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Royal London Global Bond Opportunities Bond 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 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.

Contents

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
30 September 2023	194.31

Asset allocation

	Fund (%)
Conventional credit bonds	96.07%
Conventional foreign sovereign	2.07%
Other	1.38%
Conventional gilts	0.48%

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	3.26
Gross redemption yield (%)	7.91
Number of holdings	208
Number of issuers	161

Performance and activity

Performance

	Fund (%)
Quarter	1.61
YTD	4.87
1 Year	8.68
3 Years (p.a.)	3.08
5 Years (p.a.)	3.29
10 Years (p.a.)	-
Since inception (p.a.)	4.64

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. 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. Our selective sterling market exposure was positive, notably in structured bonds, while on a cross-market basis, our exposure to subordinated bonds – lower tier two and AT1s – was particularly helpful, as this area of the market continued to perform well in the wake of the Credit Suisse collapse.

The fund has a low duration, which also helped performance in a quarter when yields were generally higher. In addition, we generally avoid very long-dated bonds, which sold off more than short and medium-dated bonds during the quarter. While the fund does not target performance relative to the market, we continue to believe that our overall portfolio shape of delivering high yield, low duration and high diversification can create strong long-term returns.

One negative impact on performance for the quarter was HDL. At the end of July, HDL Debenture Ltd – formerly Hemingway Properties PLC – as issuer of a bond secured on a pool of UK commercial property, confirmed that it was unable to pay the outstanding principal on the bond's maturity date (31st July 2023). The issuer did pay the bond's coupon on this date out of available resources, but the non-payment of principal constitutes an event of default under the bond documentation. This bond has security over a specific pool of ring-fenced assets and based on the latest property valuation dated June 2023, after netting off the available cash, bond principal is covered by property collateral by over 1.6x. The issuer is in ongoing discussions with a majority group of bondholders facilitated by The Investment Association with regards to the sale and/or refinancing of the underlying collateral in order to facilitate repayment of the bonds. Any terms for this would have to be acceptable to bondholders. Despite the excess level of asset cover and control that bondholders have over the situation to preserve our economic position, we have downgraded the internal rating on the bond to 'D' to reflect specifically the non-payment of principal at scheduled maturity rather than our expectation, at this time, of any economic loss. We will continue to monitor and manage this situation actively.

Performance and activity

Top 10 holdings

	Weighting (%)
LA MONDIALE 6.750000000 2044-04-25	1.74
ELECTRICITE DE FRANCE SA 5.375000000	1.54
QBE INSURANCE GROUP LTD 6.750000000 2044-12-02	1.47
AGGRE MICRO PWR INF 2 8.000000000 2036-10-17	1.43
ENERGY TRANSFER LP 6.750000000	1.40
STICHTING AK RABOBANK 6.500000000	1.40
M&G PLC 6.500000000 2048-10-20	1.36
ARGENTUM (SWISS RE LTD) 5.524000000	1.34
STANDARD CHARTERED PLC 7.140730000	1.31
FORD MOTOR CREDIT CO LLC 6.800000000 2028-05-12	1.30
Total	**14.29**

Fund activity

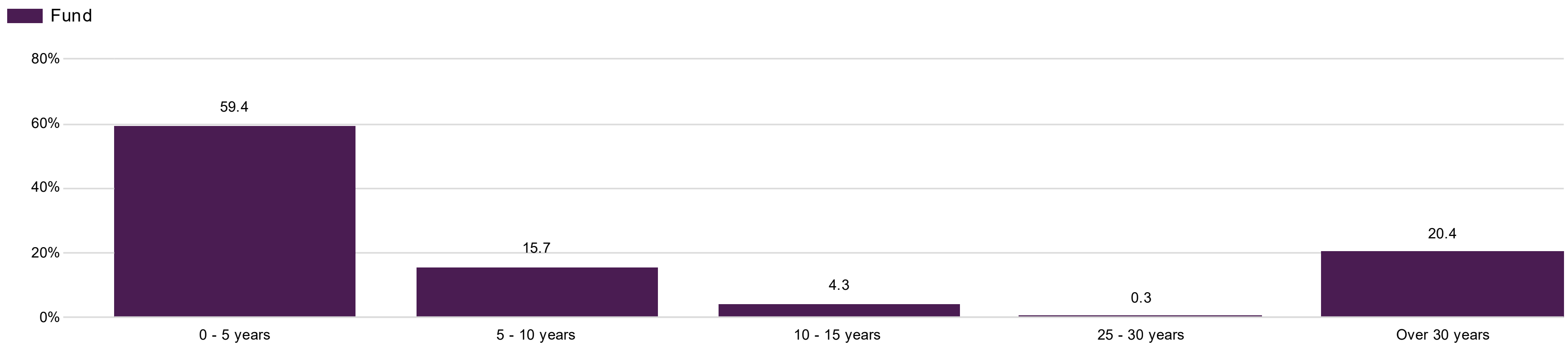
Primary activity was relatively low over the quarter. As well as the seasonal lull usually seen over the summer, rising overall yields means it is less attractive to raise debt capital. With a rising yield environment, many companies had brought capital raising forward to take advantage of low yields, and we would therefore expect issuance to remain somewhat lower in the next few quarters.

