# Royal London Sustainable Sterling Credit Strategies

## Quarterly Report

## 31 December 2022

For professional clients only, not suitable for retail clients

## Executive summary

- *This report covers Royal London's sterling credit-only fund **Sustainable Managed Income** and the credit-oriented mixed-asset fund **Sustainable Managed Growth**. As the **Global Sustainable Credit Fund** is not limited to sterling credit as with our other sustainable credit portfolios, it has a separate report and is not covered here. For commentary on the equity-only sustainable funds (**Sustainable Leaders** and **Global Sustainable Equity**) and the two equity-oriented mixed-asset funds (**Sustainable World** and **Sustainable Diversified**), please see our sustainable equity report. Please note: There are no quarterly commentaries for **Sustainable Growth** or **Sustainable Short Duration Corporate Bond** as these funds are still in the initial 12-month periods following their launch.*
- The macroeconomic factors that disrupted financial markets in the first three quarters of 2022 – high inflation and interest rate rises, along with fears of recession – continued to dominate in the fourth quarter, albeit less negatively than investors had previously feared. Although central banks continued to raise rates with the Federal Reserve (Fed), Bank of England (BoE) and European Central Bank (ECB) each raising rates by 1.25% in aggregate over the quarter, investors increasingly sensed that inflation was close to topping out and that future rate increases could be more nuanced than they were through 2022. As a result, risk assets recovered to deliver positive returns.
- Our credit-only fund **Sustainable Managed Income** outperformed the broad sterling credit benchmark (iBoxx Sterling Non-Gilts All Maturity Index) over the quarter. This was primarily driven by positive credit sector allocation, with a notably strong contribution from the significant underweight to supranational bonds. This was enhanced by the overweight allocations to subordinated insurance and social housing. Although stock selection in the insurance, banks, real estate and supranationals sectors was positive, it was more than offset by negative stock selection in the structured, consumer services, utilities and social housing. Duration made a minimal contribution to performance as the average duration of the fund was broadly in line with the market over the period.
- For the year as a whole, the main driver of the negative returns in sterling credit was the weakness in UK government bonds, exacerbated by widening credit spreads. UK government bonds returned -25.06% – an unprecedented calendar year setback. The yield on the 10-year gilt rose from 0.97% to 3.67% over the 12 months (an increase of 270bps). The investment grade sterling credit index returned 5.74% in the fourth quarter, lifting the annual return to -17.72%. Given such poor absolute returns, we appreciate that it will be scant comfort that our sustainable credit portfolios have outperformed the iBoxx Sterling Non-Gilt All Maturities Index over one, three and five years. However, relative performance is important and we expect the funds to perform well again as we approach more normal market conditions.
- The recovery in the fourth quarter in both global equities, albeit somewhat impacted by currency effects for sterling investors, and investment grade sterling credit was positive for our mixed-asset fund **Sustainable Managed Growth**, which performed strongly. For its sterling credit portfolio, outperformance was primarily driven by positive credit sector allocation, with a notably strong contribution from the significant underweight to supranational bonds. This was enhanced by the significant overweight allocations to subordinated insurance. Stock selection was mixed and duration made a small positive contribution to performance.
- For the equity portfolio, sector allocation was moderately positive with the strong contribution from industrials, consumer staples and communication services outweighing the negative contribution from financials, technology and materials. However, the outperformance was primarily driven by stock selection, with particularly strong contributions from the healthcare, technology and consumer discretionary sectors. It was the first quarter for some time where performance wasn't materially impacted by the lack of exposure to the energy sector: indeed, our zero weighting to energy was a net positive for relative performance as the sector underperformed the wider market over the quarter.
- While equities delivered positive returns in the quarter, 2022 as a whole was particularly challenging for sustainable equity investors. We examined these issues in depth in previous quarters, but in summary two issues affected equity performance: the rise in oil prices, leading to strong performance from equities in the energy sector; and the impact of higher interest rates on long-duration growth stocks. Otherwise, the unusual correlation in 2022 between equities and bonds impacted the overall performance of our mixed-asset funds.
- Despite recent inflation data, signs of increasing wage pressures and union unrest, particularly in the public sector, we expect inflation to peak in the coming months. This is driven by our view that energy prices will moderate and that weaker GDP growth will reduce the tightness of the labour market. Nonetheless, it is likely that UK interest rates will rise further during the early part of 2023 as the BoE continues to focus on bringing inflation under control.
- Although the economic data remain very mixed, we believe that higher rates will lead to a recession in the UK, impacting company earnings and leading to some increase in credit rating downgrades and default rates. Nevertheless, it is our view that an asset allocation in favour of sterling credit bonds is appropriate as the widening in credit spreads this year has taken valuations to attractive levels, on both a relative basis compared to government bonds and in absolute terms. We consider that credit spreads discount a significant portion of bad news and that investors are being paid well to take credit over government bond risk. Against this background, we will maintain our focus on identifying

