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Royal London Short Term Money Market Fund

Quarterly Investment Report

31 December 2023

Quarterly Report

The fund as at 31 December 2023

The purpose of this report is to provide an update on the Royal London Short Term Money Market Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

Contents

ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The fund's investment objective is to preserve capital and provide an income over rolling 12-month periods by investing at least 80% in cash and cash equivalents. The fund's performance target is to outperform, after the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) over rolling 12-month periods. For further information please refer to the Prospectus.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
31 December 2023	6,629.83

Fund analytics

	Fund
Fund launch date	22 July 1999
Duration (days)	36.95
Gross redemption yield (%)	5.25
Number of issuers	45

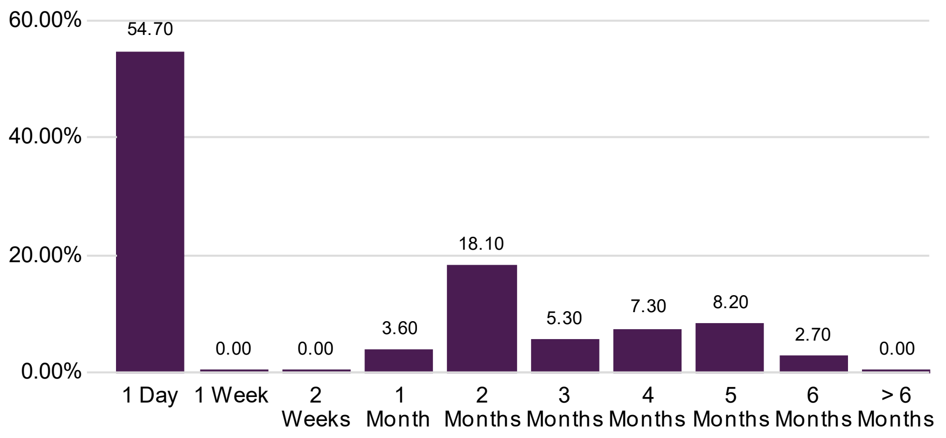
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.37	1.28	0.08
1 Year	4.89	4.61	0.29
3 Years (p.a.)	2.13	2.00	0.13
5 Years (p.a.)	1.51	1.37	0.14
10 Years (p.a.)	0.93	0.84	0.09
Since inception (p.a.)	1.94	2.22	(0.28)

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on RL Short Term Money Market Fund (Y Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 22 July 1999.

Duration profile

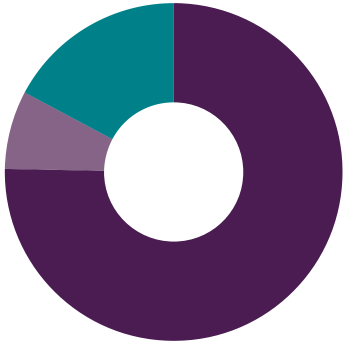


Performance commentary

The fund outperformed its benchmark over the quarter and for 2023 as a whole. From the start of 2021 until the middle of 2023, short-dated yields have risen back to pre-financial crisis levels. While this has been a headwind for performance, it has also allowed us to add carry to portfolios. During the final months of the year, with yields flat or falling, that carry has been a key driver of performance across our liquidity and short-term fixed income portfolios.

