

Royal London

Short Duration Global High Yield Bond Fund

After 30 years of falling yields, we have entered a period of market uncertainty caused by higher inflation and interest rates.

As a result, investors are looking to manage risk and find the right balance between the two key sources of return – capital and income.

To provide stability and dampen the effects of short-term volatility on long-term returns, investors are increasingly looking beyond traditional focus areas such as investment grade credit to generate attractive returns.

In a volatile environment with risks on the rise, finding a solution with the potential to withstand a broad range of economic and market scenarios will become critical. The Royal London Short Duration Global High Yield Bond Fund is a potential solution to this issue.

By selecting high-quality seasoned assets, which are defensively positioned at the front end of the yield curve, we believe that investors can enhance returns in a risk-controlled way.

Investment philosophy

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 both 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.

We target reduced default risk and volatility in the fund via our focus on the reporting transparency of the companies we invest into, and with our bias towards larger more liquid issue sizes. We avoid business models which we believe are unforecastable.

Fund facts

- Invests primarily in short dated high yield bonds on a global basis.
- The fund may invest in short maturity investment grade securities.
- A defensive, liquidity focused high yield bond fund.

Target benchmark	Sterling Overnight Index Average (SONIA)
Typical duration	Less than 2 years
Launch date	15 February 2013 (Z Inc GBP)
Fund managers	Azhar Hussain Stephen Tapley
Share classes available & Fund management fee (%)	M Acc/Inc 0.59% Z Acc/Inc 0.48%

An investment approach for all market conditions



Global yet integrated approach

One team, no regional silos



Nimble & experienced

Established co-located team allows for efficient decision making



Know what you know, know what you don't

Focus on quantifiable risk, not unpredictable uncertainty



No over-diversification

Discerning stock selection with strong individual positions



ESG Promoting Positive Externalities

Beyond the credit analysis, engagement over avoidance

Fund overview

Royal London Asset Management has developed the Short Duration Global High Yield proposition to meet client demand for a truly global credit product that aims to deliver an attractive level of income with limited volatility, in an increasingly uncertain environment.

We believe that our Short Duration Global High Yield strategy is well-suited to the needs of a range of investors in terms of diversification, risk/return and liquidity profile.

The fund will seek to outperform its benchmark, SONIA, by 2% per annum over rolling three-year periods (gross of fees).

Fund positioning

The Royal London Short Duration Global High Yield Bond Fund invests primarily in short-dated global high yield bonds, exclusively on a hard currency basis.

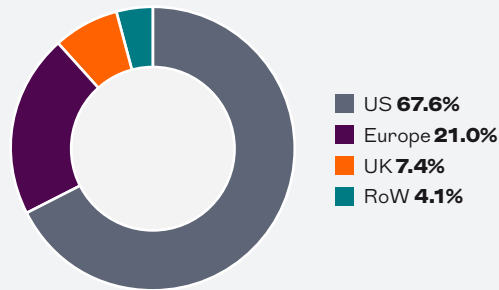
This is a combination of bonds with both near term final maturity dates and with optional redemption features. The strategy has been operated for decades to exploit a persistent market inefficiency.

Credit rating agencies assign the same rating on a company's bonds, regardless of their tenor. Given the influence that credit rating agencies continue to have over the market, spreads on offer do not differ materially between short and long duration bonds. However, when defaults do occur in global high yield markets, these are more likely to occur at the start of the life of a bond. This fund focuses on more seasoned bonds, which are closer to their redemption.

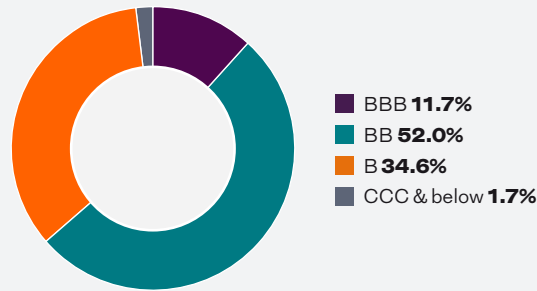
As such, we believe that the fund can achieve a disproportionately large level of spread for the default risk it is exposed to. With detailed credit analysis, we believe that the default experience can be reduced to virtually zero. Given the shorter duration nature of the fund, two key characteristics are observable.

First, the underlying volatility of the fund is materially lower (broadly half that of the wider market). Since launch the fund has also experienced approximately half the number of negative months, as compared with the wider market.

