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Royal London Short Term Fixed Income Fund

Quarterly Investment Report

30 September 2023



Quarterly Report

The fund as at 30 September 2023

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income 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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The fund

Fund performance objective and benchmark

The fund's investment objective is to achieve a total return over rolling 12- month periods by primarily investing in Short Term Fixed Income securities. The fund's performance target is to outperform, before the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) by 0.50% per annum over rolling 12-month periods.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
30 September 2023	4,071.31

Fund analytics

	Fund
Fund launch date	20 June 2011
Duration (years)	0.24
Gross redemption yield (%)	5.60
Number of issuers	44

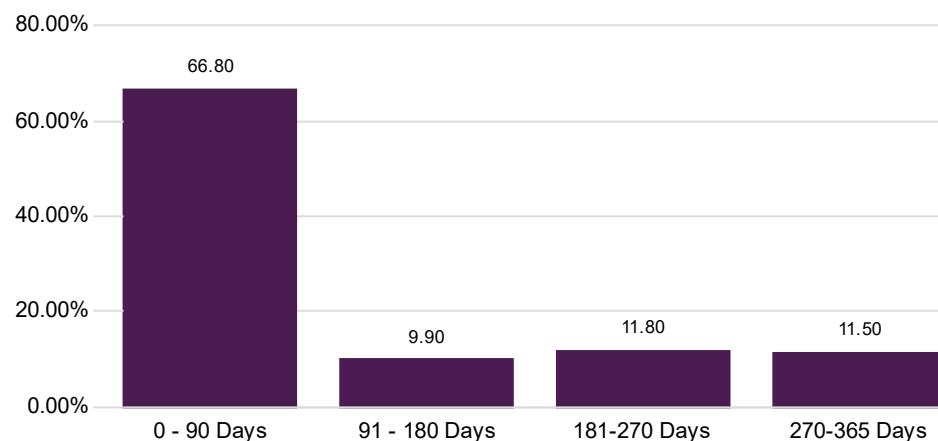
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.54	1.25	0.30
YTD	3.75	3.27	0.48
1 Year	4.71	3.97	0.73
3 Years (p.a.)	1.68	1.57	0.12
5 Years (p.a.)	1.46	1.14	0.32
10 Years (p.a.)	1.08	0.72	0.36
Since inception (p.a.)	1.09	0.68	0.41

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 Fixed Income Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 21 May 2012.

Duration profile



Performance commentary

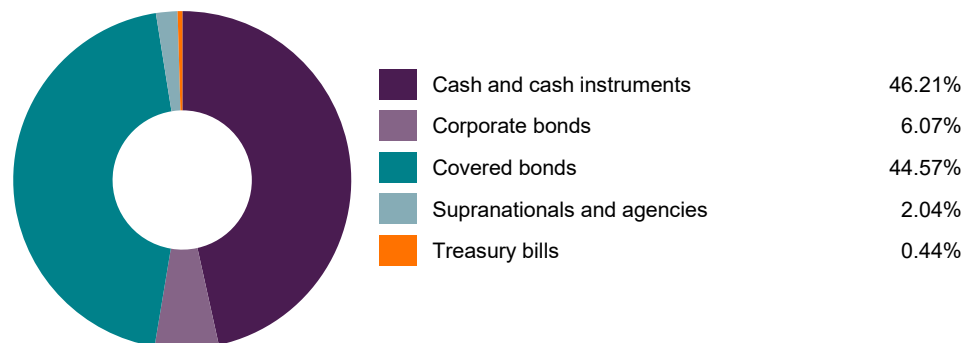
The third quarter was relatively quiet through July and August, with data releases still pointing towards further Bank of England (BoE) rate hikes towards an eventual peak around 6%. However, with the lower than expected August inflation print, and the US Federal Reserve's decision to pause rate hikes, it was little surprise to markets when the Bank of England left UK interest rates unchanged at 5.25%, the first 'hold' decision since November 2021. As a result, expectations of the peak in rates changes, pushing market rates in longer maturities lower – with one-year CD rates falling by around 10bps.

For a number of quarters, performance has been a trade-off of the positive impact of the carry built into our portfolios against the headwind of a rising yield environment. With yields generally flatter this quarter, performance has been relatively good for the period.