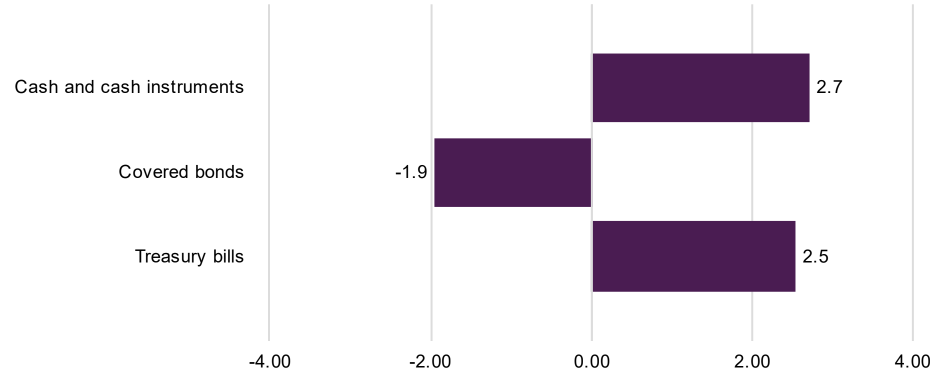
Performance and activity

Asset allocation profile

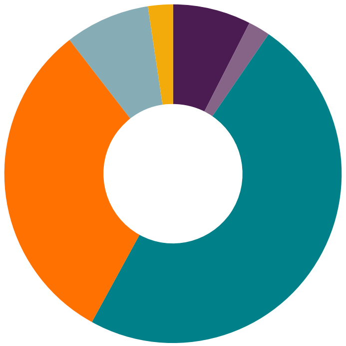


Cash and cash instruments	74.92%
Covered bonds	7.46%
Treasury bills	17.11%

Change since last quarter (asset allocation) %

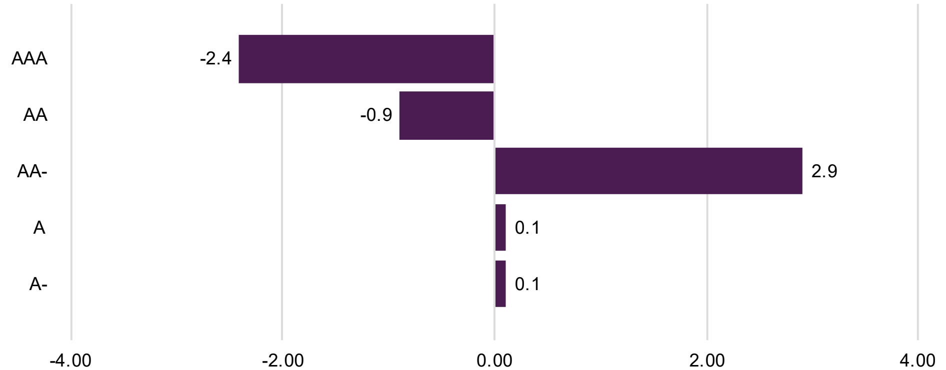


Credit rating profile



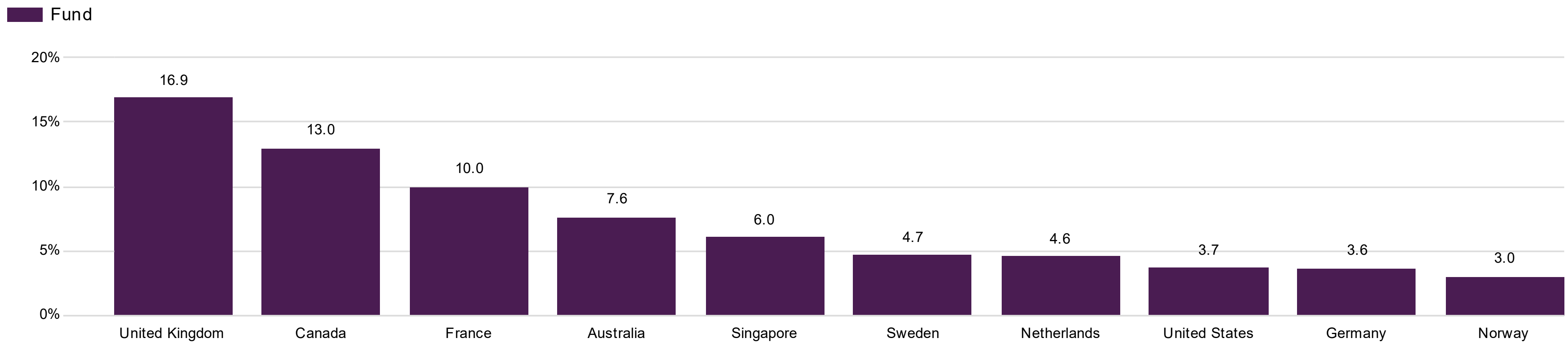
AAA	7.50%
AA	2.10%
AA-	48.40%
A+	31.50%
A	8.10%
A-	2.40%

