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Royal London Global Bond Opportunities Bond 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 Global Bond Opportunities Bond 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.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The investment objective of the fund is to achieve a high level of income with the opportunity for capital growth. The Fund is actively managed and is not managed in reference to any benchmark index.

Fund value

	Total £m
31 December 2023	217.43

Asset allocation

	Fund (%)
Conventional credit bonds	96.79%
Conventional foreign sovereign	1.99%
Other	1.22%

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	3.88
Gross redemption yield (%)	6.94
Number of holdings	215
Number of issuers	169

Performance and activity

Performance

	Fund (%)
Quarter	5.28
1 Year	10.40
3 Years (p.a.)	3.34
5 Years (p.a.)	4.56
10 Years (p.a.)	-
Since inception (p.a.)	5.16

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 Global Bond Opportunities Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 8 December 2015.

Performance commentary

The fund saw a strong positive return over the quarter and for the year as a whole. We saw strong performance from across the portfolio – demonstrating the value of the high level of diversification built into the fund. We saw strong returns from investment grade, high yield and unrated areas of the market.

The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Sterling exposure was helpful, given its strong performance compared to euro bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period as demand continued to recover following the Credit Suisse rescue earlier in 2023. It is worth noting that despite the Credit Suisse episode, our exposure to this area has been a net positive for the year. Exposure to other subordinated bank and insurance bonds was also positive, as was our exposure to corporate hybrids.

Performance and activity

Top 10 holdings

	Weighting (%)
LA MONDIALE 6.750000000 2044-04-25	1.67
ELECTRICITE DE FRANCE SA 5.375000000	1.50
STICHTING AK RABOBANK 6.500000000	1.43
QBE INSURANCE GROUP LTD 6.750000000 2044-12-02	1.31
AGGRE MICRO PWR INF 2 8.000000000 2036-10-17	1.31
ARGENTUM (SWISS RE LTD) 5.524000000	1.30
ENERGY TRANSFER LP 6.750000000	1.29
LEGAL & GENERAL GROUP 5.250000000 2047-03-21	1.23
M&G PLC 6.500000000 2048-10-20	1.23
STANDARD CHARTERED PLC 7.161590000	1.22
Total	**13.49**

Fund activity

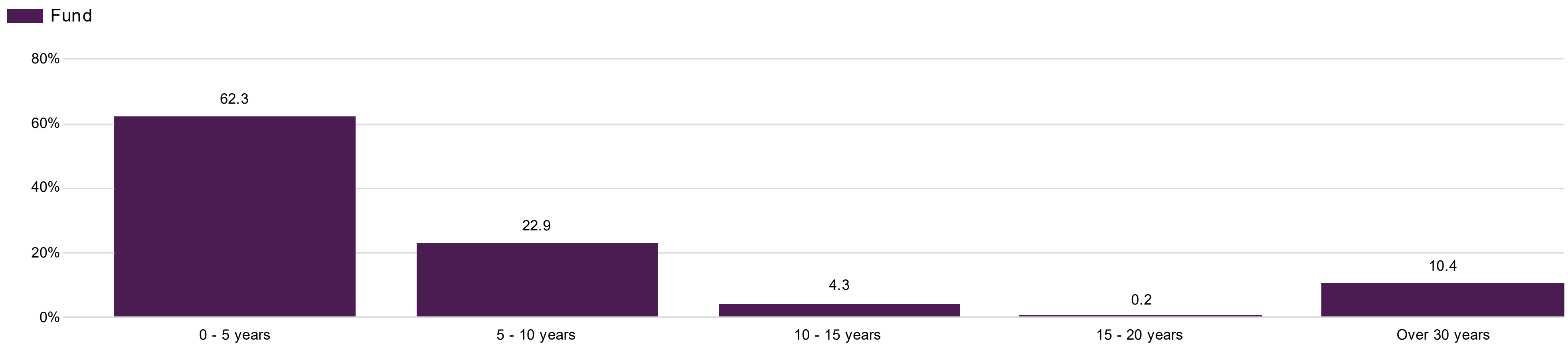
Financials remain the largest part of the market with issuance in 2023 skewed similarly. We continued to find opportunities across the financial sector, adding subordinated bonds where we feel the risk/ reward profile is attractive, examples during the quarter including Credit Agricole and Intesa SanPaolo. We also added AT1 subordinated new issues from Close Brothers at a yield in excess of 11% and Barclays at around 10.5%. This market, having been very quiet since the Credit Suisse rescue, has been active with investors now confident that such debt will rank higher than equity holders in US dollar, euro and sterling markets.