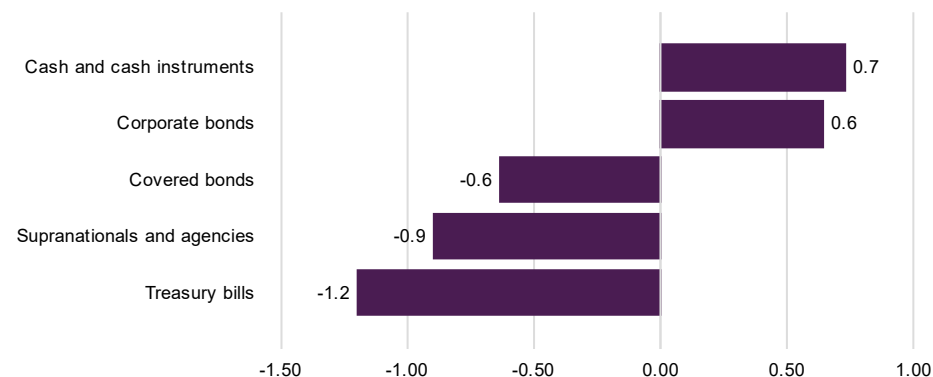
For the Short Term Fixed Income Fund, covered bonds still account for the majority of non-money market exposure. These were helpful for returns over quarter as these pay a premium over SONIA, while the modest duration we have in our traditional money market exposure was also helpful.

Performance and activity

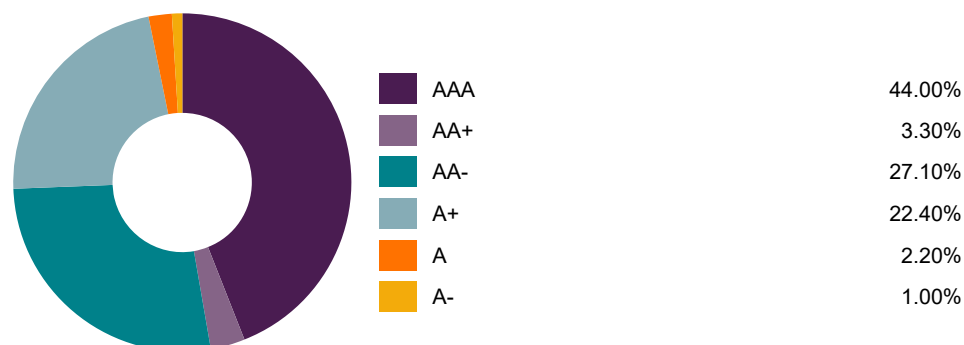
Asset allocation profile



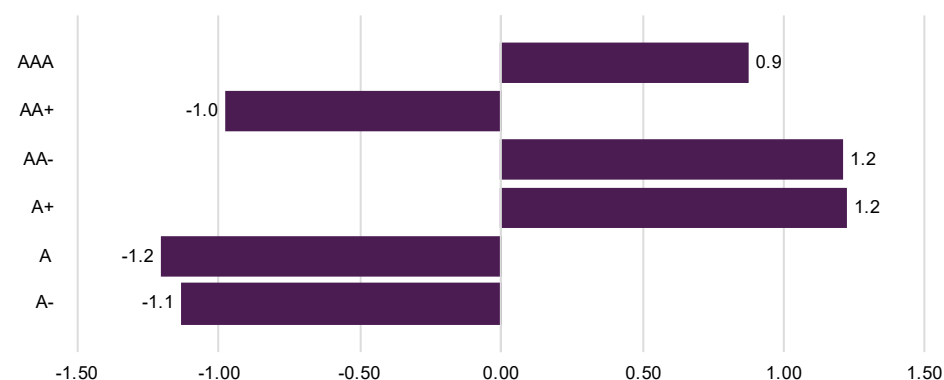
Change since last quarter (asset allocation) %