Change since last quarter (rating) %

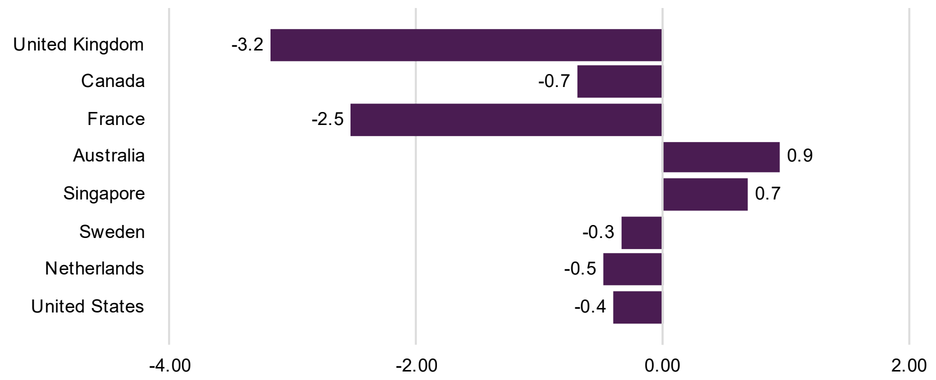


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Top 10 issuers

	Weighting (%)
United Kingdom Treasury Bill	17.11
Nationwide Building Society	4.88
Oversea-Chinese Banking Corp Ltd	3.42
Australia & New Zealand Banking Group Ltd	3.41
Toronto-Dominion Bank/The	3.30
Royal Bank of Canada	3.29
ING Bank NV	3.05
BNP Paribas SA	3.04
Lloyds Bank PLC	3.04
National Australia Bank Ltd	3.02
Total	**47.56**

Fund activity

With the Short Term Money Market Fund, we still focus on short paper – reflecting the fund's objective. For most of this year that has meant a focus on three-month maturities. Given our view that we were close to the peak in rates, we added selectively to slightly longer paper early in the period, as we felt that we were being compensated for taking the additional duration risk.

As the period progressed, we felt that the market had moved too far in its assumptions about the pace and timing of BoE rate cuts and with this impacting the yield on those longer maturity instruments, we reduced our buying in this area, preferring to focus on the higher yields in shorter (eg three and four month) paper. We also added UK treasury bills during the period, generally doing this at rates above SONIA. Examples of longer paper earlier the quarter included six-month CDs from Swedish bank SEB and Natixis, as well as floating rate CDs from Lloyds, ANZ and National Australian Bank, while later in the period we sold CDs with less than a month to maturity from Credit Agricole, Goldman Sachs and First Abu Dhabi bank, switching into three-month equivalents.

Market commentary

Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

In tune with the other major central banks, and potentially marking the high point in the UK interest rate cycle, the Bank of England left interest rates unchanged over the period. The Monetary Policy Committee continued to be split – at the December meeting three of the nine members were still voting for a rate hike. UK inflation has fallen significantly, with the annual inflation rate falling to 3.9% in November. This is the lowest rate of increase in over two years. However, this remains well above the BoE 2% target, with core and wage inflation significantly higher than the headline rate.

Global government bond yields started the quarter continuing the rising trend that started in mid-2020. This reflected market views that rising inflation would necessitate even higher interest rates and the mantra of higher for longer. Yet, with inflation starting to come down, expectations of rate cuts in 2024 contributed to significant falls in bond yields fell in November and December. The fall in yields was such that yields along the length of the curve ended the quarter lower than they started, and closed 2023 at roughly the same levels as they started.

