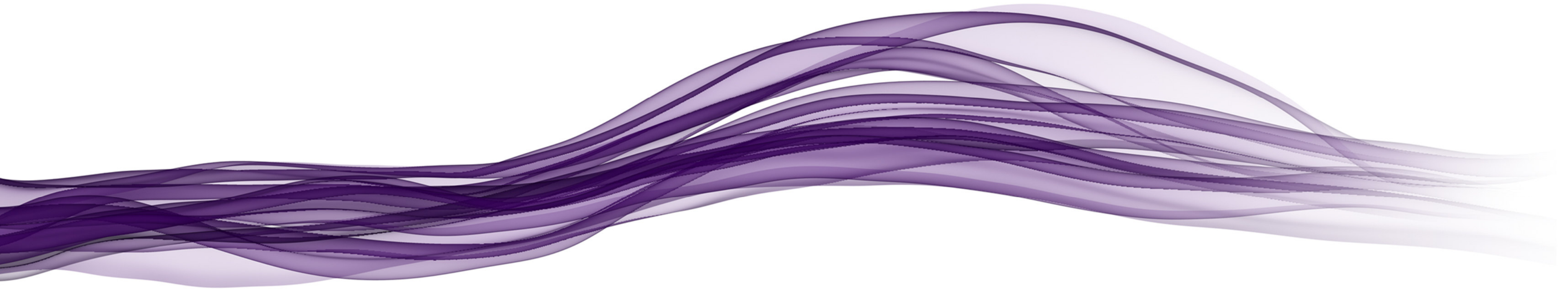
For professional clients only, not suitable for retail clients.



Royal London Global High Yield Bond Fund

Quarterly Investment Report

31 December 2024

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London Global High Yield 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.

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The fund

Fund performance objective and benchmark

The investment objective of the Fund is to provide a combination of investment growth and income, the Fund will seek to achieve its objective on an active basis. The Fund seeks to achieve its investment objective by outperforming its benchmark, theBofA Merrill Lynch BB-B Global Non-Financial High Yield Constrained Index (the "Benchmark") by 1% per annum over rolling three year periods. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Benchmark: ICE BofA ML BB-B Global Non-Financial High Yield Constrained Index

Fund value

	Total £m
31 December 2024	3,231.14

Fund analytics

	Fund
Fund launch date	15 February 2013
Base currency	GBP
Duration to worst	3.36 years
FX adjusted yield (%)	7.89

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Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.74	0.25	0.49
1 Year	7.21	7.71	(0.50)
3 Years (p.a.)	0.87	1.63	(0.76)
5 Years (p.a.)	2.62	2.35	0.27
10 Years (p.a.)	4.31	3.81	0.50
Since inception (p.a.)	4.28	3.90	0.39

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 15 February 2013.

Performance commentary

The main focus for investors at the start of the quarter was the looming US Presidential election. It became clear a couple weeks out that Donald Trump was in line to be re-elected, but he was able to secure a more decisive victory than expected and the Republican party would go on to win a clean sweep of the White House, Senate and House of Representatives.

As a result, this led a more risk-on environment for high yield markets with the expectations that a Trump presidency would lead to deregulation and short-termism policies. The government bond yield curve steepened and credit spreads tightened. When interest rates were cut, we saw spreads tighten further.

Although spreads are at multi-year lows, we still see some room for further tightening, especially if default rates continue to remain low – which we expect to see as we expect public markets to remain active. Fresh leveraged buyouts are likely to provide supply and widen the high yield market – but only if credit spreads are range bound.

While Trump is likely to dominate headlines, the direct impact of his administration on the high yield market could be benign. The market has become a short duration market, meaning that the fallout from any potential Trump policies – such as tariffs – which are seen as inflationary will have more of an impact further out on the yield curve.

We continue to see strong corporate earnings, and with the new US government offering deregulation, this should continue. Another effect from deregulation could be increased M&A activity – allowing weaker companies an escape route from downgrades and defaults.

The high yield market is much more established, deeper in liquidity, diversified and higher in quality than in decades past. This evolution underpins the performance of the market: better corporate technicals have resulted in lower defaults, which lends itself to lower volatility.

The volatility in public markets is typically coming from idiosyncratic issues, usually from CCC names. The CCC portion of the market is now a relatively small portion of the market, with issuers now typically larger and in better financial standing.

