For professional clients only, not suitable for retail clients.

Royal London Sterling Extra 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 Sterling Extra 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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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. The fund seeks to achieve a gross redemption yield (GRY) of 1.25 times the gross redemption yield of the FTSE Actuaries British Government 15 Year index (the "Benchmark"). The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Fund value

	Total £m
31 December 2024	1,659.63

Asset allocation

	Fund (%)
Conventional credit bonds	95.36
Conventional gilts	0.74
Index linked credit bonds	0.13
Other	3.77

Fund analytics

	Fund
Fund launch date	11 April 2003
Base currency	GBP
Duration (years)	3.88
Yield to worst (%)	7.74
Number of holdings	242
Number of issuers	192

Performance to 31 December 2024

Performance

	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)
A Inc GBP	2.43	5.66	11.52	5.56	5.32	7.82
Z Inc GBP	2.43	5.66	11.53	5.56	5.32	6.92

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Source: Royal London Asset Management; Gross performance.

Performance based on RL Sterling Extra Yield Bond Fund (A Inc), since inception date of the share class is 11 April 2003 and RL Sterling Extra Yield Bond Fund (Z Inc), since inception date of the share class is 13 December 2013.

Performance commentary

Distributions in respect of the fourth quarter of 2024, payable at the end of February, are 1.89p, 1.84p, 1.76p and 1.74p respectively for the A, B, Y and Z class income shares. These compare to amounts of 1.88p, 1.71p, 1.75p and 1.74p respectively distributed for the third quarter of 2024, and to 1.69p, 1.54p, 1.58p and 1.57p respectively distributed in respect of the fourth quarter of 2023.

Income generation was a significant aspect of the robust performance, which was able to significantly or wholly offset, in an environment of rising yields, the decline in price of many holdings in the fund. In October, this was complemented by some resilience within the secured and structured sectors, with holdings of leisure group Centre Parcs, pubs businesses Mitchell & Butler and Stonegate, property company Peel Holdings, mortgage lender Lendinvest, and student loan securitisation Thesis each posting an increase in capital value.

As the quarter progressed, a more benign market background supported the value of holdings in the fund, noticeably within the structured sector, benefitting particularly from the temporary fall in gilt yields in November, with the value of holdings in the financial sectors of banking and insurance generally further enhanced by the improving market sentiment. The holding of bonds of specialist lender Vanquis Banking Group fell in value, reacting sharply to credit rating agency Fitch moving to a negative outlook on the company. In contrast, bonds of property group Canary Wharf rose in November on news of a new equity commitment to the business and potential refinancing of the company's shorter-dated bonds. We sold the short-dated bonds in November, reinvesting the proceeds in the company's 2028 bonds, bringing this holding to one of the fund's ten largest investments and increasing sensitivity to the revaluation of the company's debt.

At the end of the quarter, as government bond yields marched higher, the fund was substantially immune from the rise, while benefitting both from the relative buoyancy of corporate bond markets and by the fund's strong income accrual. Longer dated holdings of insurers Aviva and M&G, and retailer John Lewis were down in price while the fund's small holding of 2114 US dollar bonds of utility EDF were also down. In contrast many holdings in the fund were up modestly in price December, while for many others any price decline was more than offset by income accrual. In addition, there were a few notably strong performances; holdings of utility Southern Water were up some 6% in price on a better-than-expected regulatory final determination for the upcoming five-year pricing period. Another positive contributor was the shares of aircraft leasing business Amadeo Air Four, up 7% in December, as well as a substantial part of a residual issue of subordinated bonds of Allied Irish Bank. These were repurchased by the issuer at a price of 84 compared to an end November valuation of 60, albeit adding just 0.04% to fund performance in December.

