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# Royal London Short-Term Money Market 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 Money Market Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

# Contents

The fund	3
Performance and activity	4
Market commentary	8
Further information	9
Disclaimers	10
Performance net and gross	12
Glossary	13

# The fund

## Fund performance objective and benchmark

The Fund's investment objective is to preserve capital and provide an income over rolling 12-month periods by investing at least 80% in cash and cash equivalents. The Fund's performance target is to outperform, after the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) 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. In addition to the benchmark for the Fund's performance as noted above, the IA Short Term Money Market sector is considered an appropriate benchmark for performance comparison.

Benchmark: SONIA (Sterling Overnight Index Average)

## Fund value

	Total £m
31 March 2024	6,717.76

## Fund analytics

	Fund
Fund launch date	22 July 1999
Duration (days)	49.20
Gross redemption yield (%)	5.55
Number of issuers	41

# Performance and activity

## Performance

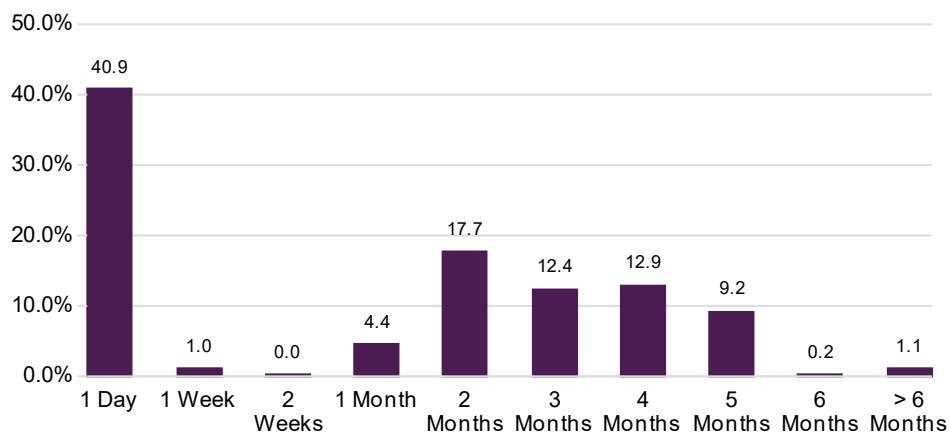
	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.33	1.27	0.06
1 Year	5.31	4.97	0.34
3 Years (p.a.)	2.58	2.42	0.16
5 Years (p.a.)	1.74	1.60	0.14
10 Years (p.a.)	1.06	0.96	0.10
Since inception (p.a.)	1.98	2.25	(0.27)

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 Money Market Fund (Y Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 22 July 1999.

## Performance commentary

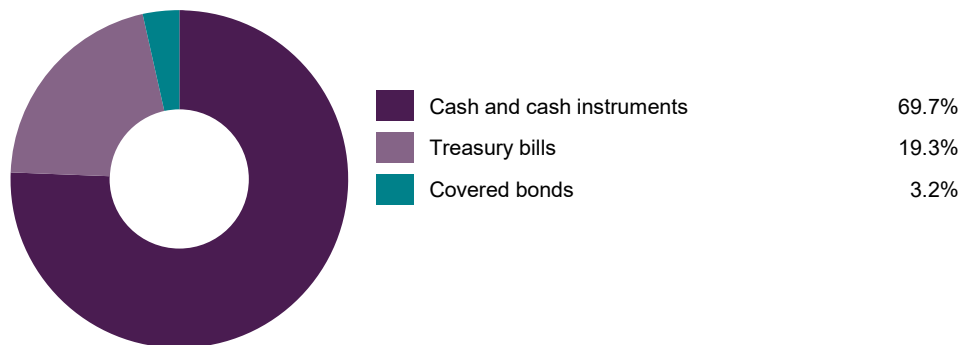
After a period of rising interest rates, short-term money markets have essentially been flat for around six months. During that period, the consensus around when rates would finally peak and then when central banks would start to trim rates has swung from optimistic, to pessimistic, and back again. However, 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 portfolio helped produce strong returns for the quarter.