With compressed spreads, and high liquidity, companies can seek refinancing at comfortable rates. We will, however, begin to see higher levels of cashflow spent on debt servicing if yields remain this high – which is where we see a disconnect with equity valuations.

Performance and activity

Top 10 holdings

	Weighting (%)
EMERALD DEBT MERGER SUB LLC 6.625 15 Dec 2030	1.25
HTA GROUP LTD 7.5 04 Jun 2029	1.02
DYNAMO NEWCO II GMBH 6.25 15 Oct 2031	1.00
LIVE NATION ENTERTAINMENT INC 4.75 15 Oct 2027	0.99
NEXSTAR MEDIA INC 4.75 01 Nov 2028	0.95
CPUK FINANCE LTD 7.875 28 Aug 2029	0.92
CEMEX SAB DE CV 5.125 31 Dec 2079	0.92
TRANSDIGM INC 6.625 01 Mar 2032	0.91
PRIME SECURITY SERVICES BORROWER L 6.25 15 Jan 2028	0.88
AFFLELOU SAS 6 25 Jul 2029	0.80
Total	**9.64**

Fund activity

A factor that should keep overall spreads tight in the high yield market is the fact that the overall market composition is the most defensive it has ever been. We have taken this opportunity to recycle out of our defensive trade, moving from higher rated into lower rated names. We sought to pick up spread and to lend further down the rating scale. In a benign default environment, we are happy to move down the credit rating scale to pick up additional spread and yield.

The combination of higher-quality bias, more secured bonds, and shorter index duration has resulted in a high yield market that contains less default risk. Therefore, we have seen spreads tighten. Even so, we still see room for further tightness as we believe the market is still not fully pricing in this up-in-quality skew.

We see duration at low levels in the benchmark, which has been steadily lowering throughout the year, as it has been fiscally prudent for high yield issuers to keep their bonds outstanding for longer given the low coupons on their post-Covid issuances, and since the new supply used to refinance existing debt is not being issued very far out the curve.

The fund remains overweight B versus BB, which was beneficial for performance. We see value in the B rated portion of the market, where we expect spreads to remain accommodating in the first half of 2025.

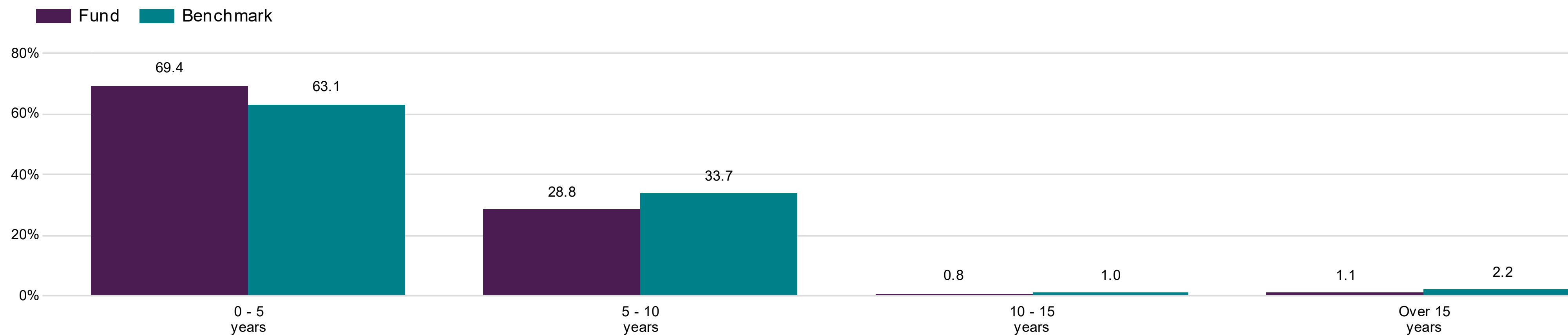
The fund also seen a pickup in performance from idiosyncratic names, such as Walgreens. We took profit in our position following takeover talks as the US pharmacy business seeks out the private market for a buyer.

We see headwinds arising from slowing growth and inflationary policies pressuring spreads, but the high-quality bias of the market and sustained demand for yield should keep the market from spiking significantly wider.