Credit rating profile

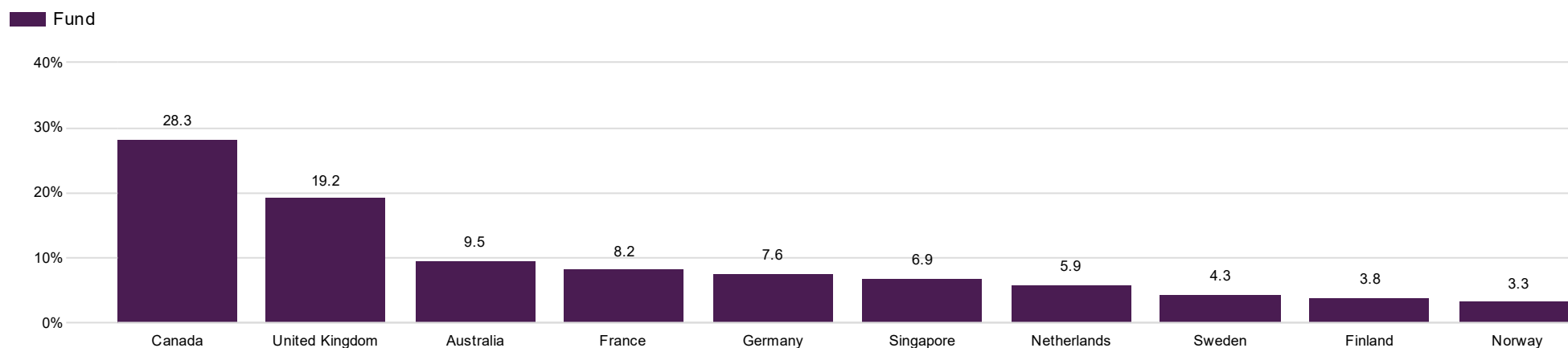


Change since last quarter (rating) %

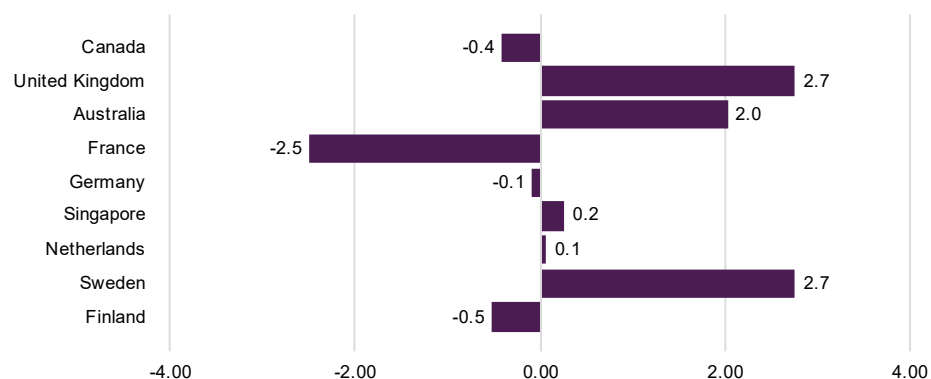


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Top 10 issuers

	Weighting (%)
Canadian Imperial Bank of Commerce	4.90
Royal Bank of Canada	4.71
Bank of Nova Scotia/The	4.67
Toronto-Dominion Bank/The	4.63
Bank of Montreal	4.19
United Overseas Bank Ltd	3.97
Commonwealth Bank of Australia	3.86
Natixis SA	3.72
Barclays Bank PLC	3.51
Nordea Bank Abp	3.50
Total	41.66

Fund activity

Given our view that rates were going to roll over slightly, we did start adding further to longer-dated CDs later in the period to lock in attractive rates ahead of the BoE decision to hold, examples including one-year CDs from Rabobank and NatWest. We also added a new issue three-year covered bond from Canadian bank Federation des Caisses Desjardins du Quebec. This was a relatively new issuer in this area, meaning pricing was attractive. We also added a short-dated senior new issue floating rate note from Royal Bank of Canada at an attractive premium to SONIA.

Market commentary

Market overview

The third quarter was characterised by mixed data around the world, with central banks coming towards the end of their rate hiking path, but with cuts still seemingly a while away. The global economic picture is rosier now than it was at the start of the year, but global growth is spluttering again amid a disappointing bounce in China activity, slow-to-no growth in Europe and against a backdrop of restrictive monetary policy. The US still looks at risk of recession too, even if activity data to date has been fairly robust.