Outside of financials, we participated in a varied range of new issues, including new issues of the operating company of utility Thames Water, BBB rated and offering 8.25% but for a 17-year term, and offshore energy services business Borr Drilling, secured, B rated, offering an 11.5% yield for their seven-year life and with company revenues underpinned by long-term contracts at major energy companies. We also added corporate hybrids from French hotel chain Accor and Veolia.

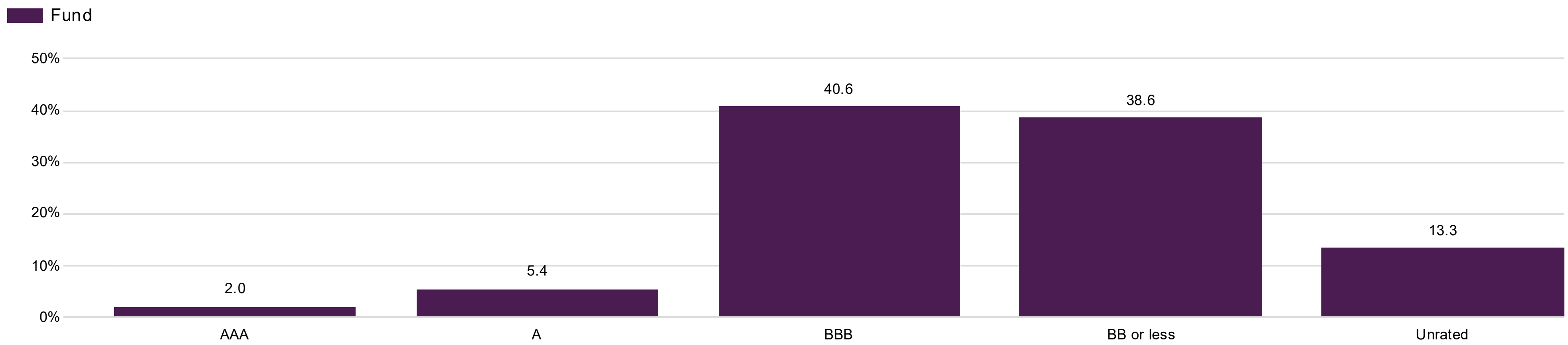
In the secondary market, we continued to add to subordinated financial bonds where yields looked very attractive, examples including lower tier two bonds from HBoS and Legal & General, as well as AT1 bonds where yields remain elevated, through Société Générale and BNP Paribas.