## Duration profile

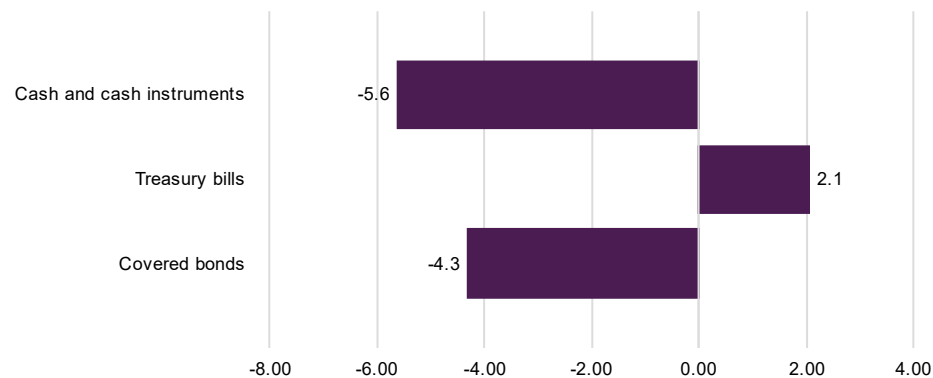


# Performance and activity

## Asset allocation profile



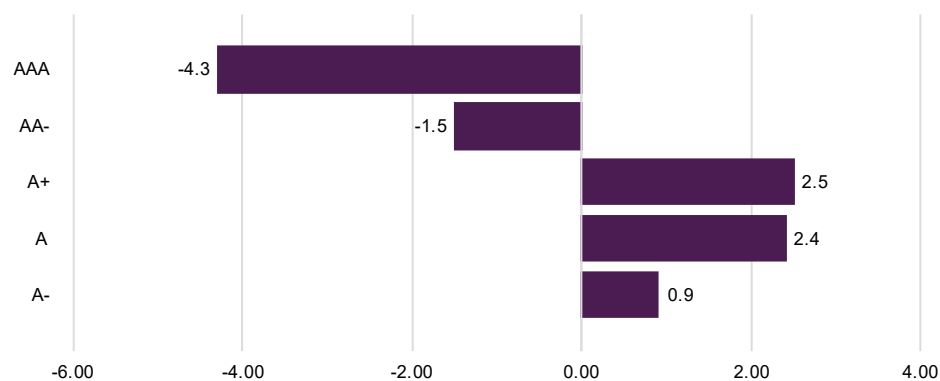
## Change since last quarter (asset allocation) %



