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Royal London Short Term Fixed Income Fund

Quarterly Investment Report

31 March 2024

Quarterly Report

The fund as at 31 March 2024

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over rolling 12-month periods by primarily investing in short term fixed income securities. The Fund's performance target is to outperform, before the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) by 0.50% per annum over rolling 12-month periods. This is the average overnight interest rate UK banks pay for unsecured transactions in sterling and is considered an appropriate benchmark for the Fund's performance.

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
31 March 2024	3,863.46

Fund analytics

	Fund
Fund launch date	15 June 2011
Duration (years)	0.18
Gross redemption yield (%)	5.54
Number of issuers	48

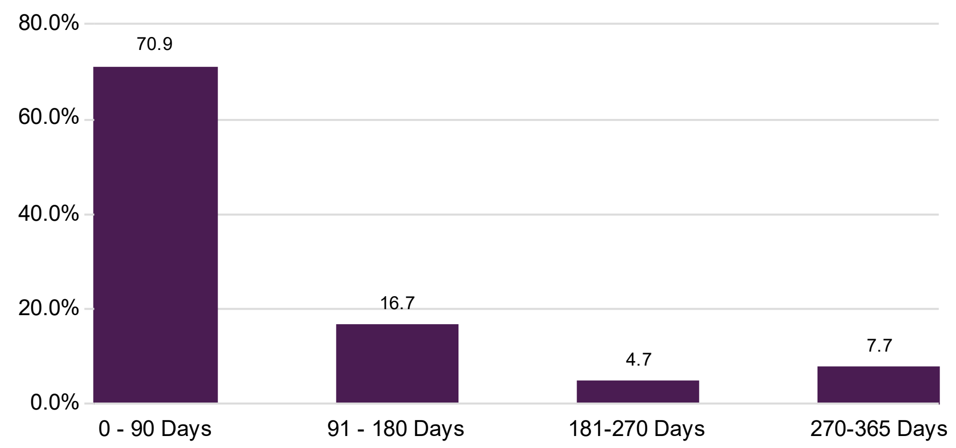
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.44	1.27	0.17
1 Year	5.69	4.97	0.72
3 Years (p.a.)	2.60	2.42	0.17
5 Years (p.a.)	1.96	1.59	0.36
10 Years (p.a.)	1.33	0.96	0.37
Since inception (p.a.)	1.29	0.87	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 Short Term Fixed Income Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 21 May 2012.

Duration profile



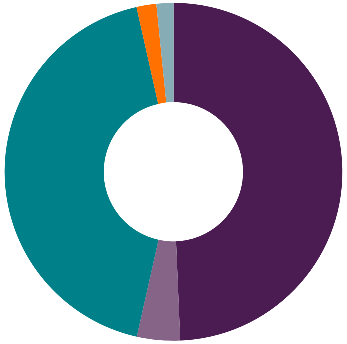
Performance commentary

After a period of rising interest rates, short-term money markets have essentially been flat for around six months. During that period, the consensus around when rates would finally peak and then when central banks would start to trim rates has swung from optimistic, to pessimistic, and back again. However, for our portfolios, this has been a period where we have benefited from activity in previous quarters where we built up portfolio yield, and yet have still been able to rotate maturing proceeds into equally attractive securities. The high level of carry in the portfolios has helped produce strong returns for the quarter.

For the Short Term Fixed Income Fund, covered bonds still account for the majority of non-money market exposure. These were helpful for returns over quarter as these pay a premium over SONIA, while the carry built into the portfolio was also helpful.

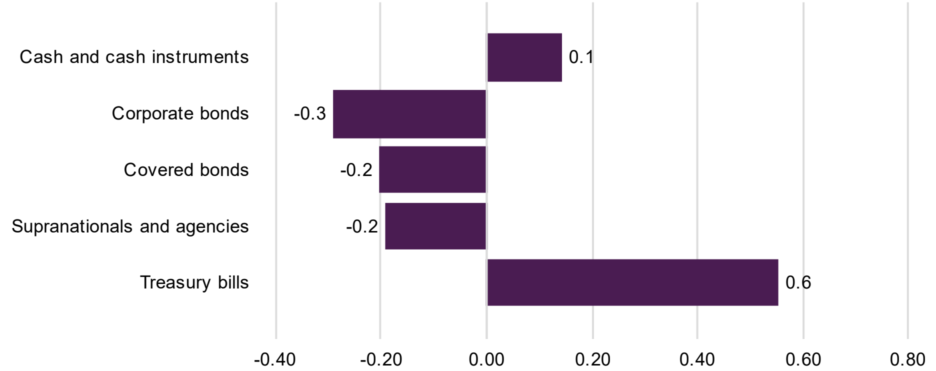
Performance and activity

Asset allocation profile

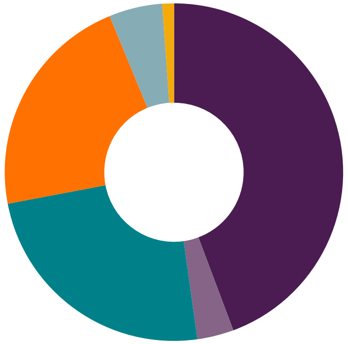


Cash and cash instruments	49.4%
Corporate bonds	4.1%
Covered bonds	43.0%
Supranationals and agencies	1.9%
Treasury bills	1.6%

