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Royal London Global Bond Opportunities Fund

Quarterly Investment Report

31 December 2024

ROYAL LONDON ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London Global Bond Opportunities 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

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. The Fund seeks to achieve its investment objective by investing predominantly in non-Sterling and Sterling denominated Fixed Income securities. These securities form part of a diversified portfolio of global fixed or floating rate debt securities (rated or non-rated), including investment grade, sub-investment grade or high yield.

Fund value

	Total £m
31 December 2024	312.29

Fund analytics

	Fund
Fund launch date	8 December 2015
Base currency	GBP
Duration (years)	4.26
Yield to worst (%)	6.42
Number of holdings	283
Number of issuers	217

Performance and activity

Performance

	Fund (%)
Quarter	1.63
1 Year	10.14
3 Years (p.a.)	4.31
5 Years (p.a.)	4.72
Since inception (p.a.)	5.69

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 Z Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 8 December 2015.

Performance commentary

With investment grade bonds producing negative returns in the US and UK, and very modest gains in euro markets, it was pleasing that the fund again provided a positive return over the quarter. While other credit markets such as high yield, emerging markets and CoCos (contingent capital bonds) did produce positive returns, the fund produced a stronger result than most of these both for the quarter and 2024.

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. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period, as did our non-financial hybrid bonds. Strong returns from a number of our general industrials holdings – including Altera Shuttle Tankers and Amadeo Air helped, as did our exposure in real estate to Canary Wharf and Finnish luxury hotel operator Sunborn Finance Oyj.

There were also positive contributions in relation to UK water sector exposure. Following a series of negative headlines there has been a lot of volatility in the sector. Ofwat released their final determination for the water sector in December, which saw a softening in stance from the regulator versus its draft in the summer, and leaves a package that likely works for most firms. It was positive for the sector overall, as it removes a big overhang and should see spreads for most firms in the sector continue to normalise. We also expect to see more issuance as the water firms look to fund this big rise in infrastructure spending.

Performance and activity

Top 10 holdings

	Weighting (%)
STICHTING AK RABOBANK LEDENCERTIFI 6.5 31 Dec 2079	1.62
LLOYDS BANKING GROUP PLC 7.5 31 Dec 2079	1.40
ALTERA SHUTTLE TANKERS LLC 9 13 Mar 2028	1.29
ARGENTUM (SWISS RE LTD) 5.524 31 Dec 2079	1.20
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.04
TELFORD FINCO 11 06 Nov 2029	1.02
STANDARD CHARTERED PLC 6.36078 31 Dec 2079	1.02
AXA SA 6.375 31 Dec 2079	0.92
LEGAL & GENERAL GROUP PLC 5.25 21 Mar 2047	0.92
ACHMEA BV 5.625 02 Nov 2044	0.86
Total	**11.31**

Fund activity

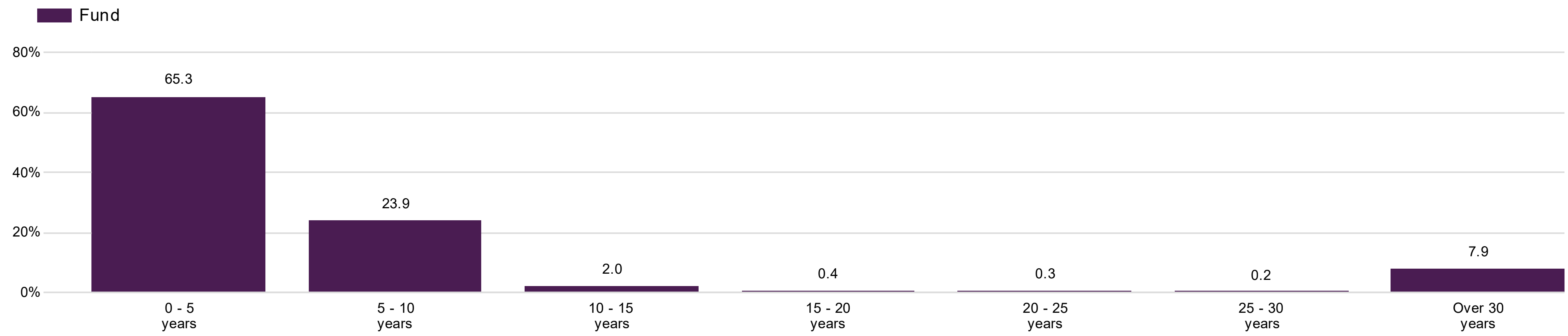
New issue markets saw the same trends in the fourth quarter as with most of 2024 – with US dollar issuance very high, strong growth in euro issuance and somewhat subdued sterling markets. With credit spreads continuing to tighten over the quarter, we looked for opportunities to reduce risk through taking profits. This was perhaps most notable in subordinated financials, where there has been broad-based strong performance in 2024. During the quarter we trimmed a number of positions, including CitiGroup and HSBC, also taking profits oin senior financial bonds such as Deutsche Bank and BPCE. But this activity was visible across a range of sectors, including car manufacturer Jaguar after its upgrade to investment grade and US telecoms provider Charter Communications.