Performance and activity

Top 10 holdings

	Weighting (%)
ELECTRICITE DE FRANCE SA 5.875 31 Dec 2079	2.49
CO-OPERATIVE GROUP HOLDINGS (2011) 7.5 08 Jul 2026	2.25
ABBEY NATIONAL PLC 10.0625 31 Dec 2079	2.06
SANTANDER UK % NON CUM PREF PLC	2.03
INTULN_13-11 8.75 06 Dec 2028	2.01
CENTRICA PLC 6.5 21 May 2055	1.86
M&G PLC 6.34 19 Dec 2063	1.75
PHOENIX GROUP HOLDINGS PLC 5.75 31 Dec 2079	1.70
CANARY WHARF GROUP INVESTMENT HOLD 3.375 23 Apr 2028	1.63
ELECTRICITE DE FRANCE SA 7.375 31 Dec 2079	1.61
Total	**19.38**

Fund activity

Activity in the quarter included selective investment in a flow of new issues, including Agilyx, the plastics recycling company, Cinis Fertilizer, the Swedish agriculture sector business, G&O Maritime Group, the specialist shipping equipment and services business, and TGS, the global marine seismic company, which issued a BB credit rated, US$550 million 2030 dated bond offering a yield of 8.5% and which has performed particularly strongly since issue.

At the start of the period the fund also took part in new issues from Atom, the UK challenger bank, of Evri, the delivery service, of O3, the European pharmaceuticals business, of Okechamp, the European agriculture company, and of energy business Telford. In addition Swedish flooring business Kahrs, energy company Itheca, transport business Navigator and renewable energy business European Energy each announced a tender offer or repayment of their existing bonds with short term to final repayment and a new issue offering an attractive reinvestment market opportunity.

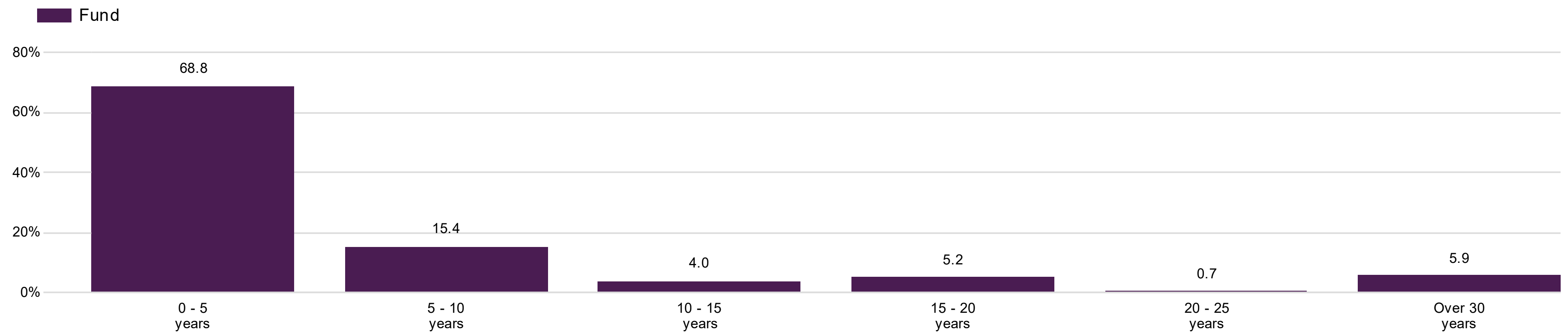
In December, activity included investing in new issues from Newcastle Building Society, a small unrated AT1 deal offering 14% income to first call in 2029, shipping engineering company MacGregor offering a current income of 8.1% on an unrated five-year euro-denominated bond, and from shipping group Havila whose secured two-year Norwegian krone denominated bonds offered an initial yield of 9.7%.

Sales in the quarter included ‘hybrid’ bonds of car manufacturer VW and bonds of UK mortgage lender OSB Group, each of which had performed extremely well since issue around 12 months ago, of Heathrow, where operational volumes have effectively recovered to pre-Covid levels and whose bonds had correspondingly been revalued, and of Standard Chartered Bank, again crystallising an attractive profit from issue earlier in the year.