sustainable companies with strong balance sheets, favouring issues with security and downside protection, and ensuring that portfolios are diversified across issuers and sectors.

## Market overview

- For 2022 as a whole, UK government bonds returned -25.06% while also exhibiting exceptional short-term volatility. The yield on the 10-year gilt rose from 0.97% to 3.67% over the 12 months, touching 4.5% in the turmoil at the end of September. In big picture terms, any gilt with more than 30 years to maturity lost at least half its value in the course of 2022; even five-year gilts lost over 10% of their value. The increase in yield on the sterling investment grade credit index over 2022 was equally dramatic, up from 1.83% to 5.34% at year end.
- After the incredibly difficult first three quarters of 2022, in which the broad sterling credit index returned -22.18%, the fourth quarter was again challenging. Central banks responded to the continued strength of inflation by further tightening monetary policy and reiterating that they will do whatever it takes to suppress rising prices. The US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) each raised rates by 1.25% in aggregate over the period. Since March, the Fed has raised rates seven times by 4.25% in total – its 0.75% increases in June, July, September and November were the biggest single increases for nearly 30 years. Investors expect further hikes in 2023 as the services sector of the US economy has remained notably strong.
- The ECB was slower to react, partly due to a more fragmented backdrop with a gap between Germany and 'peripheral' economies. However, it ended its bond buying programme in July and increased rates by 0.75% (its first hike for 11 years and a bigger increase than the 0.50% expected by economists). Further increases followed in September, October and December with a clear commitment to raise rates further in 2023. The BoE increased rates to 3.5% over the quarter, taking its tally to eight increases in 2022 and nine so far in this cycle.
- Despite these interest rate rises and volatility, however, risk assets outperformed in the fourth quarter as inflation appeared to be nearing its peak. Investors started to anticipate lower rates of inflation and the peak of the interest rate cycle early in 2023 as central banks pivot away from hawkish monetary policies to more nuanced strategies. In local currency terms (i.e., without the considerable impact of US dollar weakness over the quarter), nearly all major stock markets delivered positive returns for the quarter.
- UK bond markets continued to be impacted by Kwasi Kwarteng's ill-fated 'mini-Budget' with the BoE forced to intervene in the gilt market. Although this calmed financial markets temporarily, the volatility continued for several weeks, only moderating when new policies were set out by new Chancellor Jeremy Hunt and then confirmed in the Autumn Statement in mid-November. As a result, the UK gilt market was the strongest major government bond market over the quarter, delivering a return of +1.7% as the benchmark 10-year gilt yield fell by 42 basis points (bps) from 4.09% to 3.61%. Shorter-dated gilts performed best; gilts with five years to maturity or less provided positive returns of 2.7%, whereas the 15 years or more to maturity segment returned -1.9%. Otherwise, most other significant markets delivered negative returns over the period as yields rose (prices move inversely to yields): the 10-year US treasury yield rose by 5bps to 3.87%; and the 10-year German bund yield rose by 46bps to 2.57%.
- The sterling investment grade credit market returned 5.74% over the quarter, boosted by the fall in gilt yields and the significant tightening of the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) from 1.99% to 1.61% (iBoxx). The third-quarter outperformance of defensive sectors reversed sharply with the supranational and covered bond sectors underperforming, while the subordinated bank and insurance sub-sectors delivered particularly strong relative performance. Credit quality had a strong impact on relative returns in the period – bonds in the BBB and A ratings band outperformed their investment grade peers, with even the sterling high yield market lagging behind BBB rated bonds.
- Primary credit market activity recovered in the fourth quarter. Despite minimal activity in December, sterling issuance was £11.5bn over the quarter, primarily from the financial sectors. For the year as a whole, however, the total sterling issuance of £50.9bn was below the £62.5bn and £57.0bn for 2021 and 2020, respectively. Similar patterns were also seen in the euro investment grade market.
- Finally, the BoE was active in selling bonds that it had acquired to stabilise markets in the last three years. Despite delays following the 'mini-Budget', the BoE also made good progress in reducing its holding of corporate bonds that were bought in the aftermath of the initial impact of Covid-19. Although some commentators were concerned about this overhang, as we expected the BoE has so far been able to do this without a discernible impact on spreads.