The fund was active in primary markets over the quarter. We added oil services provider Telford, as well as North Sea oil and gas operator Ithaca Energy. In financials, we added tier 2 bonds from Zurich, as well as legacy tier 1 bonds from Commerzbank, the latter yielding 8%. Another new issue of note was from Danish renewables provider European Energy – these three-year bonds are floating rate, helping mitigate interest rate risk, paying an attractive premium over Euribor.

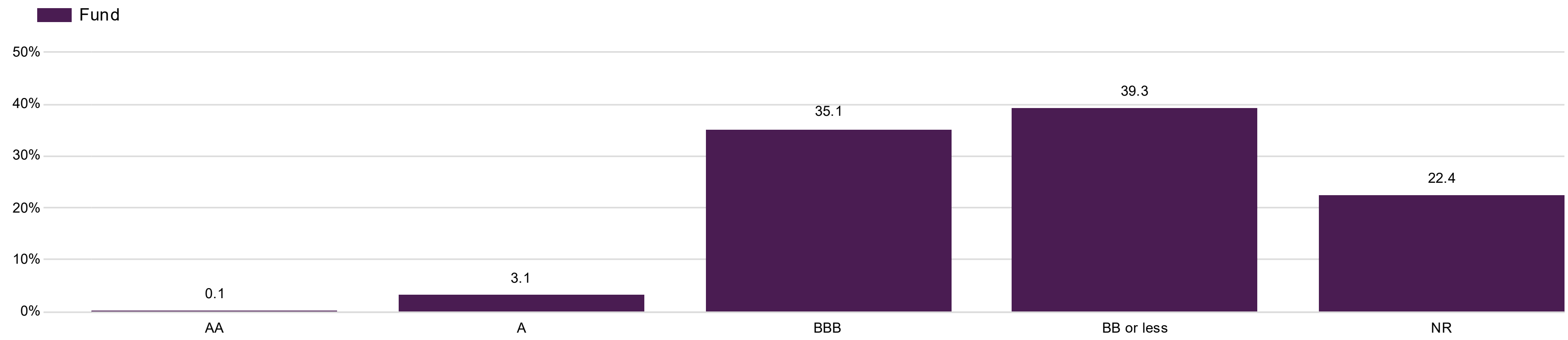
In the secondary market, We added AT1 bonds from Swiss investment management firm Vontobel as well as ABN Amro, subordinated bonds from Standard Chartered, and effected a switch in NatWest – selling high cash price bonds into low cash price equivalents. We also added to our exposure in Danish offshore wind services company Ziton, the bonds yielding over 10%.

Fund breakdown

Maturity profile

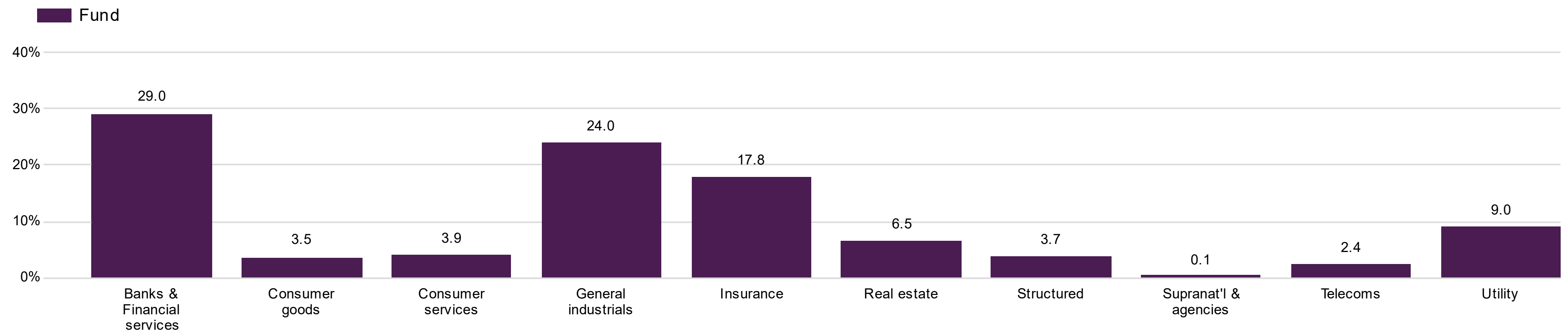


Credit Ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	16	30
Number of engagements	20	69