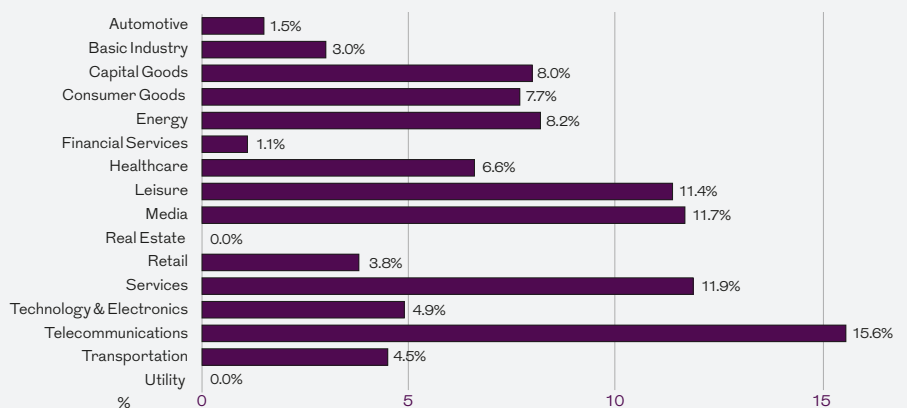
Geographic positioning



Credit rating positioning



Sector positioning



Past performance is not a guide to future performance. Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

Source: Royal London Asset Management as at 30 September 2024. Excludes the impact of cash and cash equivalent instruments held with the portfolio. Subject to rounding.

Second, the fund experiences a steady inflow of liquidity, as the companies redeem their near-term maturities as a natural course of business.

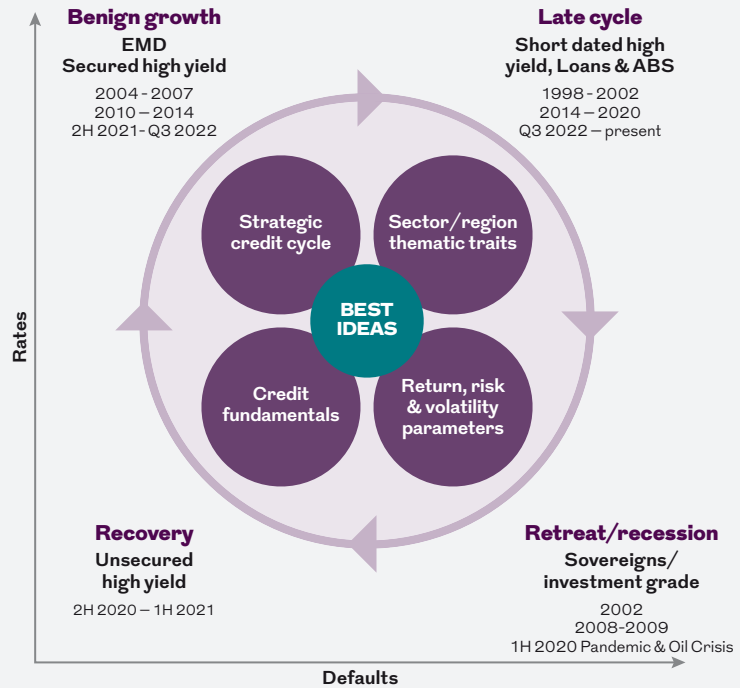
Foreign exchange risk is mitigated by a daily monitoring of the hedging position, to ensure that returns are derived from the underlying bonds and not currency effects.

Investment process

The investment process combines our top-down and bottom-up approach to construct a portfolio of best ideas. The investment process can be summarised into three key steps, with ESG&C (Environmental, Social, Governance and Climate) analyses fully integrated:

- 1 Macro view
- 2 Risk overview
- 3 Stock selection

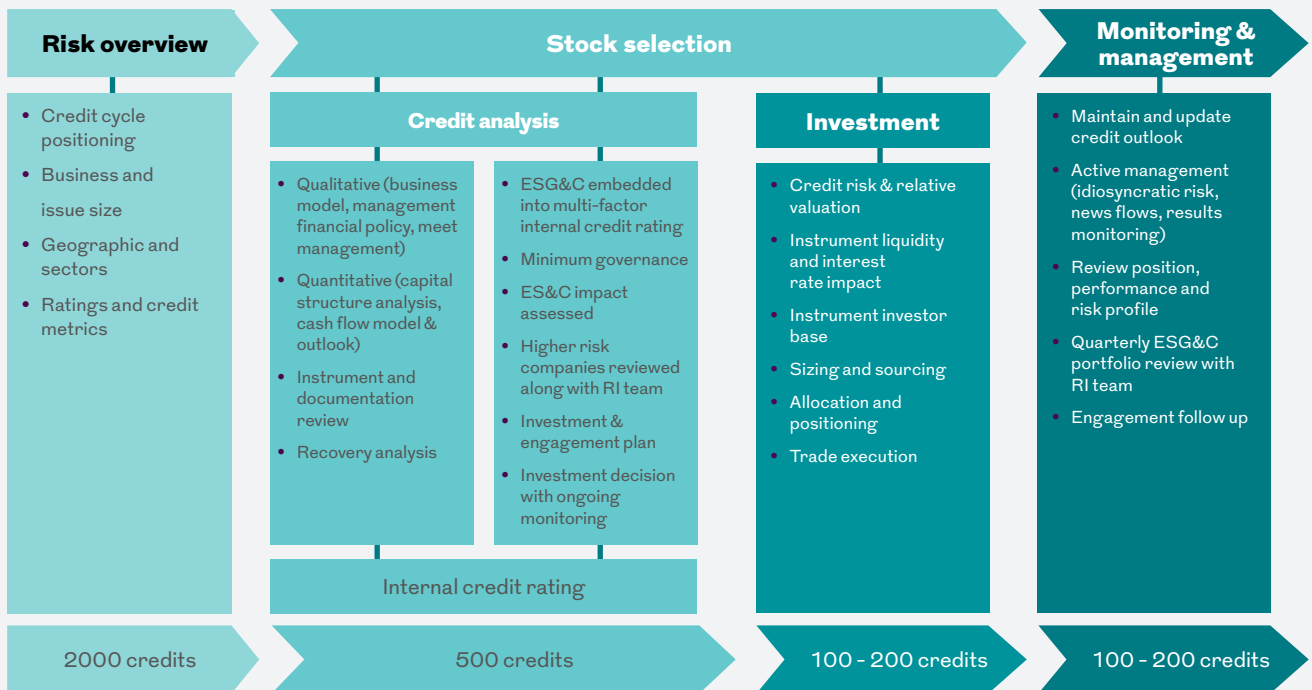
The Credit Cycle: A framework that encourages active decision making.



Navigating the cycle can improve returns and dampen volatility

Source: Royal London Asset Management. As at September 2024. For illustrative purposes only.

Investment process



Robust credit selection process

Source: Royal London Asset Management, for illustrative purposes only.

Macro view

At the macro level, our analysis starts with a quarterly economic review which covers all major economic regions and focusses upon key variables such as growth rates and inflation. This meeting is also used to formulate our outlook scenarios, including long-term default, yield and interest rate forecasts which help to shape our investment strategy.

We then combine this with the team's analysis of the credit cycle. We believe that various parts of the credit universe have differing characteristics and will vary in performance under different conditions (as illustrated in the The Credit Cycle chart at the top of the previous page). This analysis enables us to develop our strategic view of the market.

Risk overview

Our risk view builds upon our macroeconomic outlook. Being conscious of risk management, within investment construction we look to diversify the fund's holdings by sector, credit quality and regions. We will also tilt holdings toward the areas where we believe the greatest risk/return attributes can be found. We overlay certain thematic strategies, for example,

by removing companies where we believe that business models cannot be forecast or by avoiding certain unfavourable creditor jurisdictions. We also exclude bonds which do not match our volatility, yield and liquidity characteristics.

Stock selection

The last and most important filter is bottom-up fundamental credit analysis – this is where we believe we add real value through analysing individual companies using a combination of qualitative and quantitative techniques to identify candidates which can potentially service as strong versatile investments. This universe of potential investment candidates are then further assessed on technicals including market liquidity, volatility and yield and in combination with our top down views enable us to arrive at a selection of credits we believe fit best within the fund to achieve our fund goals and objectives.

