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Royal London Global Sustainable Credit 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 Sustainable Credit 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 fund's investment objective is to outperform the Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD (the ''Benchmark'') by 0.75% per annum over rolling three year periods (gross of fees). The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track it.

Benchmark: Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD

Fund value

	Total $m
30 September 2023	418.66

Asset allocation

	Fund (%)	Benchmark
Conventional credit bonds	98.89%	100.00%
Securitised	1.11%	-

Fund analytics

	Fund	Benchmark
Fund launch date	10 February 2021	
Base currency	USD	
Duration (years)	6.79	5.69
Gross redemption yield (%)	6.01	6.42
Number of holdings	265	15,748
Number of issuers	159	2,800

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(2.09)	(1.63)	(0.46)
YTD	0.97	1.46	(0.48)
1 Year	4.91	4.61	0.30
3 Years (p.a.)	-	-	-
5 Years (p.a.)	-	-	-
10 Years (p.a.)	-	-	-
Since inception (p.a.)	(5.52)	(5.09)	(0.43)

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 Sustainable Credit Fund (Z Acc) (USD). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 10 February 2021.

Performance commentary

The fund underperformed the index over the quarter (Z Acc USD). The main negative over the quarter was duration. Our investment process focuses on building portfolios from the bottom up, using a high level of diversification to reduce stock specific risk. This will create small biases in duration and curve positions that in any given quarter may have a positive or negative impact. We believe that long-term outperformance of our benchmark will primarily be driven by sector and security selection. Hence while duration was slightly long, this represented the aggregate impact of our focus on individual bonds, rather than a strategic position based on our view of future moves in bond yields.

Otherwise, sector and stock positioning was a small positive. There were no major impacts on performance, although our position in Florida-based insulation and building material company TopBuild was a notable positive, as was our positioning in the banking sector.

Performance and activity

Top 10 holdings

	Weighting (%)
LLOYDS BANKING GROUP PLC 4.582000000 2025-12-10	1.06
HSBC HOLDINGS PLC 7.390000000 2028-11-03	1.03
XYLEM INC 2.250000000 2031-01-30	1.00
REPUBLIC SERVICES INC 2.300000000 2030-03-01	0.98
LEGAL & GENERAL GROUP 5.250000000 2047-03-21	0.95
GLAXOSMITHKLINE CAP INC 4.200000000 2043-03-18	0.95
NN GROUP NV 4.625000000 2048-01-13	0.93
ECOLAB INC 2.125000000 2032-02-01	0.90
M&G PLC 6.500000000 2048-10-20	0.89
PHOENIX GRP HLD PLC 5.375000000 2027-07-06	0.88
Total	**9.57**

Fund activity

We continued to invest in bonds that meet both our demanding financial and sustainable criteria, and which fit into the sustainable themes that we think will endure and offer long-term solutions to the challenges that the world faces. We also aim to construct the fund to ensure that it yields more than the benchmark index. We believe that this positioning will be beneficial in the medium term, given the current valuation of credit markets and attractive opportunities we see.

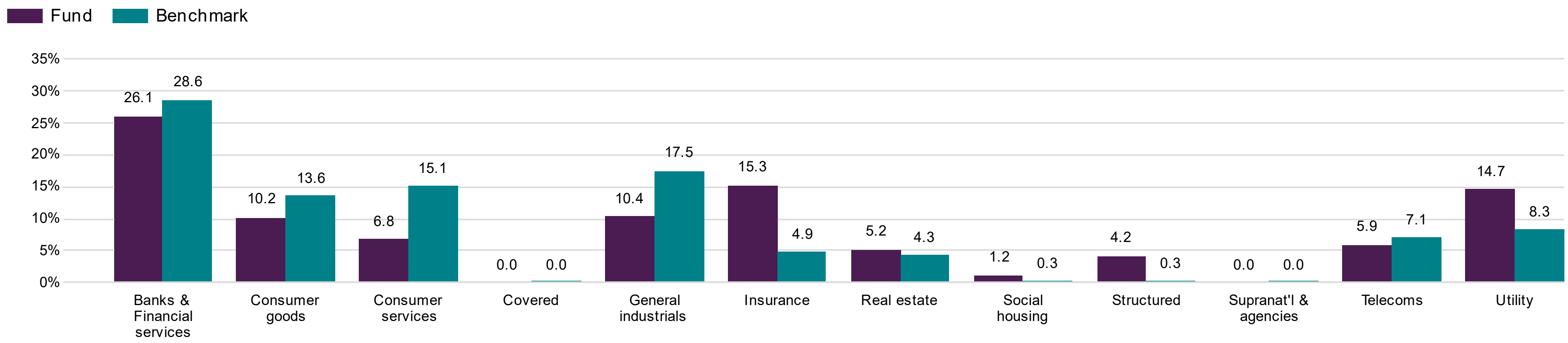
Primary activity was relatively low over the quarter. As well as the seasonal lull usually seen over the summer, rising overall yields means it is less attractive to raise debt capital. With a rising yield environment, many companies had brought capital raising forward to take advantage of low yields,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

Financials remain the largest part of the market and dominated market issuance and our new issue activity during the quarter. We had a bias towards senior new issues over the period, reflecting the fact that credit spreads in these areas were very attractive, with notable examples including a new senior issue from One Savings Bank, which priced with an attractive yield of 9.5% and a new issue from US insurance group MetLife. In more consumer-related areas, we added new issues from East Japan Railways and Gilead Sciences.