Fund breakdown

Maturity profile

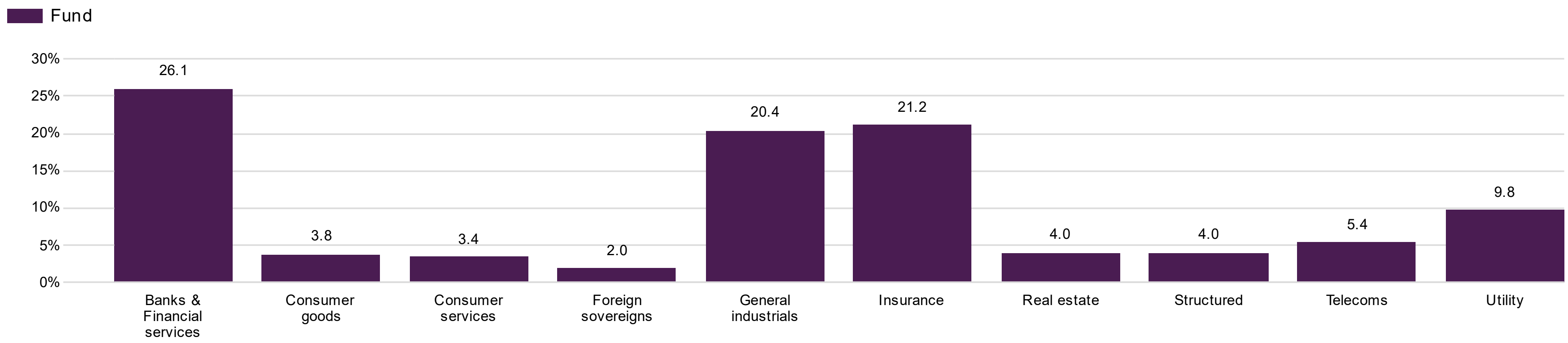


Credit ratings

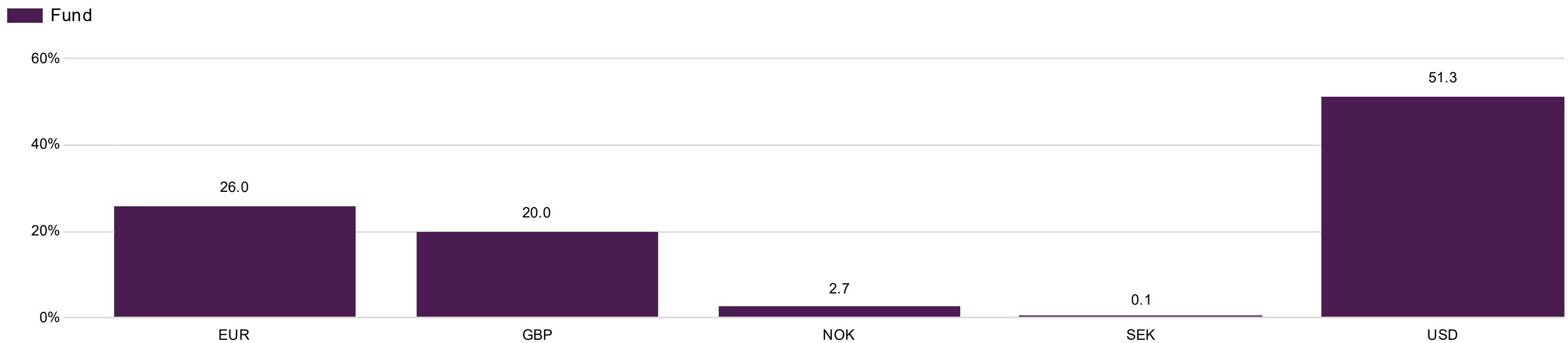


Fund breakdown

Sector breakdown



Currency breakdown



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.

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. In the US, 10-year treasury yields fell from 4.57% to 3.88%, falling back from 15-year highs to reverse virtually all of the rise seen in the prior quarter. German 10-year bunds similarly saw material falls in the fourth quarter, falling from 2.84% to 2.01%.

The final couple months of 2023 saw very strong returns with a stunning magnitude of reversal in yields with spreads and rates substantially tighter. November ended up being the best month in 38 years for investment grade bonds, while it was simply the best month since last summer for the high yield market. Investment grade bonds did well relative to high yield due to the higher duration of these assets which was beneficial in a falling yield environment.

Global corporate bond markets saw a strong rally into year-end but this could limit performance from spreads in 2024. December continued in a similar vein to November with spreads and rates continuing their declines leading to another month of healthy returns – allowing 2023 to report double digit returns. Over the fourth quarter, the ICE BofAML US Corporate Index returned 7.91%, while in the euro zone and UK, the ICE BofAML Euro Corporate & Pfandbrief Index and iBoxx Sterling Non-Gilt indices returned 5.49% and 7.35% respectively.

Outlook

Inflation has come down significantly in 2023 but remains well above central bank targets, and now does not have the ‘easy’ wins of base effects to push this lower. Although the economic data remain very mixed, we still believe that higher interest rates will contribute to a slowdown in economic growth. This could well impact company earnings and lead to some increase in pressure on credit markets. However, consumer resilience has been greater than expected across most major economies, particularly in the US, which has helped support growth and prevent a recession. How this continues into 2024 could prove critical.

As we came into November 2023, we felt that the all-in yield on investment grade credit was looking very attractive, having risen significantly since the start of the year. The falls in government bond yields since then have largely reversed those rises. Our sterling credit strategy focuses on three sources of return: gilt yields, market credit spreads, and the additional credit spread we generate over credit benchmarks. Whilst ten-year bund yields of 2% are not as attractive as the 3% seen in October, we feel that the excess yield available on investment grade and high yield credit overcompensates for default risk. Similarly, we expect supply to weigh on credit markets in the first quarter but believe that underlying fundamentals will limit spread widening. Further, the additional yield embedded in our credit strategies, over that available from credit benchmarks, gives us confidence in our ability to deliver long-term outperformance.

Although recent outperformance means that the relative attractiveness of credit bonds has reduced, we still favour holding them compared to government debt as credit spreads remain at levels that more than compensate for the credit risk. Given the potential challenges in the outlook, we remain focused on identifying companies with strong balance sheets, favouring issues with security and downside protection, and ensuring that portfolios are diversified across issuers and sectors.

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

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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 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.

The portfolio has no index as a comparison.

Risks and Warnings

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.

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.

Derivative Risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

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

Changes in currency exchange rates may affect the value of your investment.

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.

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.

Performance to 31 December 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	5.28	6.97	10.40	10.36	25.00
Fund (net)	5.14	6.69	9.83	8.65	21.98

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
3.34	4.56
2.81	4.05

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)	10.40	(6.64)	7.08	3.63	9.29
Fund (net)	9.83	(7.13)	6.52	3.13	8.86

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 Global Bond Opportunities Fund (Z Inc).

Glossary

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

Credit ratings
Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

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 Analytics
All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.

This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

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 holdings
Total number of unique holdings of the Fund excluding cash, currency and derivatives.

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.

Sector breakdown
Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.