ESG integration

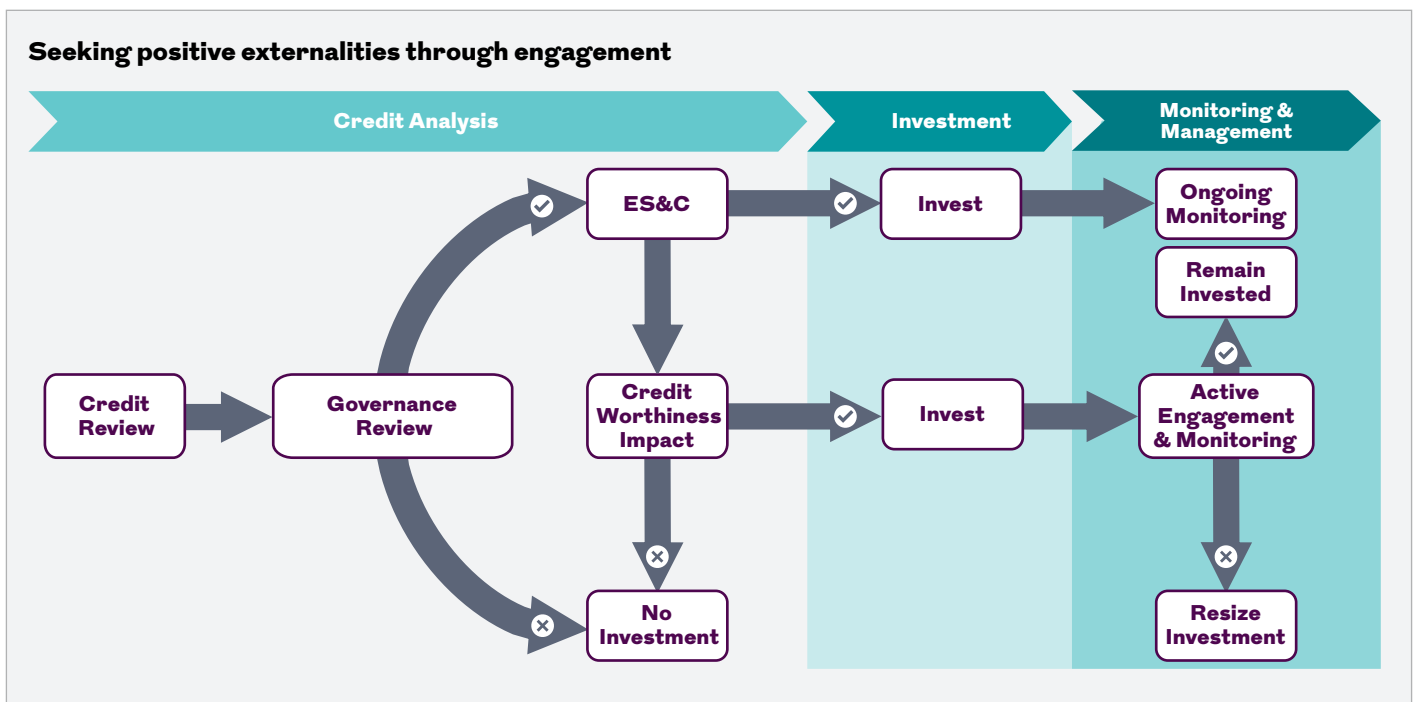
While the fund has no official ESG objective, ESG&C issues are a critical component of our risk analysis and investment process as the financial and broader economic impact of ESG&C

factors over the long term can be crucial. The fund's investment process fully integrates analysis of both credit quality and ESG&C characteristics with the aim of reducing credit losses and seeking positive externalities through active engagement (ie, indirect ESG related benefits which may potentially arise if companies improve their ESG&C profiles following engagement).

As active, long-term investors ESG&C integration is critical to generating the best possible outcome for all stakeholders while encouraging corporate issuers to improve disclosure and transparency.

The Leveraged Finance team leverages a proprietary framework comprised of exclusion and rating scores across several factors to assess materiality. This directly affects the credit rating of the asset in question and subsequent level of engagement with the potential investment.

The Leveraged Finance team also works closely with our Responsible Investment team on assessments. The chart below illustrates the fully integrated nature of the Short Duration Global High Yield investment process.



Source: Royal London Asset Management, for illustrative purposes only.

Experience and expertise

Royal London Asset Management has a highly skilled, experienced Leveraged Finance team that has formed an enviable reputation. The team has expanded as we've developed new products and our

assets under management have grown over time. 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 that supports a collegiate approach.

Biographies



Azhar Hussain

Head of Leveraged Finance

Azhar has 23 years' direct experience of investing in an array of strategies across the Global Fixed Income and Leveraged Finance arenas. He trained as a chartered accountant with Deloitte before starting his investment career as a high yield credit analyst at Gulf International Bank in London. He subsequently became Head of Corporate Debt responsible for IG & HY absolute and relative return strategies. He left to join Insight as Head of HY & Leveraged Loans before joining Royal London Asset Management initially as Head of Global High Yield where he has successfully launched strategies across the global credit spectrum. Azhar holds a BA in Economics & Law from SOAS, University of London and obtained a MSc in Behavioural Science from the London School of Economics in 2018.



Stephen Tapley

Senior Fund Manager

Stephen has 16 years' experience of investing in global credit. Stephen started his career at Gulf International Bank as a High Yield analyst before moving onto Scottish Widows Investment Partnership.

He joined Royal London Asset Management in 2012, where he helped to launch the Global High Yield and Short Duration strategies in 2013. He has helped to manage these strategies since inception.

Stephen is a CFA Charterholder and holds an MSc in Financial and Industrial Mathematics from Dublin City University.

Fund Risks

Investment Risk: Past performance is not a guide to future performance. 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.

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.

Exchange Rate Risk: Investing in assets denominated in a currency other than the base currency of the Fund means the value of the investment can be affected by changes in exchange rates.

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.

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.

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.

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

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