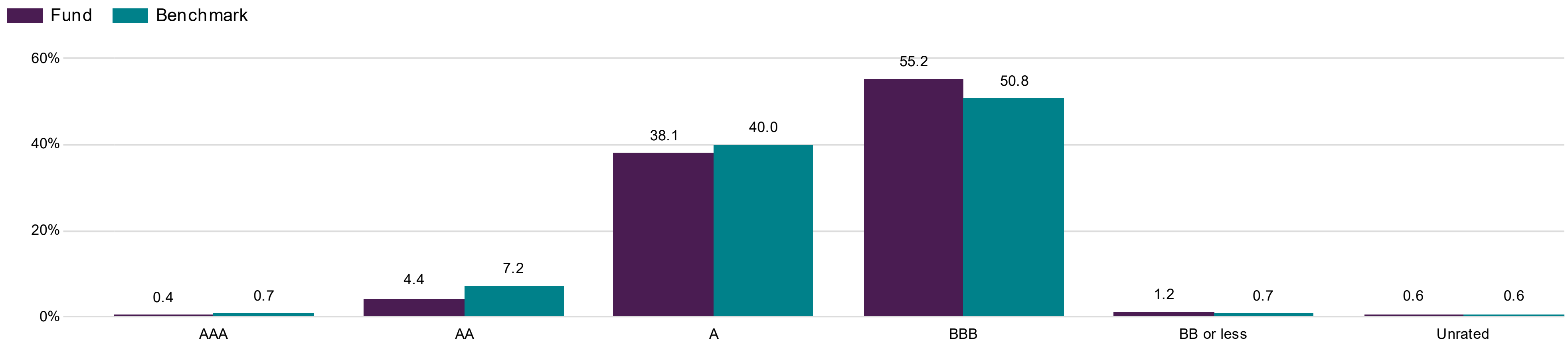
Over the quarter, secondary market activity was broad-based, but we looked to continue to add US dollar assets where yields had increased more and there were a number of attractive opportunities. We added US dollar senior bonds from ING, Rabobank and Santander while in utilities, we added Consolidated Edison and E.on.

Fund breakdown

Sector breakdown

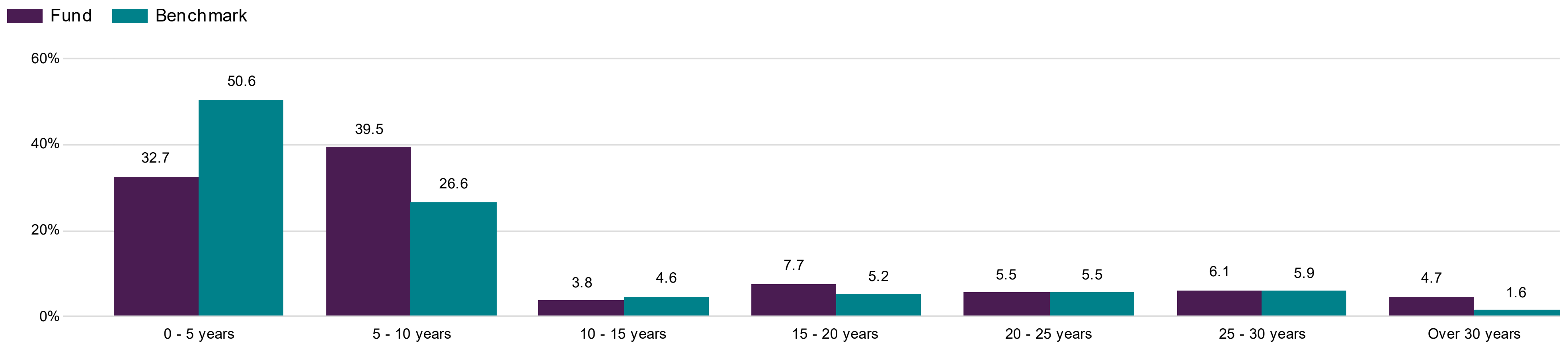


Credit ratings



Fund breakdown

Maturity profile



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

Responsible investment at RLAM

TCFD climate report

Royal London voting and engagement

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.

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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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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.

Responsible Investment Risk

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	(2.09)	(1.80)	4.91	-	(13.89)
Fund (net)	(2.18)	(1.99)	4.49	-	(14.79)

Annualised (%)

3 Years (p.a.)	Since Inception (p.a.)
-	(5.52)
-	(5.89)

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)	4.91	(17.96)	-	-	-
Fund (net)	4.49	(18.29)	-	-	-

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 Sustainable Credit Fund (Z Acc) (USD); Since inception date 10 February 2021.

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.

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.

Top 10 holdings

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