However, there were still opportunities to achieve strong yield levels in the new issue market, and we participated selectively These included bonds of Bulk Infrastructure, the property and data centre company, offering 5.75% over Norwegian krone short-term interest rates until their 2028 maturity date – their initial coupon being 10.5%, and Norwegian shipping group Klaveness – these five-year floating rate notes paying around 4% over short-term rates. We also added oil and gas operator Okea at a yield of 9.25% and a new senior issue from One Savings Bank, which priced with an attractive yield of 9.5%

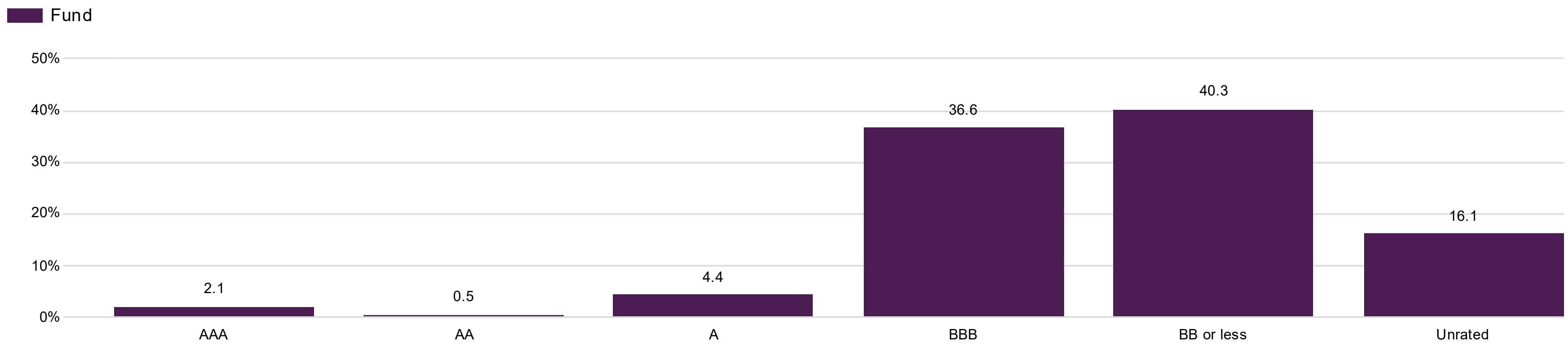
In the secondary market, the main trades of note were new positions in Canadian energy delivery company Enbridge and German pharmaceutical company Bayer, both positions in hybrid bonds with strong yields. We continued to add selectively to AT1 exposure thorough BNP, Société Générale and Credit Agricole as we believe that pricing in this area is still favourable given underlying fundamentals and the yields on offer.