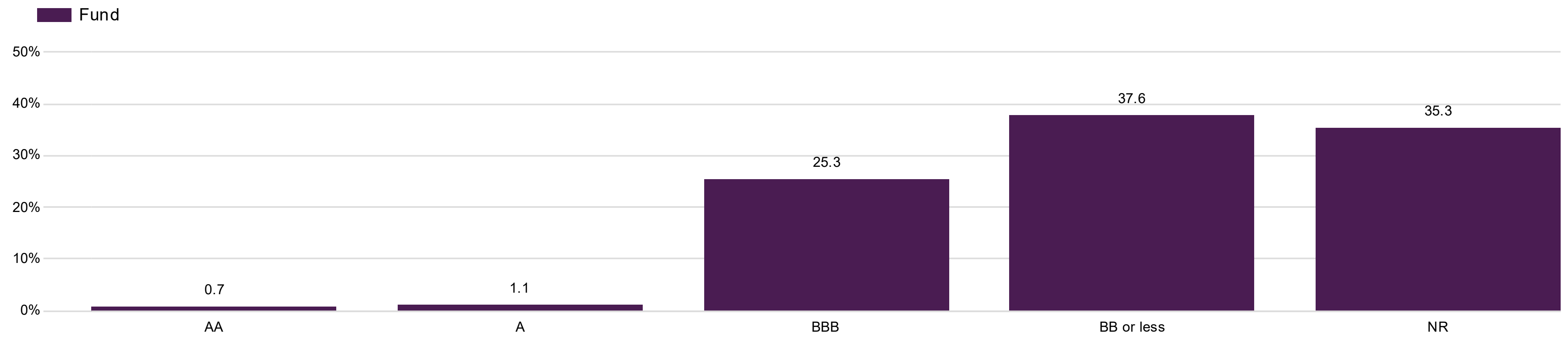
Staying in the financials, further sales included crystallising profits in the buoyant banking sector, including Dutch company ING Groep, UK buy to let mortgage lender OSB, (formerly One Savings Bank) and Swiss banking group UBS. Also, shares in offshore services sector business DOF Group, received as part of a bond restructuring earlier in the year, were sold at a significant premium to their book cost, while moderate capital gains were crystallised on holdings in shipping businesses Euronav and Seapeak, with better prospective returns available elsewhere.

