lesser degrees respectively, present valuation anomalies that can be exploited. We emphasise our own research and use this to examine a wider investment universe than many of our peers. We believe this presents us with the opportunity to uncover returns that are overlooked by our competitors.

Our approach is, therefore, very much an active one. As such, our funds will have the appropriate flexibility to invest tactically in other markets, as appropriate, should any of them present a more attractive investment case than the core asset class. Additionally, having the scope to actively manage the duration of the funds allows our managers to exploit movements in short dated yields.



Short duration bonds

RL Short Duration Gilts Fund

The duration of the Royal London Short Duration Gilt Fund is actively managed to exploit movements in short dated gilts. It invests in UK gilts while maintaining an overall short duration within the fund. Additionally, the fund has appropriate flexibility to invest tactically in other markets, such as index linked government bonds, corporate bonds, or non- UK government bonds, supranational bonds and agency bonds, should any of them present a more attractive investment case than the core asset class.

Fund facts

Target benchmark	FTSE UK Gilts Government up to 5 Years Total Return GBP Index
Comparator benchmark	IA UK Gilts
Typical duration	2-3 years
Fund managers	Craig Inches and Ben Nicholl
Inception date	08.11.2013
Asset allocation – core	Short-dated UK government bonds
Asset allocation – tactical	Cash instruments, short and medium-dated overseas government bonds, sterling corporate bonds, UK and overseas index linked government bonds



Craig Inches
Head of
Rates and Cash



Ben Nicholl
Senior
Fund Manager

RL Short Duration Global Index Linked Bond Fund

The Royal London Short Duration Global Index Linked Bond Fund targets the shorter end of the maturity spectrum, aiming to deliver inflation-linked returns with limited interest rate risk. It is an actively managed, globally diversified portfolio with the ability to invest in UK and global index linked government and corporate bonds. The debt securities in which the fund invests may be investment grade or non-investment grade.

Fund facts

Target benchmark	30% Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Total Return GBP Index, 70% Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 Year Total Return GBP Index
Comparator benchmark	IA Global Inflation Linked Bond
Typical duration	5-6 years
Fund manager	Paul Rayner and Gareth Hill
Inception date	23.02.2016
Asset allocation – core	Short-dated UK and overseas index linked government bonds
Asset allocation – tactical	Cash instruments, short and medium-dated UK and overseas government bonds, index linked credit



Paul Rayner
Head of
Alpha Strategy Rates



Gareth Hill
Senior
Fund Manager

RL Short Duration Credit Fund

The Royal London Short Duration Credit Fund targets shorter-dated bonds (up to 5 years maturity) in the sterling investment grade credit market that we believe currently offer value. Fund duration is actively managed. The fund may have tactical allocation to other asset classes, such as gilts and index linked bonds.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch 1–5 Year Sterling Non-Gilt Index Total Return (GBP Unhedged)
Comparator benchmark	IA Sterling Strategic Bond
Typical duration	2–3 years
Fund manager	Paola Binns and Eric Holt
Inception date	08.11.2013
Asset allocation – core	Short-dated sterling credit
Asset allocation – tactical	Cash instruments, short-dated UK government bonds and non-sterling credit, medium-dated sterling credit



Paola Binns
Head of
Credit



Eric Holt
Senior Credit
Fund Manager

RL Investment Grade Short Dated Credit Fund

The Royal London Investment Grade Short Dated Credit Fund aims to provide a total return from a combination of income and capital growth. The fund invests in a broad portfolio of investment grade short-dated bonds alongside a robust ethical overlay that takes into account specific predefined criteria. The fund strategy focuses on delivering longer-term returns in a low risk manner.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch 1–5 Year Sterling Non-Gilt Index GBP + 0.25%
Comparator benchmark	IA Sterling Corporate Bond
Typical duration	2–3 years
Fund managers	Paola Binns and Eric Holt
Inception date	07.12.2015
Asset allocation – core	Short-dated investment grade sterling credit with specific ethical exclusion criteria
Asset allocation – tactical	Cash instruments, short-dated investment grade non-sterling credit, short and medium-dated UK and overseas government bonds



Paola Binns
Head of
Credit



Eric Holt
Senior Credit
Fund Manager

RL Sustainable Short Duration Corporate Bond Fund

The Royal London Sustainable Short Duration Corporate Bond Fund aims to achieve a total return over the medium term (3-5 years). The fund predominately invests in sterling-denominated corporate bonds and seeks to access a diverse set of borrowers with attractive sustainable characteristics across a variety of economic sectors.

Fund facts

Target benchmark	ICE Bank of America Merrill Lynch Sterling Non-Gilt (1-5 Years) Total Return GBP Unhedged Index
Comparator benchmark	IA Sterling Corporate Bond
Typical duration	2-3 years
Fund manager	Matthew Franklin and Shalin Shah
Inception date	23.11.2022
Asset allocation – core	Short-dated sterling credit with specific positive sustainable screen
Asset allocation – tactical	Cash instruments, short-dated UK government bonds and non-sterling credit, medium-dated sterling credit



Shalin Shah
Senior
Fund Manager



Matthew Franklin
Fund Manager

RL Short Duration Global High Yield Bond Fund

The Royal London Short Duration Global High Yield Bond Fund invests a large portion of its assets in short maturity sub-investment grade bonds issued by companies domiciled in the UK, Europe, Africa, Asia and the Americas. The fund may invest in short maturity investment grade securities. It may also invest in short maturity bonds issued by European governments and government related agencies.

Fund facts

Target benchmark	Bank of England Sterling Overnight Index Average
Comparator benchmark	IA Sterling High Yield
Typical duration	Less than 2 years
Fund managers	Azhar Hussain and Stephen Tapley
Inception date	09.04.2013
Asset allocation – core	Short-dated high yield bonds
Asset allocation – tactical	Cash instruments, short-dated government bonds



Azhar Hussain
Head of
Leveraged Finance



Stephen Tapley
Senior
Fund Manager

RL Short Duration Emerging Markets Corporate Bond Fund

The Royal London Short Duration Emerging Markets Corporate Bond Fund aims to provide income, primarily by investing in emerging market corporate bonds issued by companies domiciled in Europe, Africa, Asia and the Americas. The Fund seeks to achieve its objective on an active basis and its performance target is to outperform the Federal Funds Rate.

Fund facts

Target benchmark	Federal Funds Rate
Comparator benchmark	IA Global Emerging Markets Bond - Hard Currency
Typical duration	1-2 years
Fund manager	Dilawer Farazi and Azhar Hussain
Inception date	18.04.2023
Asset allocation – core	Short-dated emerging market corporate bonds
Asset allocation – tactical	Cash instruments, short-dated government bonds



Dilawer Farazi
Senior
Fund Manager



Azhar Hussain
Head of
Leveraged Finance



Short duration bonds

Fund risks

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.

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, investment opportunities, potentially underperforming non-sustainable funds.

Important information

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The RL Short Duration Gilt Fund, RL Short Duration Global Index Linked Fund, the RL Diversified Asset Backed Securities fund and the RL Investment Grade Short Dated Credit Fund are sub-fund 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 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 on the fund or 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.com.

The RL Short Duration Credit Fund is a sub-fund 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 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 on the fund or 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.com.

The Fund is a sub-fund of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. 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. For more information on the Fund or 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.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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