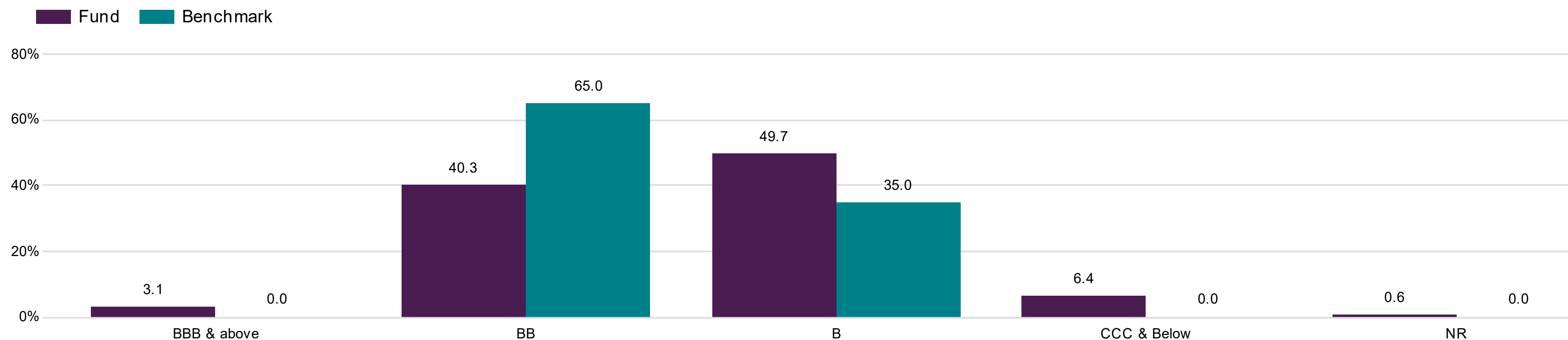
One of the interesting phenomena in our market is the lack of a substantial amount of what is termed as ‘fallen angels’ or investment grade bonds downgraded to high yield. We have seen very little in 2024. In contrast there have been many more ‘rising stars’, high yield bonds that are upgraded to investment grade, with over $26bn and we have had the restoration of investment grade status to some issuers that were impacted by the Covid period.

Fund breakdown

Maturity profile

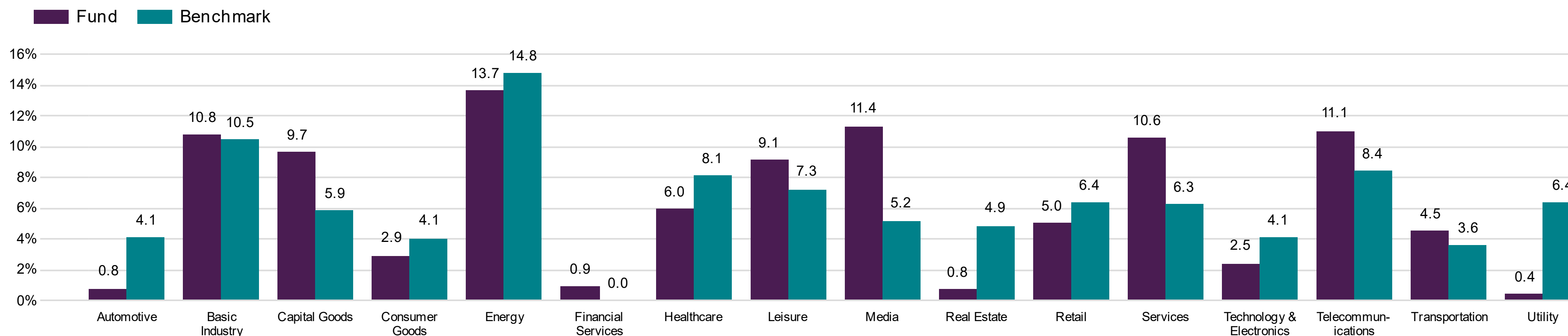


Credit ratings



Fund breakdown

Sector breakdown



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 returns for most investment grade credit markets, while equities ended a strong 2024 with another positive quarter, with US stocks – notably the 'magnificent seven' – leading the way.

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." November CPI inflation rose to 2.6% year on year as expected on 'base effects'. Pay growth was stronger than expected. October GDP shrank month-on-month after falling in September, with this contraction (and subdued business surveys since) raising the risk of a mild GDP contraction in the fourth quarter. 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. Public spending was increased substantially, but at the cost of a big increase in taxes. Since the Budget, business optimism has dropped, and firms are indicating a mix of responses to the rise in National Insurance contributions including hiring less and raising prices.

