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Royal London Multi Asset Credit 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 Multi Asset Credit 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 with the report. All data within this report is at the report date unless otherwise stated.

Contents

The fund

Fund performance objective and benchmark

The fund will seek to outperform its benchmark, SONIA, by 4-6% per annum over rolling three year periods (gross of fees).

Benchmark: SONIA (Sterling Overnight Index Average)

Fund value

	Total £m
31 March 2024	833.60

Fund analytics

	Fund
Fund launch date	3 July 2017
Base currency	GBP
Duration to worst (years)	2.70
FX adjusted yield (%)	7.52

Past performance is not a guide to future performance.
Please refer to the glossary for a description of the yield used.

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.40	1.27	0.13
1 Year	8.75	4.97	3.77
3 Years (p.a.)	2.10	2.42	(0.32)
5 Years (p.a.)	3.45	1.63	1.82
Since inception (p.a.)	3.25	1.42	1.83

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 Multi Asset Credit Fund (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date for the share class is 9 October 2017.

Performance commentary

The fund broadly tracked its benchmark index in the quarter.

The year started with many of 2023's themes playing through – spread resilience and some rate volatility ultimately leading to an environment where carry dominated. Spreads continued to tighten during the quarter – hitting levels we haven't seen since the inflation environment worsened, perversely where the economic data made people pause on the belief that rates will get back to low levels quickly.

It was a nice environment for issuers in the quarter, with BB and single B rated issuers enjoying an open market, but we did see some idiosyncratic factors further down the rating scale start to cause some investor panic.

We have seen the cost of capital rise over the past 24 months but companies are now adjusting to this environment instead of sitting on their hands and waiting for interest rates to come down. As such, we have seen well behaved markets and companies now holding high liquidity. It is worth noting, however, that equity valuations seem high and don't match the high costs of capital.

The secondary market has seen some high profile volatility in the period, most notably from US satellite TV firm Dish and telecoms and media group Altice France, as well as debt specialist Intrum. These firms fall into a similar story: little equity value but plenty of liquidity and mounting debt stacks. For some time, we have been talking about how larger capital structures have many more options to defer defaults and a combination of valuable assets, weak covenants and savvy owners can be the perfect cocktail for a reshuffling of assets.

As a result of this, later in the quarter, we seen some investor panic. Which led to companies further down the credit ratings scale give back much of the gains made from the rally seen at the start of the year. In turn, this hurt the fund's performance as the market took fright. The majority of the market, however, has been even keeled, with default rates remaining low – especially in the BB and B space.

Performance and activity

Top 10 holdings

	Weighting (%)
Sprint Llc 7.625% 15/02/2025	1.17
Verisure Holdings AB 3.875% 15/07/2026	0.95
Blitz F18-675 GMBH 6.0% 30/07/2026	0.89
DRYD 4.775% 15/01/2032	0.88
Rolls Royce Plc 5.75% 15/10/2027	0.88
GEMS MENASA (CAYMAN) LTD 7.125% 31/07/2026	0.87
Action (Peer Holding) TL-B3 7.675% 29/09/2028	0.85
Spectrum Brands Inc 4.0% 01/10/2026	0.83
Walgreens Boots Alliance Inc 3.6% 20/11/2025	0.82
PSTET 4.695% 15/07/31	0.81
Total	**8.97**

Fund activity

The low default rates being seen are indicative of a high yield market that is more robust than in the past. 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. We believe the majority of the market can handle the higher cost of capital and are adjusting to the environment. Liquidity and flexibility mean that defaults are being deferred and the most recent data also shows how issuers in distress are not defaulting.

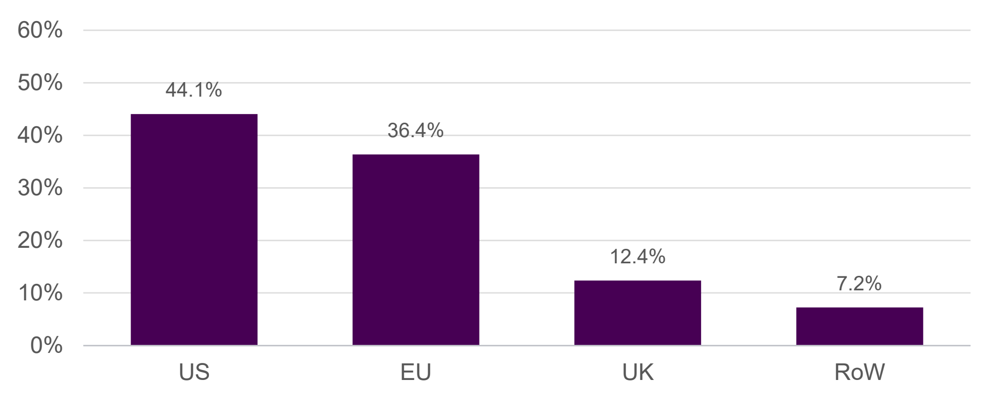
We have looked to add CLO tranches during the period, increasing our CLO exposure through new issues, as we are seeing high yields on offer, especially in the investment grade market.

The benefit of the loan book in the portfolio includes the high carry, the short interest rate duration risk and convexity (as most high quality loans trade below par) so there is optionality on a refinancing in a defensive instrument.

