



Royal London Short Duration Global Index Linked Fund

Quarterly Report 30 September 2022



Asset split

	Fund (%)	Benchmark ¹ (%)
Conventional credit bonds ²	0.0	0.0
Index linked credit bonds	0.0	0.0
Sterling conventional gilts	0.6	0.0
Sterling index linked gilts	29.2	30.0
Foreign conventional sovereign	0.0	0.0
Foreign index linked sovereign	70.2	70.0
Derivatives	0.0	0.0
Other	0.0	0.0

Fund data

	Fund	Benchmark ¹
Duration ³	4.6 years	4.7 years
Real yield ⁴	0.80%	-0.19%
No. of stocks	59	89
Fund size	£800.5m	-

Source: RLAM, based on the Z share class. Launch date: 23.02.2016.

¹Benchmark: 30% Barclays UK Government Inflation Linked Bond 1-10 year index, 70% Barclays World Government Inflation Linked Bond (ex UK) 1-10 year index (GBP hedged).

²Conventional credit bond allocation includes exposure to non-sterling credit bonds and CDs, where applicable.

³Excluding cash.

⁴Real yield shows the inflation-adjusted redemption yield for the underlying portfolio and therefore does not include the impact of fees. For share class level yields, please see the latest factsheet.

Reported yields reflect RLAM's current perception of market conventions around timing of bond cash flows. Heightened uncertainty due to the COVID 19 crisis may impact these timings for bonds with callable feature.

Performance

	Fund (%)	Benchmark ¹ (%)	Relative (%)
Q3 2022	-3.34	-4.30	0.96
Year-to-date	-6.64	-7.28	0.64
Rolling 12 months	-5.41	-5.98	0.57
3 years p.a.	0.76	0.22	0.53
5 years p.a.	1.43	1.17	0.26
Since inception p.a. 23.02.2016	1.81	1.58	0.23

Past performance is not necessarily a reliable indicator of future performance. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.

All performance figures stated gross of fees and tax unless otherwise stated, subject to rounding. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces your return.

Source: RLAM, based on the Z share class.

¹Benchmark: 30% Bloomberg UK Government Inflation Linked Bond 1-10 year index, 70% Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year index (GBP hedged).

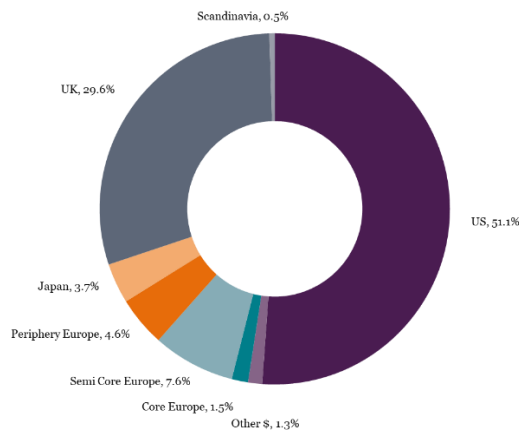
Performance for the Royal London Global Index Linked Fund is based on pricing at noon, while index performance is based on pricing at close of business, preventing direct performance comparison. The significance of this timing discrepancy is likely to be greater for shorter measurement periods.



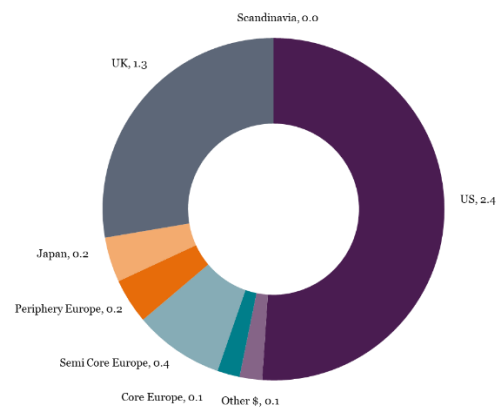
Ten Largest Holdings

	Weighting (%)
UK Treasury 1.25% IL 2027	9.3
UK Treasury 0.125% IL 2024	6.0
US Treasury 0.25% IL 2029	5.8
US Treasury 0.375% IL 2027	5.6
US Treasury Bond 0.125% IL 2026	4.5
UK Treasury 2.5% IL 2024	4.4
US Treasury 0.375% IL 2025	4.4
US Treasury 0.5% IL 2024	4.0
France (gov) 0.1% IL 2028	4.0
US Treasury 0.125% IL 2030	3.8
Total	51.9