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). Third quarter GDP (released over the quarter) rose at an above trend pace, supported by strong consumer spending growth. The US PMI composite meanwhile rose further and continued to signal a robust pace of US private sector output growth, although manufacturing business survey measures remain more subdued than services ones. In November, Donald Trump was elected US President for the second time. A Trump presidency will likely bring a change in both policymaking 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. Business optimism on the PMI survey rose, hitting a two and a half year high in December, "reflecting growing optimism about business conditions under the incoming Trump administration," though manufacturers flagged concerns about tariffs (where Trump has promised increases) and inflation.

As widely expected, the European Central Bank's final decision of the year saw another 25bps rate cut, taking the deposit rate to 3.00%. The bank continues to note that domestic inflation remains high but attribute that "mostly" to wages and prices in certain sectors "still adjusting to the past inflation surge with a substantial delay." Third quarter GDP released over the quarter was stronger than expected. The PMI business survey composite, however, remained consistent with subdued private sector activity growth throughout the fourth quarter, ending the quarter below the 50 'no growth' level. The picture for activity outside Germany and France was somewhat better than for those two economies though, 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. CPI inflation rose on data released over the quarter, reaching 2.3% in November.

Government yields rose over the quarter, as central banks continue 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%.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 0.25% in the quarter with spreads at 269bps. At the end of the period, the index's yield-to-worst stood at 6.64%, drifting higher since the third quarter on the back of rising yields but partially offset by spreads tightening. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 325bps, with a yield-to-worst of 7.2%.

Outlook

As spreads tighten, there is a perception that the high yield market is risky for investors, but we feel this does not tell the full story. The fundamentals in the market are considerably better than previously, with the quality of names improving. We believe that the combination of attractive valuations and robust fundamentals provides a constructive environment for 2025.

High yield fundamentals are well supported and that has resulted in a very moderate default climate up to now. Current US high yield default rates are very low, sitting at 1.5% and not rising above 2.3% for all of 2024, with global defaults below 2%. While companies are relatively comfortable with the position that credit spreads are not going to be too volatile, and they have

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Market commentary

a good handle on the strength of their balance sheets, we can see a scenario where current tight spreads tighten further – with not many new issues and yields remaining high.

The main catalyst for volatility on the horizon – as with other asset classes – is a Trump presidency. Until there is greater clarity on what policy path he takes forward, and what policies he decides to focus on, high yield spreads could trade sideways – as the risk is politically driven, not market driven.

We expect public markets to remain active. Fresh leveraged buyouts are likely to provide supply and widen the high yield market but only if credit spreads are range bound, whilst private credit issuers may return to public markets – which we see as an interesting trend to keep an eye on.

In our view, the way through markets is to focus on those risks that you can control and know what you own. We will keep spread duration low and focus on the quality of issuers' financials, rather than relying on third-party ratings: at a sectoral level, cashflows are the key factor, meaning we need to know about on- and off-balance sheet leverage. We prefer not to wait for defaults as the recovery process can take time: however, should they occur, the key is to have an adequate solvency cushion.

2024 played out similarly to 2023: maturity wall concerns were overplayed; companies holding high liquidity; private debt markets eating the bottom cohort of public markets; public markets remaining open, with solid issuance levels. As long as public markets stay open, any maturity wall concerns will be swept away. And, as long as private markets are taking away the weakest parts of public markets, we believe defaults should stay low. We expect similar themes to play out in the first half of 2025.

Further Information

Please click on the links below for further information:

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.

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Disclaimers

Important information

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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.

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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.

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.

Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

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Performance to 31 December 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	0.74	4.85	7.21	2.63	13.85
Fund (net)	0.60	4.56	6.61	0.87	10.63

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
0.87	2.62
0.29	2.04

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)	7.21	11.47	(14.13)	4.24	6.43
Fund (net)	6.61	10.83	(14.63)	3.63	5.83

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 High Yield Bond Fund Z Inc GBP share class.

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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.

FX adjusted yield

FX adjusted yield is the gross rate of return to the expected maturity adjusted for hedging and excludes the impact of cash.

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.

Maturity Profile

Maturity classifications reflect issue maturity date, not market interpretation of redemptions

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.

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