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic

Climate	13
Climate - Transition Risk	13
Governance	4
Corporate Governance	4
Health	5
Mental Health	5
Social & Financial Inclusion	4
Just transition	3
Social & Financial inclusion	1

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

Barclays Plc - Just transition

Purpose:

We met with Barclays's, a UK multinational bank, Sustainability team as part of our collaborative engagement with banks on just transition, aiming to integrate this issue throughout its net zero plan and address questions regarding our recently published investor expectations.

Outcome:

The meeting with Barclays's Sustainability team was positive, providing valuable feedback on our investor expectations. Barclays acknowledged the importance of just transition integration and identified it as a key area in its human rights assessment. The company is incorporating just transition into products like greener home rewards and green mortgages. The bank's decarbonisation target for the mortgage sector aims to avoid restricting financing for those in need. Just transition is also part of its transition finance framework. Barclays is refining just transition in commercial lending and recognises its importance in North America, aligning with our guidelines. We will continue to monitor the bank's disclosures on just transition and will look to assess the bank against our investor expectations in the future.

Electricite De France SA (EDF) – Net zero

Purpose:

We met with EDF's, a French multinational electric utility company, Head of ESG Performance team to discuss its latest results in the Climate Action 100+ (CA100+) benchmark and discuss our 2025 engagement priorities with the company.

Outcome:

EDF performed well in the CA100+ benchmark, showing improvements across several areas. The company is working on clarifying its Scope 3 emissions reduction trajectory, detailing short, medium, and long-term goals. EDF maintains a low carbon intensity in electricity and heat production, which is sometimes under-recognised in CA100+ assessments. Due to EU Taxonomy classification issues related to its UK nuclear assets, specific green CAPEX numbers have not been published, but we will be assessing for improved company disclosures next year. We will continue to engage with EDF to discuss its updated Scope 3 decarbonisation pathways.

Fund Engagement

Engagement outcomes

Lloyds Banking Group Plc - Just transition

Purpose:

We met with Lloyds Banking Group, UK-based financial services group, as part of our collaborative engagement with banks on just transition, aiming for the bank to integrate this issue throughout its climate transition plan and demonstrate implementation at product, sector, and regional levels.

Outcome:

Lloyds Banking Group continues to view just transition as integral to the company's purpose and growth strategy. The positive call highlighted several innovative projects, supporting its alignment with just transition principles. Lloyds found our investor expectations helpful but noted that a sector lens might miss interdependencies, advocating for a system-based approach instead. The company provided examples of just transition integration across various systems, such as sustainable farming, greening the built environment, low carbon transport, and energy transition.

Lloyds has launched several innovative products aligned with just transition, including a £500mn social housing retrofit product. Lloyds have developed a roadmap with the Green Finance Institute and NatWest for property-linked finance for retrofit projects . The bank's regional approach to lending addresses challenges in across the UK, with initiatives like working with local authorities to tackle local issues, expected to create jobs and reduce regional inequalities. Combined with balance sheet lending for regional projects, Lloyds' approach appears relatively advanced.

Market commentary

Market overview

Markets were volatile during the fourth quarter – with the US elections and the potential for central bank rate cuts the main causes of uncertainty. With the election of Donald Trump as US President, and the Republicans having a majority in both the Senate and House of Representatives, markets moved to price in potentially higher US deficits.

Alongside political events, attention remained on the Federal Reserve, European Central Bank and Bank of England to see if expected rate cuts would materialise. However, with inflation remaining higher than central bankers would like, expectations for rate cuts in 2025 were revised down. This backdrop pushed government bond yields higher, leading to negative absolute returns for most investment grade credit markets despite credit spreads tightening and credit excess returns over government bonds being positive, while equities ended a strong 2024 with another positive quarter, with US stocks – notably the 'magnificent seven' – leading the way.

