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Royal London Cautious Managed Fund

Quarterly Investment Report

30 September 2023

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 30 September 2023

The purpose of this report is to provide an update on the Royal London Cautious Managed 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 fund's investment objective is to achieve a total return over the course of a market cycle, which should be considered as a period of 6–7 years, by predominantly investing in other funds, known as collective investment schemes.

7% FTSE All-Share Total Return Index,
11% FTSE World Total Return GBP Index
2% MSCI Emerging Markets ESG Leaders Net Return Index (expressed in GBP)
15% FTSE Actuaries UK Conventional Gilts (All Stocks) Total Return (GBP) Index
15% iBoxx Sterling Non-Gilt Total Return (GBP) Index
10% ICE Bank of America Merrill Lynch 1-5 years Sterling Non-Gilt Index
10% FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return (GBP) Index
30% Bank of England Sterling Overnight Index Average (SONIA)

Fund value

	Total £m
30 September 2023	168.91
Fund launch date	10 June 2015

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.69	1.43	0.26
YTD	2.82	2.32	0.50
1 Year	6.05	5.43	0.62
3 Years (p.a.)	0.64	(0.51)	1.16
5 Years (p.a.)	1.88	1.18	0.69
10 Years (p.a.)	-	-	-
Since inception (p.a.)	2.98	2.36	0.62

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 Royal London Cautious Managed (A Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 10 June 2015.

Performance commentary

Equities

Global equities fell from year-to-date highs over the period, driven by fears that monetary policy will remain tighter for longer than previously anticipated, while worries around a potential US government shutdown compounded the sell-off in stocks. Our Investment Clock model stayed in its equity-friendly Recovery quadrant, that it entered earlier this year, with easing inflationary pressures accompanying “less bad” global growth data. We started the quarter overweight equities due to this more positive macro picture, but reduced positions towards neutral into the quarter end as volatility rose and equities lost momentum. Our initial overweight position saw us detract value in equities over the quarter.

Bonds

We were underweight bonds for the entirety of the quarter. We have maintained an underweight position in bonds as interest rates continue to rise which have been positive for our performance as rising yields leads to falling bond prices.

Equity regions

We have been overweight Japanese equities for most of 2023, which have benefitted from a weaker yen, loose monetary policy and improving corporate profits. We continued to prefer Japanese equities over the quarter, and increased our positioning as the quarter progressed, which added value over the period. We further re-established our underweight positions in emerging market and Asia Pacific shares, as economic data in China continued to surprise on the downside. These positions added value over the quarter.

Equity sectors

We maintained a broad preference for growth stocks over the quarter, although we took some profits on this position following strong profits year to date. We increased our underweight position in defensive sectors, which proved beneficial as these sectors continued to lag.

Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. However, in the near term, we see downside risks to the asset class as growth slows. We remained tactically underweight property on recessionary concerns. Commercial property was flat over the period. Elevated recession fears and the sluggish UK economy have continued to weigh on property, while hints of a potential BoE pause is seen as a positive signal for the asset class.