Change since last quarter (asset allocation) %

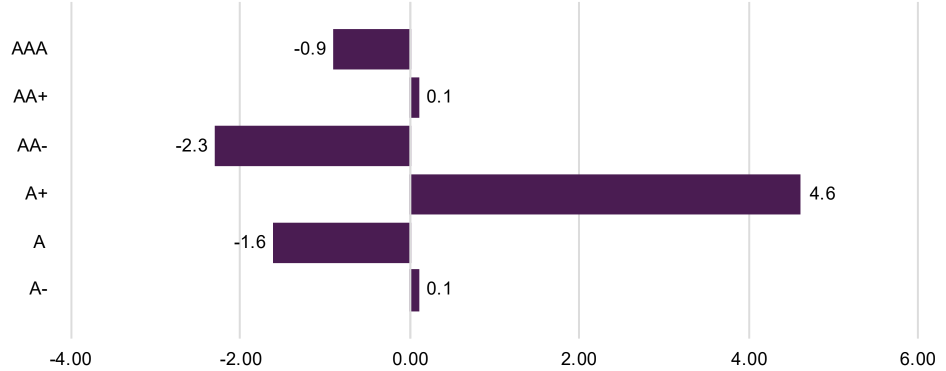


Credit rating profile



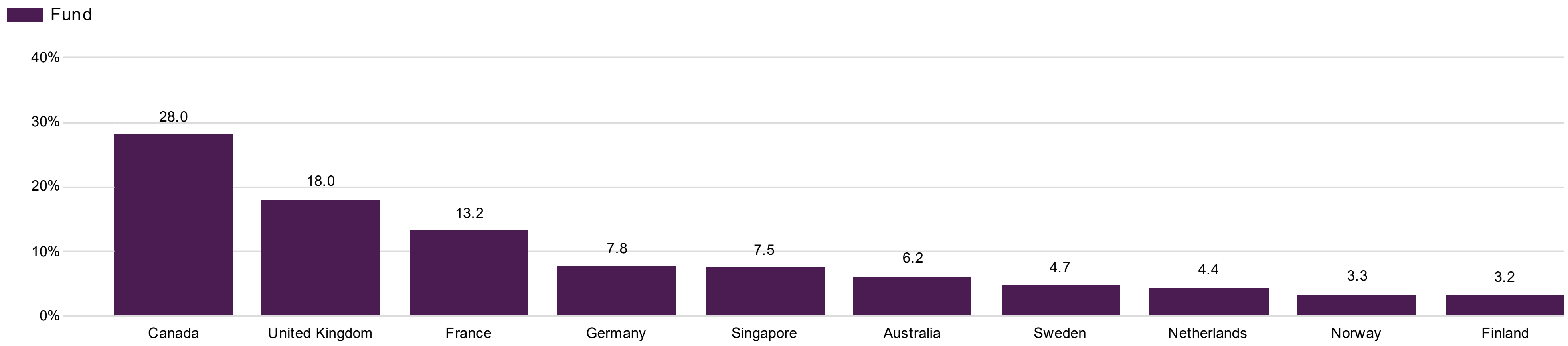
AAA	44.3%
AA+	3.5%
AA-	24.2%
A+	21.8%
A	5.1%
A-	1.1%

Change since last quarter (rating) %

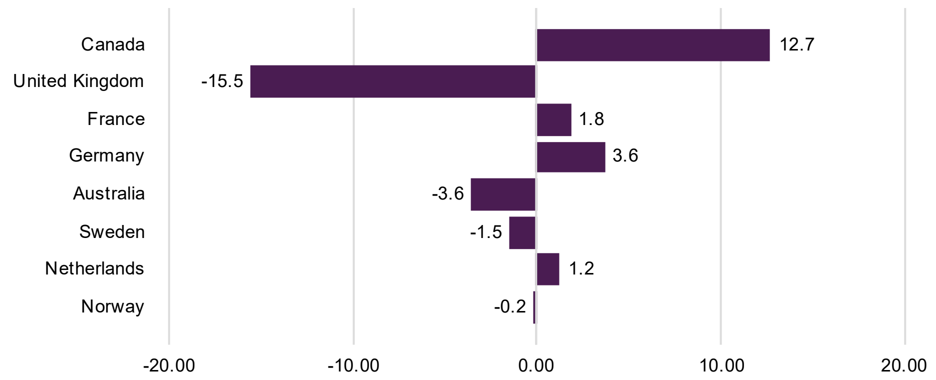


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Top 10 issuers

	Weighting (%)
ROYAL BANK OF CANADA	4.89
Canadian Imperial Bank of Commerce	4.51
Toronto-Dominion Bank/The	4.50
Bank of Montreal	4.41
United Overseas Bank Ltd	4.19
Bank of Nova Scotia/The	3.93
BNP Paribas SA	3.64
TSB Bank PLC	3.58
Deutsche Pfandbriefbank AG	3.44
Skandinaviska Enskilda Banken AB	3.41
Total	**40.50**

Fund activity

Given the volatility in longer rates and the relatively muted issuance, we have focused on short-dated treasury bills and CDs, preferring to add names with modest yield premium to SONIA but also strong credit, ESG and governance characteristics, rather than chase yield at the expense of quality. Examples during the quarter included BNP Paribas and Credit Agricole.