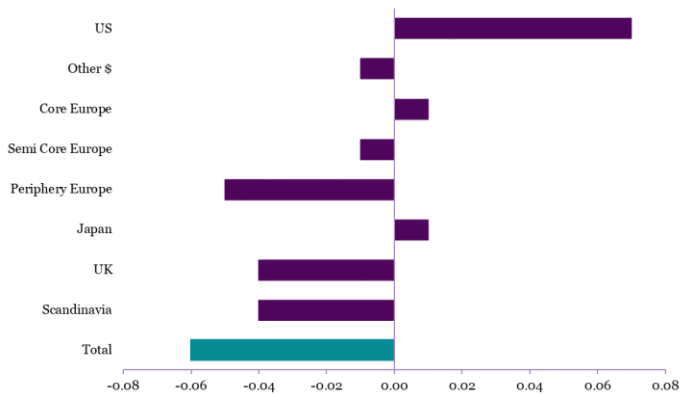
Geographic split by percentage



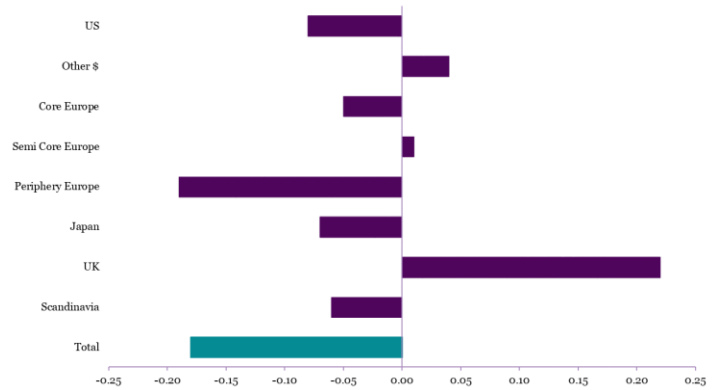
Geographic split by duration



Current position (by duration)