Fund breakdown

Maturity profile

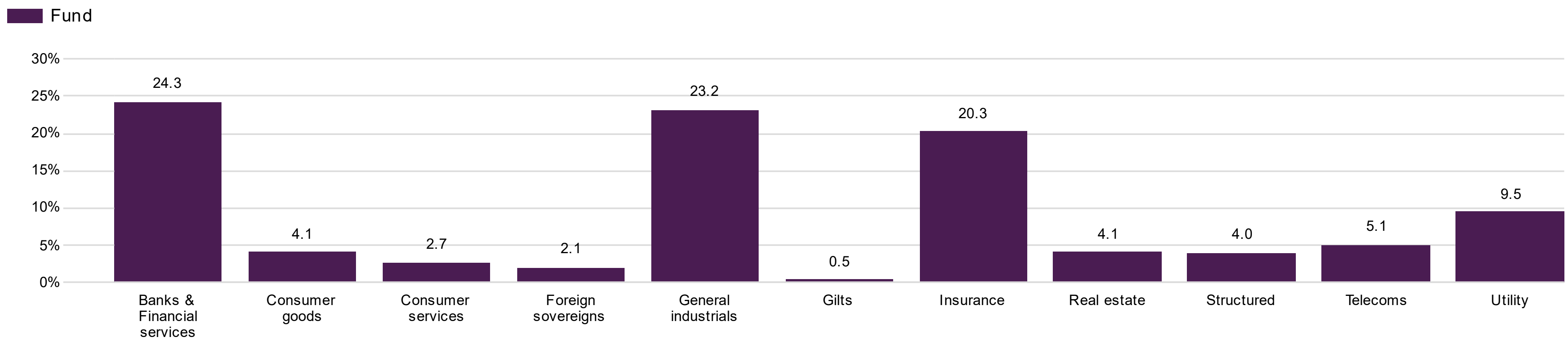


Credit ratings

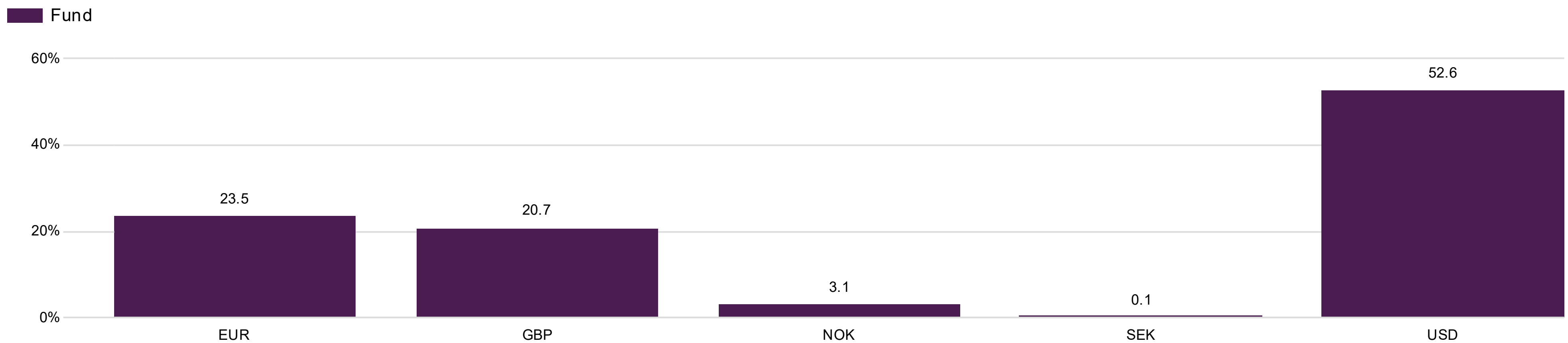


Fund breakdown

Sector breakdown



Currency breakdown



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 euro area economy may already be in mild recession and forecasts continue to pencil one in. Business surveys have deteriorated and look consistent with falling private sector output. Tighter monetary policy will still be feeding through to the real economy. Bank lending conditions have tightened and loan growth has slowed. High domestically driven inflation continues to point to the balance of risks being in the direction of further hikes.

In the US, the real economy has been surprisingly resilient in the face of tighter credit conditions. However, the fourth quarter looks set to see a few growth challenges, monetary policy is restrictive and employment growth has slowed. A number of recession indicators are still flashing. Business survey data paints a mixed picture, with PMIs consistent with flattish growth while ISM surveys look more upbeat. Employment gains have slowed on the non-farm payrolls data and job openings have fallen a long way from their highs consistent with a less tight labour market. Housing-related activity remain subdued.

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.

Global government bond markets continued to see yields move higher – a trend that started in mid-2020, reflecting market views that rising inflation would necessitate higher interest rates and that the central banks and governments would ultimately have to withdraw the support measures put in place during the global financial crisis and then used further to help mitigate the economic impact of Covid. With the end of the rate rising cycle possibly in sight, but issuance expected to remain high, markets have become more volatile.

Global corporate bond markets saw similar underlying influences over the third quarter, with differing overall results. All markets faced the headwind of rising government bond yields, but with this mitigated by ongoing additional carry, and tighter credit spreads as corporates continued to perform well in spite of the higher interest rate environment. In the US, the impact of higher government bond yields dominated returns, leading to a negative return over the quarter, the ICE BofAML US Corporate Index returning -2.70%, while in the euro zone and UK, larger spread tightening and smaller government bond yield increases meant positive returns, with the ICE BofAML Euro Corporate & Pfandbrief Index and iBOXX Sterling Non-Gilt indices returning 0.28% and 2.26% respectively.

Outlook

We expect that inflation has peaked. 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, euro zone and UK interest rates are likely to rise a bit further as the ECB and BoE continue to focus on bringing inflation under control.

Although the economic data remain very mixed, we still believe that higher rates will lead to a slowdown, impacting company earnings and leading to some increase in credit rating downgrades and default rates. Nevertheless, it is our view that with yields higher across the board, there are opportunities across the fixed income universe and credit spread levels mean that investors are being well paid to take credit over government bond risk. Against this background, we will maintain our focus on identifying companies with strong balance sheets 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

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

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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 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.

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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): https://ihsmarkit.com/Legal/disclaimers.html and/or in the prospectus for the Fund.

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 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.61	3.49	8.68	9.52	17.61
Fund (net)	1.48	3.22	8.12	7.83	14.80

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	3.08	3.29
Fund (net)	2.54	2.80

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)	8.68	(9.48)	11.33	0.80	6.53
Fund (net)	8.12	(9.95)	10.75	0.34	6.10

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 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.