## Credit rating profile

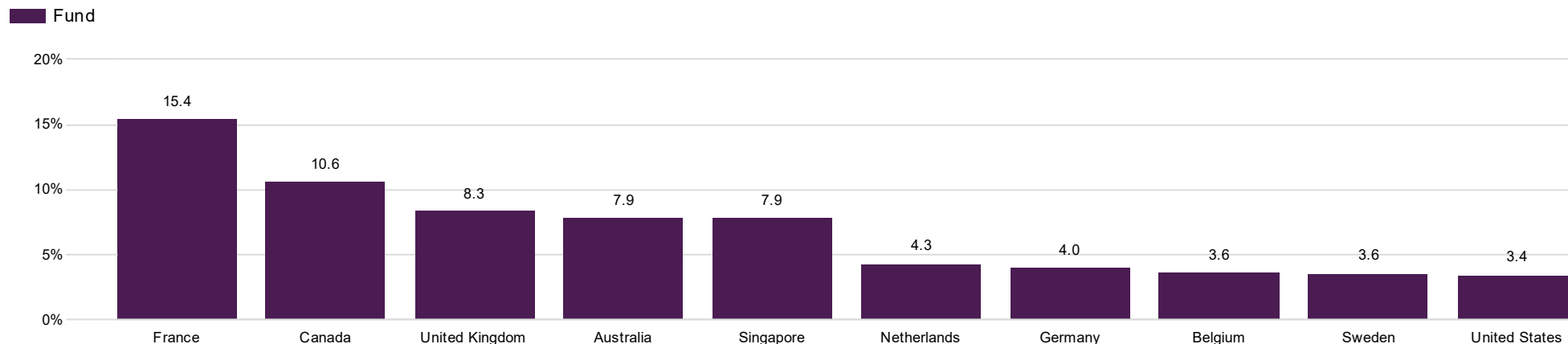


## Change since last quarter (rating) %

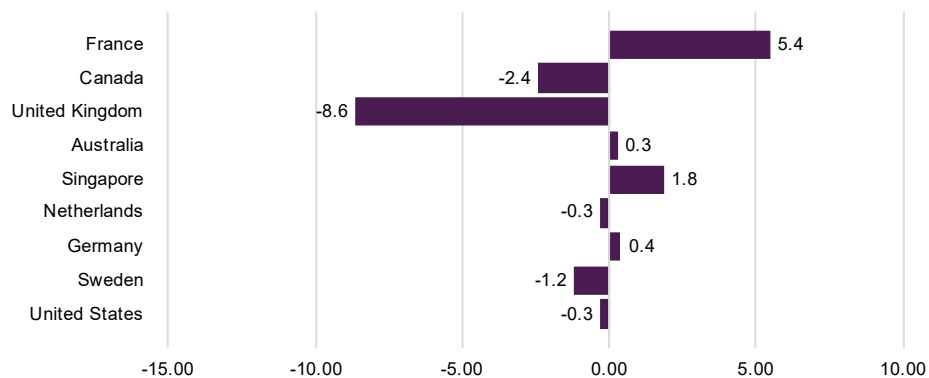


# Performance and activity

## Top ten geographic allocation (ex gilts) %



## Change since last quarter (geographic) %



# Performance and activity

## Top 10 issuers

	Weighting (%)
United Kingdom Treasury Bill	19.07
National Australia Bank Ltd	8.02
KBC BANK NV	3.54
Credit Agricole SA	3.50
Goldman Sachs International Bank	3.39
SG Issuer SA	3.32
Bank of Montreal	3.31
Oversea-Chinese Banking Corp Ltd	3.20
BNP Paribas SA	3.02
Lloyds Bank PLC	3.02
<b>Total</b>	<b>53.39</b>

## Fund activity

With the Short Term Money Market Fund, we still focus on short paper – reflecting the fund's objective. This has generally meant a focus on three-month maturities for much of the last few months. However, with long-dated bank issuance somewhat muted, and increased demand for short-term paper, the spreads on that paper over SONIA have decreased somewhat in recent months – from an average of around 45bps to nearer 20bps.

Pockets of value can still be found, but it has meant that at the margin, we have increased purchases of treasury bills – not only do these offer excellent liquidity, but the yield on these is now only slightly lower than equivalent CDs but without the credit risk. Similarly we have increased repo and overnight exposure, reflecting that the yield premium on other instruments has decreased and these two routes offer greater liquidity and lower credit risk.

Where we have added CDs, we have preferred 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, KBC and Credit Agricole. We also looked to add short-dated covered bonds where these fitted into the fund's liquidity and maturity needs, examples including covereds with less than a year to maturity from Bank of Nova Scotia and Societe General.

# 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:



### Find out more

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# Disclaimers

## Important information

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This is a financial promotion and is not investment advice.

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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](http://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.

## Inflation risk

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

## Money market fund risks

A Money Market Fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the Fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The Fund does not rely on external support for guaranteeing the liquidity of the Fund or stabilising the NAV per share.

# Performance to 31 March 2024

## Cumulative (%)

## Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
<b>Fund (gross)</b>	1.33	2.73	5.31	7.95	9.02	2.58	1.74
<b>Fund (net)</b>	1.31	2.68	5.20	7.63	8.49	2.48	1.64

## 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
<b>Fund (gross)</b>	5.31	2.37	0.13	0.17	0.82
<b>Fund (net)</b>	5.20	2.27	0.03	0.07	0.73

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 Money Market Fund (Y 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.