## Quarterly Performance and activity

- All issuers within our sustainable holdings offer a net benefit to society or show ESG leadership. As well as reducing risk, we seek out opportunities that are under-researched e.g., bonds that do not fall into mainstream indices or benchmarks and/or are unrated by ratings agencies. Importantly, the sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets. Key themes in the funds include social housing, social & environmental infrastructure, community funding (regulated banks and building societies focused on SME and retail lending)., financial inclusion & resilience (such as insurance products to support individuals through shocks) and the energy transition. On sustainability grounds, we have no exposure to bonds of oil & gas companies or extractive industries. We are also underweight in the general industrial and consumer goods sectors, and to a lesser extent in consumer services.

- The portfolios' overweight in BBB is targeted to regulated financials, and utility debt, which have exhibited stable cashflows relative to the wider consumer, retail and industrial BBB areas and lower rating transition risk to sub-investment grade, which is a key risk in the current environment.
- Our credit-only fund **Sustainable Managed Income** outperformed the broad sterling credit benchmark (iBoxx Sterling Non-Gilts All Maturity Index) over the quarter. This was primarily driven by positive credit sector allocation, with a notably strong contribution from the significant underweight to supranational bonds, which we feel offer insufficient returns despite the defensive qualities exhibited in more volatile markets. This was enhanced by the overweight allocations to subordinated insurance and social housing (which benefited from the impact of duration as many of the holdings are longer dated). Although stock selection in the insurance, banks, real estate and supranationals sectors was positive, it was more than offset by negative stock selection in the structured, consumer services, utilities and social housing. Duration made a minimal contribution to performance as the average duration of the fund was broadly in line with the market over the period.
- For the sustainable credit portfolios, stock selection was particularly strong in subordinated financials: subordinated issues of **HSBC**, **Lloyds Banking Group**, **Virgin Money** and **Leeds Building Society** performed strongly in the banks sector, with **Aviva**, **Scottish Widows** and **Prudential** standing out in insurance.
- Structured bonds were the main drag on stock selection as they tend to lag moves in the broad market – structured issues of **Intu**, **Telereal**, **Equity Release Funding** and **UlivingatEssex** featured as laggards. Nonetheless, we continue to favour these bonds, which tend not to be included in indices, believing that the additional security is undervalued by the market. Stock selection was also negative within general industrials due to **Aggregated Micro Power Infrastructure**.
- Our proven investment philosophy and process again proved robust in the market turbulence following the 'mini-Budget' in September and the subsequent challenges experienced by the LDI part of the pensions industry. The impact on the sterling credit market was significant given the sheer amount of debt sold by LDI orientated pension funds to meet collateral calls. We continued to provide liquidity where required and took advantage to buy undervalued credit during the market sell-off.
- There were no defaults in the funds in the quarter and we remain happy with the shape of our sterling credit portfolios. While deteriorating economic and market conditions demand extra vigilance, we are comfortable that our investment philosophy and process will help us to navigate the challenging environment by favouring secured bonds with strong covenants and focusing on bottom-up research to identify borrowers with attractive risk and return characteristics. Our portfolios are widely diversified across sectors, individual issuers and economic exposures. We believe that the lower credit rated segments of our portfolios have yields that more than compensate us for the increased risks. We continue to run overweight positions in subordinated financial debt despite the worsening economic outlook. This reflects our view that capital ratios are robust, while yields are at multi-year highs. Where we have targeted exposure to sub-investment grade bonds and unrated debt, we consider that the diversification and yield benefits are appropriate.
- There was a notable credit rating downgrade for one issuer in the quarter. In early October, S&P Global Ratings downgraded **Swan Housing Association** (a small social housing provider in East London and Essex) from BBB to BB- (i.e., sub-investment grade) following a deterioration in its financial profile and latterly the breakdown of its merger with Orbit. S&P made their move despite a replacement partner, Sanctuary – a much larger national operator – already having been identified. The funds already owned bonds of Swan, but given the flexibility to purchase sub-investment grade bonds, we were able to buy additional bonds at attractive levels from forced index sellers. This proved fruitful as the advancement of discussions with Sanctuary, with potential completion and subsequent bond upgrade in '23, led to strong outperformance from Swan bonds, despite the downgrade, over the rest of the period.
- In the financial sector there were several buybacks and tenders (e.g., **HSBC** and **Investec**,), as banks looked to tidy up balance sheets. Furthermore, some tenders involved the issuance of new bonds – also at attractive rates. Overall, activity in the banks sector was robust and the terms offered by new issuers tended to be generous – **HSBC** issued subordinated debt with a very attractive coupon in the low of the market in October that performed particularly well as sentiment recovered. Other new issues of financials debt in which we participated included senior banks issues by **NatWest**, **Morgan Stanley** and **Crédit Agricole**. Away from financials, new issuance was more limited. However, we participated in utility issues of **Northumbrian Water** and **Northern Ireland Electric**, and bought a new issue by **GreenSquareAccord**, the social housing provider.