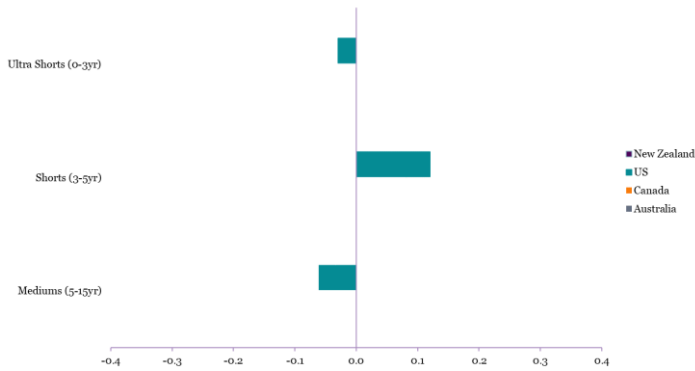


Change on the quarter by duration

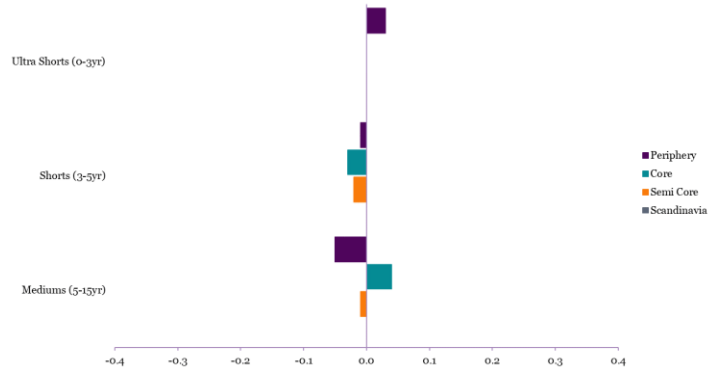


Yield Curve

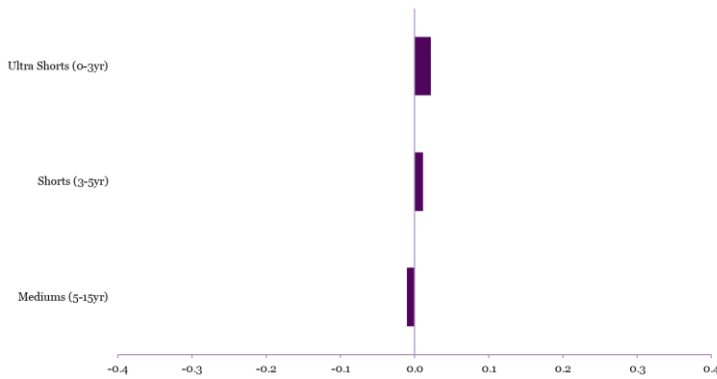
Dollar bloc



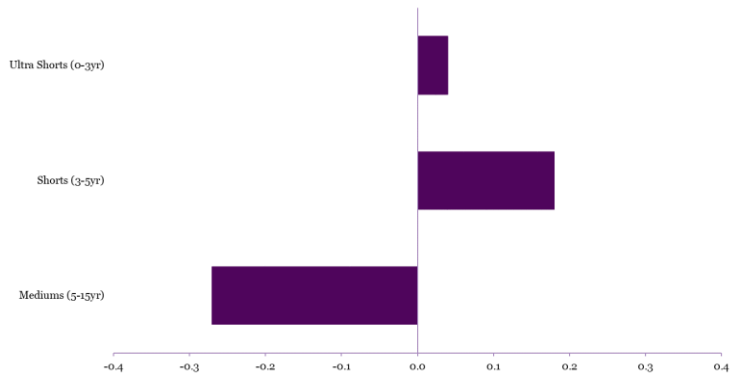
Euro bloc



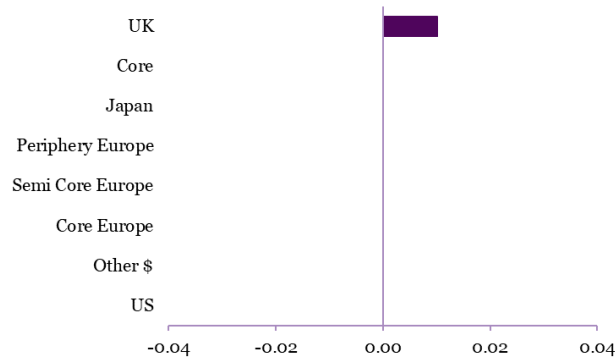
Japan



UK



Inflation breakeven



Market overview

- The macroeconomic factors that disrupted financial markets in the first half of 2022 continued to dominate in the third quarter – higher-than-expected inflation and interest rate increases were the key macroeconomic influences, along with growing fears of recession in the UK, Europe and the US. Inflation first surfaced in the aftermath of the Covid-19 pandemic, but was exacerbated by the Russian invasion of Ukraine in



February and retaliatory sanctions which sharply increased the prices of oil & gas and other commodities. Although they have fallen back slightly, energy prices remain high and geopolitical events continue to affect sentiment as winter approaches. The apparent sabotage of the Nord Stream gas pipelines from Russia to Germany suggests that energy will remain a key pawn in relations between NATO countries and Russia.

- 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 Bank of England (BoE) increased rates by 1.00% over the quarter to 2.25%, taking its tally to six increases so far in 2022 and seven in this cycle. The composite PMI business survey indicator of activity in the economy deteriorated further as did consumer confidence. The level of activity in the UK economy is barely above where it was pre-pandemic.
- UK economic policy has been in a state of flux following Kwasi Kwarteng's 'mini-Budget' in late September. Following weakness in government bond and foreign exchange markets the BoE provided support to the long end of the gilt market. This helped to address the liquidity problems associated with the collateral requirements of some UK pension funds, following the steep rise in real and nominal yields. The appointment of Jeremy Hunt as Chancellor and the cancellation of some tax cuts has helped to calm market volatility.
- Government bond markets were very volatile during the month, and particularly in the index linked space. Real yields swung wildly – in the UK, 30-year real yields started the quarter at -0.71%, reached a high of 1.92% on 27th September, and then rallied to end the quarter at 0.04%. These are extraordinary moves for a risk-free asset and reflected the combination of global pressures on inflation and interest rates, but exacerbated by the mini-budget and subsequent sacking of the Chancellor. Real yields on 10-year bonds showed a similar story – in the UK, yields moved within a range of nearly 2% over the quarter, while in the US and Germany, equivalent bonds moved in a range of 1%. UK 10-year breakevens rose by 47bps to 4.17% in the quarter, while US and German 10-year breakevens were calmer, the German 10-year breakeven rising just 6bps to 2.09%, while the US equivalent fell 19bps to end at 2.15%.
- The UK index-linked market underperformed on a global basis in the period, providing negative returns of -9.33% (FTSE Actuaries UK IL Gilts All Maturities), compared to global index-linked returns of -5.98% (Barclays Global IL). Longer-dated bonds were weaker due to their greater sensitivity to changes in the interest rate (their longer duration). For example, the return on index-linked gilts with 5 years to maturity or less was -1.34%, while the return for bonds of a maturity greater than 15 years was -11.08%.
- The price of Brent crude oil fell by 16.9%, but remains over \$90 a barrel, and copper futures fell by another 8.0% in dollar terms on fears of a slowdown in China and global recession. Currency movements had a notable impact in the quarter, following the volatility in the first half of the year. The US Federal Reserve's more aggressive approach to raising interest rates compared to other central banks has pushed the dollar higher. It was again the strongest major currency: it appreciated by over 6% against the yen and euro, and over 8% against sterling. These movements will impact global trade over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in dollars.