Within covered exposure, we were happy to take profits on a number of holdings close to maturity where spreads had tightened significantly, including Toronto Dominion, Bank of Nova Scotia and National Australia Bank, but adding new issues of covereds where these had an attractive premium over SONIA, with examples including three-year Toronto Dominion and Santander, as well as five-year bonds from Leeds Building Society.

Market commentary

Market overview

A key theme to emerge during the quarter was indication of a more favourable global macro backdrop. Despite some mixed signals, the US economy remains resilient, while Europe and the UK show signs of gradually exiting their recessions. Activity in China also seems to be stabilising. At the same time, core central banks are still confident that the disinflation trend remains intact, despite some recent setbacks in inflation prints. Policymakers have often highlighted that they are in no rush to cut rates – with markets now generally pricing the start of the easing cycles to begin this summer. The Federal Reserve, European Central Bank and Bank of England all left interest rates unchanged over the quarter.

One major development over the quarter is that markets have recalibrated their pricing for expected central bank cuts over this year. At the end of last year, markets were pricing in an aggressive rate cutting cycle, but then swiftly move to temper those forecasts. This re-pricing contributed to negative returns for global government bond markets over the quarter. Despite the belief of many that it was the anticipation of a 'Fed-pivot' that contributed to the rally in equity markets in late 2023, equity markets proved to be immune to this bond market sell-off as global growth and business confidence showed signs of resilience and investors focused on the potential offered by AI.

UK government bonds produced negative returns due to rising yields, delivering a -1.62% return (FTSE Actuaries) over the first quarter with the benchmark 10-year gilt yield rising from 3.54% to 3.94%, with the bulk of this move seen in the first two weeks of January, then largely trading in a range between 4% and 4.2% for the rest of the quarter. The sterling investment grade credit market (iBoxx non-gilt index) returned 0.06% 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 from 1.15% to 1.02% (iBoxx).

UK money market rates were generally flat during the quarter, with longer-dated rates generally falling slightly, reflecting changing market expectations – generally rising early in the period as the market realised that rate rises were further away than initially thought, and then falling late in the quarter as inflation fears receded and the market moved to price in rate rises earlier in the summer. SONIA started the quarter at 5.18%, and remained at this level throughout the quarter, with no changes to UK base rates from the Bank of England, while two-year gilts, often seen as a proxy for market expectations of BoE rates, ended slightly higher, from 3.98% at the end of 2023 to 4.18% at the end of March.

Outlook

The story of the first quarter was one of the market interpreting short-term economic data releases through the prism of what might be a catalyst for the Bank of England cutting interest rates. Although the UK technically saw a recession in the second half of 2023, the economic outlook is little changed from last year: growth is low, inflation is falling, but elements of that – notably services and wages – are still above levels that suggest a clear return to the 2% inflation target.

Towards the end of the first quarter, market pricing of the first UK rate cut moved from August to June, reflecting an unexpected shift in the voting split on the MPC to 8-1 (eight voting for no change, one voting for a cut). Our own view is that while June is possible, we feel that August is more likely. From a domestic point of view, it allows more time for the Bank to digest spring economic data, and coincides with the August Quarterly Inflation report – historically the Bank has preferred to time rate moves with this release. In addition, in a global context, we think that many central banks will be cautious about being the first to cut – with many having half an eye on the Federal Reserve, where we feel the direction of travel in terms of growth and inflation is more obviously favourable for a rate-cutting move.

Current cash rates remain above the level of inflation, offering investors positive real yields, but a lot has happened in the past quarter and markets have at times, been unpredictable. However, it is exactly this level of market unpredictability which we believe offers opportunities for active managers. Our liquidity and short-term fixed income strategies are positioned somewhat cautiously. At the margin, we prefer treasury bills to CDs given the tight spreads on CDs at present and with credit generally priced for a favourable economic environment, we are happy to hold short-dated credit where appropriate for the strategy, but this exposure is generally towards the lower end of historical ranges.

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

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Issued in May 2024 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

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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 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.

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.

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.

Government and public securities risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 31 March 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.44	2.95	5.69	8.00	10.19
Fund (net)	1.44	2.93	5.66	7.91	10.03

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
2.60	1.96
2.57	1.93

Year on year performance (%)

	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021	31/03/2019 - 31/03/2020
Fund (gross)	5.69	2.29	(0.09)	1.39	0.63
Fund (net)	5.66	2.25	(0.12)	1.36	0.60

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 March 2024. All figures are mid-price to mid-price in GBP for the RL Short Term Fixed Income Fund (Z Inc).

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

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 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.

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 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.

Top 10 issuers

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