UK government bonds produced strong returns due to falling yields, delivering an 8.1% return (FTSE Actuaries) over the fourth quarter with the benchmark 10-year gilt yield falling from 4.44% to 3.54%. The sterling investment grade credit market (iBoxx non-gilt index) returned 7.35% over the quarter, helped by lower government bond yields and tighter credit spreads. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightened from 1.38% to 1.15% (iBoxx).

UK money market rates were generally flat during the quarter, with longer-dated rates generally falling slightly, reflecting changing market expectations – particularly after he lower-than-expected inflation print towards the end of the quarter. SONIA started the quarter at 5.18%, and remained at this level throughout the quarter, with no changes to UK base rates from the Bank of England. ICE Term SONIA three-month rates started the period at 5.29%, falling back marginally to 5.20% by the end of 2023, while two-year gilts, often seen as a proxy for market expectations of BoE rates, fell from 4.66% to 3.98%. Reverse repo rates were also steady over the quarter, at around 5.20% for high quality names.

Outlook

For most of the quarter, we felt there was a small chance that the BoE might have to raise rates one more time. The lower-than-expected inflation figures released in December appear to have removed that outside risk, despite three MPC members voting for a hike in the same month. While MPC member speeches since then have tried to convey a message that the Bank will be cautious in its approach to cutting rates, the market is now pricing in UK interest rates of around 4% by the end of 2024. We feel this is overly optimistic, as we believe that this would mean further sharp falls in inflation (which will now be harder given base effects) or a sharp deterioration in data indicating a sharp recession.

We do think that rates will start to come down next year, but our current base case is that there are fewer of these, and that cuts are not seen in the first half of next year. In terms of positioning over the next few months, we are less likely to add longer maturity paper given our view that rates available for those longer dates are lower than the fundamentals justify. In addition, we have added duration in recent months and are therefore happy to maintain this for now rather than look to extend further. Where appropriate for the strategy, we will also look at covered bond new issuance now that this is rising somewhat once again and where these can be added at around 60bps over SONIA.

For the strategies that can accept more credit and interest rate risk, we remain somewhat cautious – not on a view that credit risk is inherently bad, but because with yields still at attractive all-in levels generally and spreads somewhat compressed, we want to be much more targeted when adding short-term credit to ensure that the funds receive adequate additional premium for the risk taken.

Further Information

Please click on the links below for further information:

- Stewardship and responsible investment at RLAM
- Royal London Sterling credit ESG analysis
- TCFD climate report

Find out more

Royal London Asset Management's Outlook 2024 document and podcasts are both available on our website. In this year's Outlook document, our fund managers assess the challenges and opportunities in their respective asset classes for 2024. With an environment of falling inflation and modest recession, the benefits or risk for equities or credit is not so clear cut and knowing your companies is key. We analyse the areas of concern and potential growth within this environment.

In our Outlook 2024 podcast, Piers Hillier, CIO, looks ahead to 2024 and discusses the issues he believes will be prominent over the next 12 months, and where the key investment risks and opportunities may lie.

Articles, videos and webinars explaining our investment thinking can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

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Issued in January 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a 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 "SONIA" mark is used under licence from the Bank of England (the benchmark administrator of SONIA), and the use of such mark does not imply or express any approval or endorsement by the Bank of England. "Bank of England" and "SONIA" are registered trademarks of the Bank of England.

Risks and Warnings

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.

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.

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. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

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.

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.

Performance to 31 December 2023

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.37	2.78	4.89	6.52	7.79	2.13	1.51
Fund (net)	1.34	2.73	4.79	6.21	7.27	2.03	1.41

Year on year performance (%)

	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019
Fund (gross)	4.89	1.48	0.08	0.36	0.83
Fund (net)	4.79	1.37	(0.02)	0.26	0.74

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 December 2023. All figures are mid-price to mid-price in GBP for the RL Short Term Money Market Fund (Y Inc).

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of issuers

Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Top 10 issuers

Top 10 issuers held by market value, excluding derivatives and cash.