Fund breakdown

Maturity profile

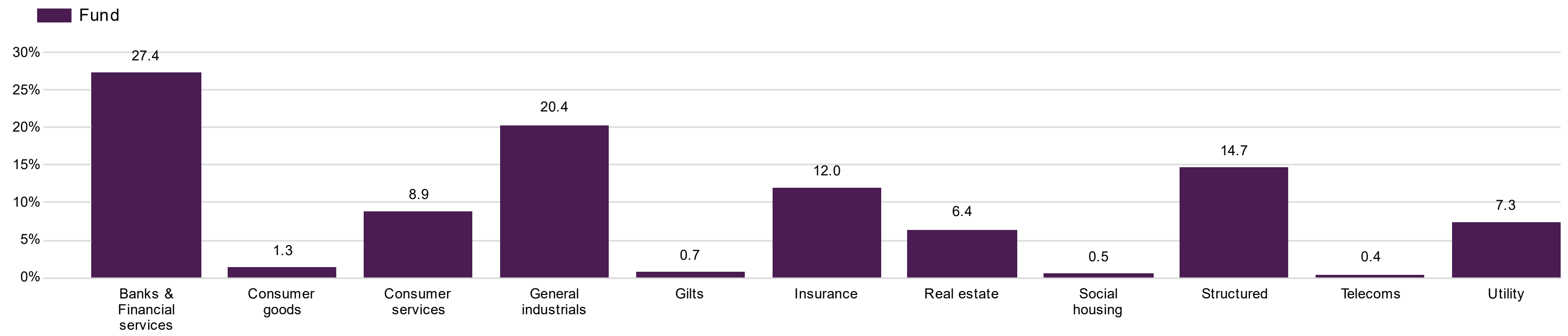


Credit Ratings

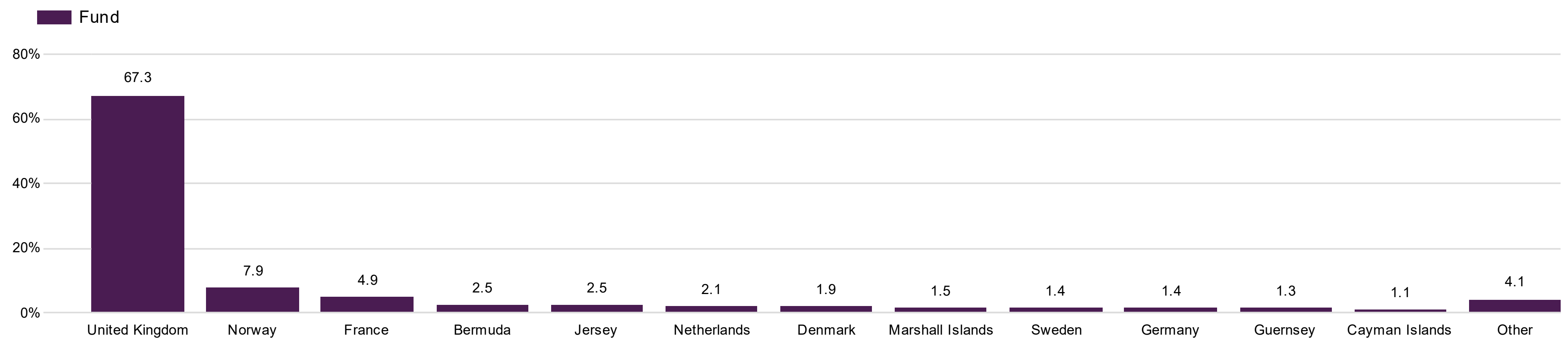


Fund breakdown

Sector breakdown



Geographical 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	8	21
Number of engagements	10	50

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

Theme / topic	Engagements
Climate	7
Climate - Transition Risk	7
Governance	3
Corporate Governance	2
Remuneration	1
Health	1
Mental Health	1
Social & Financial Inclusion	2
Just transition	2

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

Marekt 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 despite credit spreads tightening and holding up better than government bonds, 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 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. 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. 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, "mostly" attributable to wages and prices in certain sectors, and acknowledge that they are "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, 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 bond yields rose over the quarter, with inflation proving stubborn, remaining above 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. Consumer services and social housing were the relative laggards.

Outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. In the event, although we got two rate cuts, these really only impacted the short end – with longer yields pushed higher, first because inflation did not come down as expected and Trump presidency is widely seen as more inflationary, and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

Market commentary

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher income and tightening credit spreads. As this point, with these back towards levels not seen since before the financial crisis in 2008, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for downgrade risk over the medium term 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.

Despite the uncertain outlook at present, a characteristic of the fund is the scope to invest across a wide range of assets, encompassing investment grade, high yield and unrated bonds, diversified by sector and across both sterling and non-sterling bonds. This, together with a process orientated towards mitigating risk by investment in bonds where structure or a claim on assets or on cash flows, and with a focus on income generation, has been the basis of the fund's strong performance over the longer term. While the state and challenges of economic and market conditions change over time, we believe the fund is well positioned to continue to deliver attractive returns to 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

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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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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.

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.

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.

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.

Performance to 31 December 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
A Inc GBP (gross)	2.43	5.66	11.52	17.63	29.61
A Inc GBP (net)	2.21	5.22	10.59	14.70	24.31
Z Inc GBP (gross)	2.43	5.66	11.53	17.63	29.62
Z Inc GBP (net)	2.28	5.36	10.88	15.60	25.94

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
A Inc GBP (gross)	5.56	5.32
A Inc GBP (net)	4.67	4.44
Z Inc GBP (gross)	5.56	5.32
Z Inc GBP (net)	4.95	4.72

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
A Inc GBP (gross)	11.52	10.29	(4.36)	8.35	1.69
A Inc GBP (net)	10.59	9.37	(5.16)	7.45	0.87
Z Inc GBP (gross)	11.53	10.29	(4.37)	8.36	1.70
Z Inc GBP (net)	10.88	9.65	(4.92)	7.73	1.13

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 in GBP.

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 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.

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.