- Secondary market activity focused on managing liquidity and taking advantage of market conditions and higher yields to buy attractively priced bonds. We were able to buy some financial bonds that were available from investors seeking to raise liquidity for new issues. Although it might appear risky to increase the allocations to banks and insurance companies, with the likelihood of an imminent recession, we are confident that issuers are more robust than in 2008/9 and that capital ratios are healthy. We also added to our overweight positions in social housing and structured bonds.
- The recovery in both global equities, albeit somewhat impacted by currency effects for sterling investors, and investment grade sterling credit was positive for our mixed-asset fund **Sustainable Managed Growth**, which performed strongly. For its sterling credit portfolio, outperformance was primarily driven by positive credit sector allocation, with a notably strong contribution from the significant underweight to supranational bonds, which we feel offer insufficient returns despite the defensive qualities exhibited in more volatile markets. This was enhanced by the significant overweight allocations to subordinated insurance. Stock selection was mixed and duration made a small positive contribution to performance as the average duration of our portfolios was broadly in line with the market.
- For the equity portfolio, sector allocation was moderately positive with the strong contribution from industrials, consumer staples and communication services outweighing the negative contribution from financials, technology and materials. However, the outperformance was primarily driven by stock selection, with particularly strong contributions from the healthcare (**Intuitive Surgical**, **Novo Nordisk**, **Agilent Technologies**), technology (**ASML**, **Sage Group**, **Visa**) and consumer discretionary (**Greggs** and **Aptiv**) sectors, as well as **Schneider Electric** and **Ferguson** (both industrials) and **Prudential** (financials). In technology, we also benefitted in particular from not owning Tesla and Apple as both stocks fell in absolute terms over the quarter (Tesla by over 50%). However, performance was impacted by negative returns from the holdings in **PayPal**, **London Stock Exchange** and **Intuit**.
- Despite the ongoing poor visibility on macroeconomic factors, we remain broadly comfortable with our equity holdings. However, we have recast our investment process to reflect the possibility of the factors that affected 2022 enduring for the next five to 10 years. It is far from certain, but there is a credible case to be made that inflation – and therefore interest rates – will be structurally higher than over the last 10 years. More expensive energy, labour and capital (debt and equity) mixed in with observable de-globalisation will remove many of the disinflationary forces that have been acting on the global economy for so long. Another factor to consider is how innovation has become more incremental in certain key parts of the economy.
- These longer-term trends in innovation, inflation and interest rates are extremely important for investors. As a result, while most of the equity portfolio remains unchanged, we have slightly reduced our exposure to technology and looked for ways to diversify towards other sectors that will perform well in a higher inflation, higher interest-rate environment. The banks sector looks more favourable in this light as banks are more profitable in a higher interest rate environment. Many banks have also taken considerable steps to raise their ESG standards since the Global Financial Crisis in 2008/9. We are not drastically increasing our exposure to the sector, but have moved up from very underweight and have bought **Standard Chartered** and **Lloyds Banking Group**. Standard Chartered offers good exposure to higher-growth corporate banking in parts of Asia, whereas Lloyds Banking Group has been a leader in raising ESG standards in UK retail and corporate banking having been penalised heavily following the PPI mis selling scandal.
- Otherwise, we increased our exposure to **Unilever**. We consider the company to be an ESG leader with a product set that should prove to resilient in a period of lower economic growth and it trades at an attractive valuation given our expectations of its future growth. We also initiated a new position in **Canadian National**, the largest freight railway network in Canada, funded through a reduction in the holdings in US railroad operator **CSX**. Canadian National should be a faster growing railroad in time, thanks to investments made in port and track infrastructure, and its underlying mix of freight.