Performance and activity

- Performance was positive over the quarter. However, it is worth noting that the large moves in the markets on the last day of the quarter will distort like for like returns between funds priced at midday and benchmarks priced at 4.15pm. For instance, on the last day of the quarter, the longest dated UK index linked bond rallied 18% between noon and 4.15pm. Obviously this effect will drop out when we come to look at performance at the end of the year, but is worth noting for the context of quarterly and year-to-date figures to the end of September.
- Performance was driven largely by taking underweight positions in the UK market, although tactical trading around our short duration position and breakevens also contributed.
- Duration positioning was helpful during the quarter. We were generally short duration in the first half of the period, but then used volatility to trade more actively in the second half. We traded duration tactically during the quarter –between 0.2 and -0.2 years, although we had a bias towards a short position and ended the quarter marginally shorter than benchmark. We were comfortable with our short bias as central bank rhetoric become increasingly hawkish as inflation continued to move higher. As we moved into September and the UK mini-budget we saw real yields spike sharply higher as pension funds had to offload bonds to raise collateral – and with UK 10-year and 30-year yields selling off sharply, we moved to a long duration stance. The intervention by the Bank of England to support the gilt market led to a sharp reversal with 30-year real yields falling 250 basis points in two days, and hence we moved short once more.
- Cross market exposure was a major source of returns over the quarter and volatile UK markets gave us opportunities to move positioning throughout the quarter. We began the quarter with modest overweight positions in a combination of US, Australian and European index linked bonds, but sold these after strong performance in July to move to a neutral UK stance for the first time since the Brexit referendum, reflecting the strong performance from overseas markets and the fact that UK markets have traditionally outperformed in August. After we saw modest



UK outperformance, we moved overweight in overseas markets once more, maintaining these positions until just before the Bank of England meeting and mini-budget in September. With the UK market collapsing the fund was moved to a modest overweight in the UK before switching back into Europe on the last day of the month following the Bank of England intervention.

Outlook

- The perception of the third quarter was skewed by the market reaction to the mini-budget. Beyond this, we continued to see the trends of 2022 continue. Inflation is continuing to rise in the UK, reflecting higher raw material costs, energy price increases and tight labour markets. However, interest rate increases are already showing signs of slowing down activity and, despite more aggressive market expectations, we believe that inflation will peak in major economies during the second half of 2022. Weaker GDP growth and recession in some areas will impact the corporate sector.
- It is too early to say whether the UK government will be forced into further U-turns in economic policy, either by its backbenchers or financial markets, but its reputation has undoubtedly been affected by recent events. The goal of boosting UK economic growth is laudable, but would require a wider programme of measures over a sustained period of five to 10 years. Also, despite the ambitious scope of the mini-Budget, it would have been more effective had the Government also detailed a fiscal framework and package of supply-side reforms.
- As we head into the final months of 2022, the events of late September including BoE intervention in the gilt market will shape the next few months. At the time of the intervention, UK real yields were some 250bps higher than German equivalents – which we felt was a market over-reaction but nonetheless showed the market's nervousness around UK economic policy. The Bank's intervention calmed markets, leading to a sharp reduction in that UK / German spread, but we feel that as a result, the UK again looks expensive on a relative basis and that other markets look more attractive as we expect UK yields to gravitate higher over the next few months. The extent of the moves in UK index linked markets will depend on whether the government can convince markets that it has a workable plan – but even with new plans being announced, it looks like supply will rise to levels not seen for over a decade. Although markets know that there are more rate rises to come and increased supply, we do not feel this is fully reflected in UK yields at present.

Additional information

- As we highlighted in our Annual Report, RLAM has ambitious targets for the next few years, notably in international growth as well as investment in infrastructure and people. This investment is to make sure that we continue to provide clients with the service they need and positioning us to for future regulation changes and market development.
- As part of that ambition, we are pleased to announce that we are moving to a new investment platform and have selected the industry leading 'Aladdin' platform. This decision has followed months of analysis and pre-implementation planning with the vendor BlackRock. Aladdin will help us improve our service offerings to our clients, as well as delivering operational efficiencies.
- As you would expect, implementation is an extended task, and the project is expected to complete in 2024, but we believe it is important to be transparent about such projects with our clients. Throughout the implementation, the project and management of your client portfolios will be closely monitored by our Board and Risk functions to ensure that this transition is achieved smoothly, and we will keep you updated on our progress. This is an important part of our long-term strategic goal to ensure that we continue to meet your needs today and into the future.



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