Inflation has fallen significantly and, although higher energy prices threaten a widespread revival in headline inflation, other factors – including a weak economic activity backdrop – should pull inflation lower still. With taming inflation still the priority for central banks, there is still a possibility of further rate hikes from the Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE), but peak rates look to be near, with real rates now well into positive territory.

The outlook is still lacklustre in the UK. A technical recession is still assumed for the UK in the next 12 months, but a modest one. There are still risks from the housing sector and consumer spending has yet to respond fully to tighter monetary policy. GDP growth has been weak since late 2021 and PMI business surveys point to deterioration, falling into recessionary territory over the summer. Inflation should fall significantly at headline level, but domestically driven inflation continues to look strong, despite higher interest rates. The labour market is starting to look less tight and lead indicators of wage growth suggest some slowing ahead but so far, pay growth remains much too strong to be consistent with hitting a 2% inflation target.

UK government bonds struggled, being impacted by the higher-than-expected inflation print. Gilts delivered a -0.63% return (FTSE Actuaries) over the third quarter with the benchmark 10-year gilt yield rising to 4.44% from 4.39% but pulled back from a 4.75% high seen in mid-August. The sterling investment grade credit market (Non-gilt) returned 2.26% over the quarter, as the negative impact of higher government bond yields was offset by tighter credit spreads and the greater proportion of short-dated bonds (which performed well relatively to longer-dated equivalents) in credit indices.

UK money markets saw mixed impacts on rates as the BoE's single rate hike pushed very short-term rates higher, while the change in expectations weighed more on longer rates. SONIA started the quarter at 4.93%, rising to 5.18% after the BoE rate hike, while ICE Term SONIA three-month rates ended the quarter virtually unchanged at 5.29%, coming back from 5.45% in the middle of the quarter. Two-year gilts, often seen as a proxy for market expectations of BoE

rates, fell from 5.26% to 4.66%. Reverse repo rates also increased over the quarter, ending at around 5.20% for high quality names.

Outlook

Market attention is still focused on where the peak is for UK base rates, and how quickly we get there. The September pause in rates does not necessarily mean that we have seen the last rate hike for the current cycle – while the inflation rate is some 4% lower than its peak late last year, it is still over 4% above the BoE target.

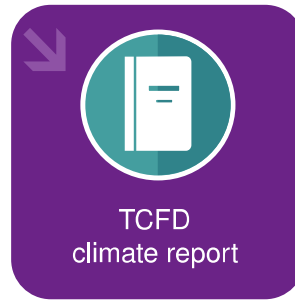
Some further falls in CPI can be expected in the next few months as the domestic fuel price increases that came through in late 2022 fall out of the year-on-year comparison. We expect zero or one more hike in rates, depending on data and whether it appears that the rate increases to date are feeding through into weaker growth.

In terms of positioning over the next few months, we expect to continue to look for opportunities to extend maturities modestly where we are being paid an attractive yield premium – also acknowledging that this will help our money market exposure move beyond the traditional year-end squeeze on the use of overnight deposit. 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 40-50bps over SONIA.

For the strategies that can accept more credit and interest rate risk, we are being somewhat cautious – not on a view that credit risk is inherently bad, but because with yields at more attractive 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:



Find out more

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. Notable publications in the third quarter include our annual Climate Report, as well as our annual Assessment of Value reports, available from the home page of www.rlam.com.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in October 2023 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

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.

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.

Government and Public Securities Risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years		
Fund (gross)	1.54	2.66	4.71	5.14	7.50	3 Years (p.a.)	5 Years (p.a.)
Fund (net)	1.54	2.65	4.68	5.05	7.36	1.68	1.46
						1.65	1.43

Annualised (%)

Year on year performance (%)

	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	30/09/2018 - 30/09/2019
Fund (gross)	4.71	0.08	0.33	1.14	1.09
Fund (net)	4.68	0.05	0.30	1.11	1.08

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 30 September 2023. All figures are mid-price to mid-price in GBP for the RL Short Term Fixed Income Fund (Z 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.