Performance and activity

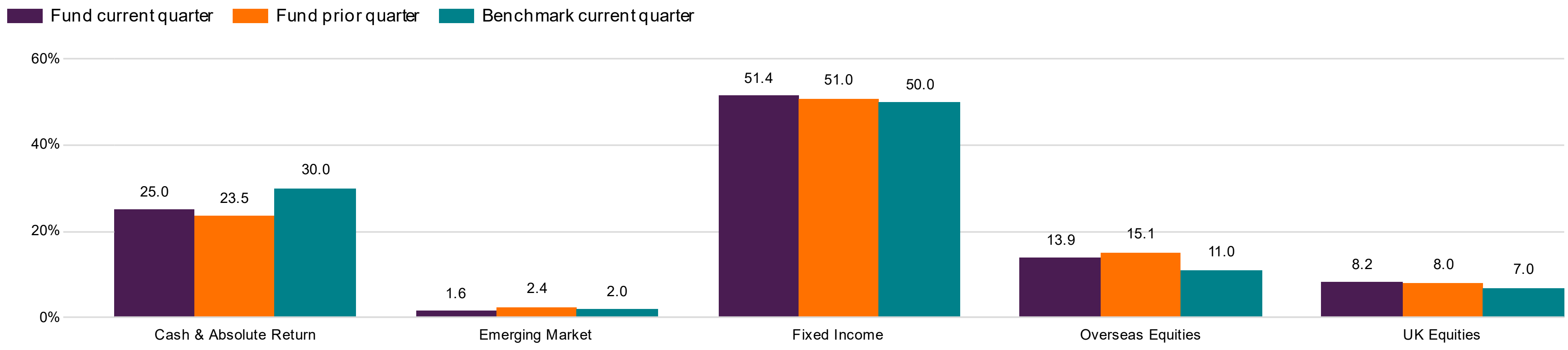
Fund activity

Asset allocation overview

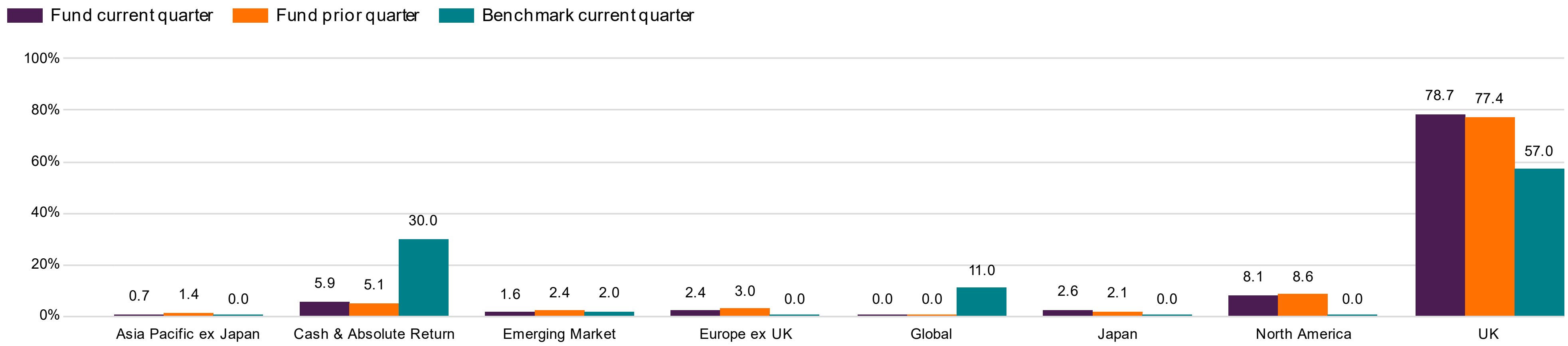
At the tactical asset allocation level, we moved towards a more neutral position in equities over the quarter but maintained our underweight in bonds as markets moved to price in higher interest rates for longer than previously expected. Our overweight position in equities has added value over the year so far but did lead to some losses this quarter. However, these losses were offset as our preference for Japanese stocks continued to add value at the regional equity allocation level, as did our preference away from defensive stocks at the sector level. Despite the current difficult macroeconomic environments, we see great benefits in a well-diversified multi asset approach aiming to deliver positive risk-adjusted returns over the medium to long term.

Fund breakdown

Asset split



Geographical 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 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.

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 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.

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.

Equity markets made losses over the period under review on fears that policy will remain tighter for longer than expected, which saw equities drop to their lowest levels since early June. Growth sectors have outperformed year to date but struggled against the backdrop of rising rates. The technology sector has fallen for three consecutive weeks during September. Japanese equities remain attractive relative to the emerging markets.

For the third quarter, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced negative returns for the quarter in US dollar terms. Looking at national MSCI indices, the strongest market was Japan, while the weakest was Eastern Europe. In terms of style, the MSCI World Growth Index produced weaker returns versus the MSCI World Value Index.

The price of Brent crude oil soared by 27.3% to $95.3 a barrel. Copper futures also declined a further 1.2% in dollar terms on the back of warning signs emerging of a weakening in global demand as China's economic rebound stalls.

The US dollar appreciated by 3.5% against the yen, by 3.2% against the euro, and by 4.1% against sterling. On a translational basis, sterling's strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit any emerging markets countries and companies that have borrowed in dollars.

Outlook

While we expect headline inflation to continue to fall, we are not expecting a return to the previous disinflationary world. We see a more normal new regime characterised by periodic spikes in inflation and short boom-bust cycles. Tactical asset allocation is important when business cycles are shorter given inflation causing more movement in interest rates. We have been overweight equities in the multi asset funds we manage since the Autumn 2022. While we have moved to more neutral positioning recently, we could look to buy dips should investor sentiment deteriorate further into depressive territory.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

The investment clock

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

Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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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 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 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.

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.

Fund investing in Funds Risk

The Fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the Fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the Fund itself, may be deferred or suspended.

Charges from Capital Risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.69	1.19	6.05	1.95	9.74
Fund (net)	1.51	0.83	5.31	(0.17)	6.05

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
0.64	1.88
(0.06)	1.18

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)	6.05	(9.26)	5.94	1.37	6.19
Fund (net)	5.31	(9.89)	5.20	0.67	5.53

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 Royal London Cautious Managed (A Acc).

Glossary

Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

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.

Geographical breakdown

Breakdown of assets by geographical regions. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

Performance

Performance is calculated using the signed off NAV per share. 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 the return.

Top 10 holdings

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