The Federal Reserve cut rates 50bps over the quarter to a 4.25% - 4.5% target range. They signalled fewer cuts for 2025 than previously indicated, indicating only 50bps cuts for 2025 (100bps previously). In November, Donald Trump was elected US President for the second time. A Trump presidency will likely bring a change in both policy making style and substance. It was a clean sweep for the Republicans, winning the White House, Senate and House of Representatives, increasing the prospects of Trump getting his fiscal policies through.

As expected, the European Central Bank's final decision of the year saw another 25bps rate cut, taking the deposit rate to 3.00%. The picture for activity outside Germany and France was somewhat better than for those two economies, with both France and Germany affected in recent months by political/policy uncertainty. France's finance minister was replaced after Barnier's budget failed to pass and Germany will now have early elections in the first quarter of 2025.

At its final meeting of 2024, and as expected, the Bank of England kept rates on hold at 4.75%. Meanwhile, according to the minutes, "a gradual approach to removing monetary policy restraint remains appropriate." Away from economic data, the new Labour government presented its first budget. This was less obviously a budget for growth than one for public services repair with a substantial proposed increase in day-to-day fiscal spending and net investment.

Government bond yields rose over the quarter, as central banks continued to struggle to bring inflation back to target levels and amid ongoing political volatility with elections across Europe and the US. In the US, 10-year treasury yields rose to 4.57% from 3.78%, while German 10-year bunds similarly saw yields rise to 2.36% from 2.06%. Benchmark 10-year gilt yields increased to 4.57% from 4.01%.

The sterling investment grade credit market (iBoxx non-gilt index) returned -0.49% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightening over the period from 1.03% to 0.86% (iBoxx). The negative absolute return was broad based across the sterling investment grade credit market with the only sectors seeing positive returns being banks and real estate, with both markets benefitting from the potential of higher interest rates for longer. Consumer services and social housing were the relative laggards.

Global corporate bonds saw mixed returns in local currency terms over the quarter. For US dollar and sterling markets, the impact of rising government bond yields more than offset the positive impact of tighter credit spreads and the carry on the asset class. Euro investment grade markets saw positive returns, with the impact of rising government bond yields much smaller than in the US and UK.

Outlook

Perhaps the most unexpected aspect of fixed income markets in 2024 was the rise in yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag government bond yields lower. In the event, although we got rate cuts, these really only impacted the short end – with longer yields pushed higher because inflation did not come down as expected and Trump presidency is widely seen as more inflationary.

Investment grade markets partially mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. As this point, with these back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global economy, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that investment grade all-in yields remain attractive but the relative attraction between government bond yield and credit spread has changed, with a larger component of the yield being sought from government bonds. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

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

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts 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

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 January 2025 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: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

The Prospectus and Key Investor Information Document (KIID) are available in English via the relevant Fund Information page on www.rlam.com. A summary of investor rights is also available in English, and can be accessed at www.rlam.com/uk/policies-and-regulatory

RLAM may terminate the arrangements made for marketing of the fund pursuant to Article 93a of Directive 2009/65/EC.

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

Credit risk is the potential for loss due to a borrower, debtor or debt issuer defaulting on agreed obligations to make interest or capital repayments. Credit ratings are independent assessments of the credit risk of a debtor or an individual debt security. Securities that have a lower credit rating have a higher 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 risk

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.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance to 31 December 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.63	5.70	10.14	13.52	25.97
Fund (net)	1.52	5.48	9.67	11.87	22.89

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	4.31	4.72
Fund (net)	3.81	4.20

Year on year performance (%)

	31/12/2023 - 31/12/2024	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020
Fund (gross)	10.14	10.40	(6.64)	7.08	3.63
Fund (net)	9.67	9.83	(7.13)	6.52	3.13

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 2024. All figures are mid-price to mid-price for the Royal London Global Bond Opportunities Fund Z Inc GBP share class.

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.

Income yield

Income yield reflects the annualised income net of expenses of the Fund as a percentage (calculated in accordance with the relevant accounting standards). Yield to Worst and Income Yield are calculated as a percentage of the mid- price of the Fund as at the date shown and are month end snap shots of the portfolio on that day and do not include any preliminary charges. Investors may be subject to tax on distributions.

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.

Yield to worst

The lowest potential yield that can be received on a bond without the issuer defaulting. The yield shown for the Fund is the average for its individual holdings, weighted by their current market value, net of relevant fund management costs and gross of tax.