## Annual performance

- While the absolute and relative performance of our sustainable funds improved sharply in the fourth quarter, we recognise that absolute performance over the year as a whole was particularly disappointing. Sustainable investing faced considerable headwinds in 2022. We examined these issues in depth in previous quarters, but in summary three issues affected performance: the rise in oil prices, leading to strong performance from equities in the energy sector; the impact of higher interest rates on long-duration growth stocks; and weakness in the gilt market as interest rates rose sharply. Otherwise, the unusual correlation in 2022 between equities and bonds impacted the overall performance of our mixed-asset funds.
- For the sustainable equity portfolios, nearly all of our underperformance against the wider market in 2022 can be attributed to two distinct factors. First, from the repricing of oil and gas and other commodities following the invasion of Ukraine: despite falling in the third and fourth quarters, the price of Brent crude still rose by over 50% in 2022, and this particularly benefitted the oil supermajors. By their nature, sustainable funds tend to have minimal (if any) exposure to oil and gas production and industrial commodities, and relatively high allocations to long-

duration, growth companies – many of which are found in the technology and healthcare sectors and offer longer-term solutions to the sustainability challenges that the world faces. The second factor behind the relative underperformance against the broad index is therefore the derating of longer-duration growth stocks.

- Other than the impact of equity sector weightings, our sustainable funds performed reasonably well in a particularly difficult environment and outperformed many of their sustainable peers. The technology and healthcare sectors comprise lots of innovative companies that are a good fit for our investment framework. However, we favour more established companies with proven products and significant revenues – we very rarely, if ever, invest more speculatively in IPOs or early-stage tech or biotech companies as the risks are simply too great. We believe that over the medium to long run you can generate attractive above-market returns without taking such risks. Some other investors take a different view – the 'spec tech' rout that started in the fourth quarter of 2021 will have dramatically impacted them in 2022. In contrast, our funds haven't suffered permanent capital impairment: while more-established tech holdings may have been derated in the interest rate-driven rotation, they continue to be viable revenue- and profit-generating investments. We have so far seen few problems with the individual companies that we own, which are well-established and profitable businesses. Our performance has not been because we bought 'bad' companies: however, we acknowledge that we didn't anticipate the speed or scale of the falls in growth stocks and with hindsight could have de-risked our equity portfolios on valuation grounds.

- Some other fund managers have made a virtue of running very high cash levels during 2022. This is a more nuanced issue than speculating in earlier-stage companies. With hindsight it could seem wise to move into cash and not invest in falling markets. However, clients give us their money to invest sustainably, and many studies show that better long-term returns are achieved by being fully invested in the market, rather than trying to beat it through timing. Furthermore, we believe that sitting in cash is poor from a sustainable perspective as it isn't being invested in companies that are offering sustainable solutions to the world's problems.

- The main driver of the negative returns in sterling credit was the weakness in UK government bonds, with an additional negative impact from widening credit spreads. While UK equities eventually recovered to give positive returns for 2022 as a whole, UK government bonds returned -25.06% – an unprecedented calendar year setback. The yield on the 10-year gilt rose from 0.97% to 3.67% over the 12 months (an increase of 270bps), touching 4.51% in the turmoil at the end of September. The broad investment grade sterling credit index returned 5.74% in the fourth quarter, lifting the annual return to -17.72%. Given such poor absolute returns, we appreciate that it will be scant comfort that our sustainable credit portfolios have outperformed the iBoxx Sterling Non-Gilt All Maturities Index over one, three and five years. However, relative performance is important and we expect the funds to perform well again as we approach more normal market conditions.

- Normally, one might expect equity-market weakness to be mitigated by positive returns from sterling credit, but our mixed-asset funds were negatively impacted in 2022 as both asset classes were hit by the unusual combination of macroeconomic and geopolitical factors. Nonetheless, while our mixed-asset funds aren't primarily designed to offset poor performance in one or other asset class (they're more about achieving sustainable investment returns across different, complementary assets), we wouldn't expect a repeat of the macroeconomic and geopolitical circumstances that made 2022 so difficult for mixed-asset sustainable funds for many years.

## Outlook

- Despite recent inflation data, signs of increasing wage pressures and union unrest, particularly in the public sector, we expect inflation to peak in the coming months. This is driven by our view that energy prices will moderate and that weaker GDP growth will reduce the tightness of the labour market. Nonetheless, it is likely that UK interest rates will rise further during the early part of 2023 as the BoE continues to focus on bringing inflation under control.

- Although the economic data remain very mixed, we believe that higher rates will lead to a recession in the UK, impacting company earnings and leading to some increase in credit rating downgrades and default rates. Nevertheless, it is our view that an asset allocation in favour of sterling credit bonds is appropriate as the widening in credit spreads this year has taken valuations to attractive levels, on both a relative basis compared to government bonds and in absolute terms. We consider that credit spreads discount a significant portion of bad news and that investors are being paid well to take credit over government bond risk. Against this background, we will maintain our focus on identifying companies with strong balance sheets, favouring issues with security and downside protection, and ensuring that portfolios are diversified across issuers and sectors.

- The 'all-in yield' on sterling investment grade credit (government yield plus credit spread) remains attractive, particularly if inflation starts to fall as we expect. Our recent preference for short-dated credit bonds is gradually easing as we begin to take on more duration risk. Our strategies generally have a significant targeted exposure to BBB rated bonds, but we believe that compensation for default risk remains most attractive in this rating band.

- For the equity portfolio of **Sustainable Managed Growth**, the key question is whether inflation falls back down to the Fed's and BoE's targets of 2.0% or whether it sticks at around 4-5% (which might then require further increases in interest rates). Furthermore, the relative valuation of equities compared to bonds looks high, and it will be interesting to see how this is resolved over the coming months – whether bonds strongly outperform or equities underperform, this looks to be a headwind for equities in the short term. We feel that companies and sell-side analysts are still being overly optimistic about corporate earnings for 2023 and expect more earnings downgrades. From experience, the impact of earnings downgrades won't be spread evenly across the market. Our equity portfolios should be relatively resilient, however, as we favour high return on equity, unlevered larger-cap companies with good pricing power and strong earnings growth.
- As described earlier, there is a credible case to be made that inflation – and therefore interest rates – will be structurally higher than over the last 10 years. Combined with the apparent slowdown in innovation in parts of the technology sector, the key drivers of performance for equities may be somewhat different over the next five to 10 years. On an incremental and considered basis, we will look to diversify our portfolios towards sectors that will perform well in a higher inflation, higher interest-rate environment. The banks sector looks more favourable in this light and has also made considerable steps to raise its ESG standards since the Global Financial Crisis in 2008/9. We will continue to look for parts of the economy that will do well should there be a new economic paradigm.

## Additional information

- Our *2023 Outlook* is available here, and includes an overview from RLAM Chief Investment Officer Piers Hillier and articles from some of our leading fund managers on the risks and opportunities in their asset classes for the new year. Articles, videos and webinars explaining our latest investment thinking can be found in the *Our Views* section of www.rlam.com. These include regular *SustainAbility* blogs from Head of Sustainable Investments Mike Fox on key issues in equity markets and sustainable investing, and weekly *JP's Journal* blogs by Jonathan Platt, Head of Fixed Income.
- In December, we launched the **RL Sustainable Short Duration Corporate Bond Fund**, which is the latest addition to our sustainable fund range. It builds on our established range of sustainable investment solutions and its launch reflects our continued commitment to providing our clients with relevant solutions to meet their long-term return and sustainability goals. Managed by Shalin Shan and Matt Franklin, who manage our existing sustainable credit portfolios, the new fund combines our strong heritage in sustainable investing with our market leading sterling credit franchise. While the sustainability of a potential bond is rigorously assessed, returns are further underpinned by prioritising issuers offering additional bondholder protections wherever possible, reducing potential exposure to downside risk. Investors also benefit from the fund's exposure to shorter duration assets, thereby limiting the portfolio's sensitivity to interest rate changes. Alongside an attractive yield, the fund offers investors access to a variety of socially impactful sectors that are often out of reach of public equity investors, such as charities, government agencies or privately-owned businesses. For more details, please speak to your RLAM contact.

## IMPORTANT INFORMATION

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