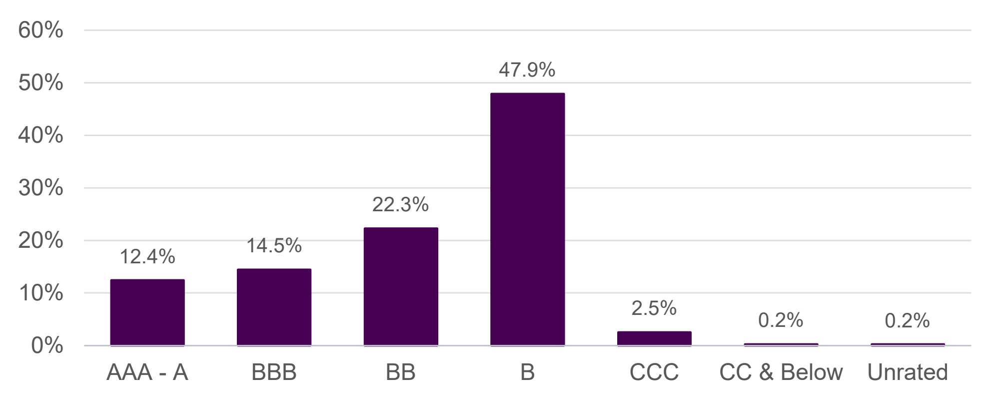
The fund remains short versus its benchmark.

Asset allocation

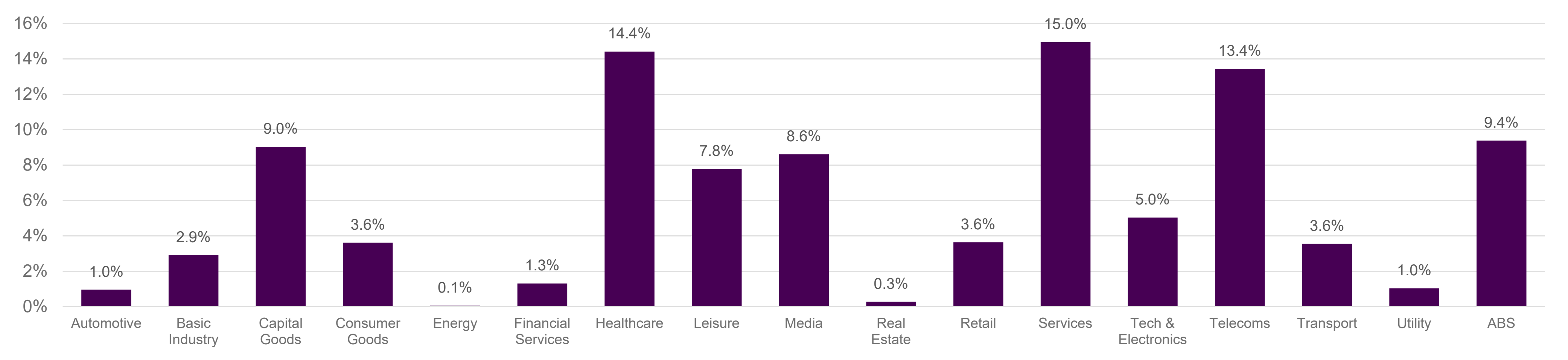
Regional profile



Credit ratings



Sector allocation



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 aggressively 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 repricing 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.

The US Federal Reserve continued to keep rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, and after a couple of stronger than expected inflation prints. As of their March meeting, the median forecast of participants still had 75bps of rate cuts in it for 2024 though with 75bps rather than 100bps of cuts pencilled in for 2025. Over the quarter, CPI inflation was broadly stable, at 3.2% year-on-year in February, from 3.1% in November (briefly 3.4% in December). However, core CPI inflation rose a stronger than expected 0.4% month-on-month in both January and February. The core PCE measure of inflation fell over the quarter in year-on-year terms, but came in above 0.2% month-on-month in both January and February. Fourth quarter GDP recorded a strong 3.4% quarter-on-quarter annualised, weaker than in the third quarter but still well above trend. More timely economic activity indicators were broadly consistent with reasonable growth in the first quarter. Real personal spending grew. Non-farm payroll gains were above 200K in January and February, but the unemployment rate jumped two-tenths in February.

Over the first quarter, the European Central Bank kept rates on hold. As of the March meeting, the staff inflation forecasts were more consistent with sustainably hitting the target and President Christine Lagarde continued to emphasise that they wanted more data, more evidence, before cutting rates. She said that they would know a "little more in April, but we will know a lot more in June." Various ECB speakers have signalled that they think a rate cut is likely/possible in June. Euro area CPI rose in December, but fell back to 2.6% by February. Core CPI fell gradually over the same period too to 3.1% year-on-year. The euro area economy (GDP) was flat in Q4 at 0.0% quarter-on-quarter. Business surveys, however, were consistent with the economy remaining in (mild) recessionary territory, even if the composite PMI improved over the quarter.

Global corporate bonds saw mixed effects during the quarter. In the US, euro zone and UK, the negative impact of rising underlying government bonds was offset by credit spread tightening and positive carry, to leave returns roughly flat (local terms). Lower down the rating scale, global high yield markets saw modest gains, while areas such as corporate hybrids and contingent capital bonds (cocos) all produced positive returns over the period.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 1.77% in the quarter as spreads hit 290bps. At the end of the period, the index's yield-to-worst stood at 6.95%, having fallen from 7.05% at the start of the year. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 358bps, with a yield-to-worst of 7.65%. Over the course of 2023, Global high yield new issuance has totalled $285bn up from $170bn in 2022.

Government yields rose in all the major markets. In the US, 10-year treasury yields rose from 3.88% to 4.21%, while German 10-year bunds similarly saw yields rise from 2.01% to 2.30%. Mirroring this backdrop of rising yields, UK government bonds produced a return of -1.62% (FTSE Actuaries) over the first quarter, with the benchmark 10-year gilt yield rising from 3.54% to 3.94%. The bulk of this move occurred in the first two weeks of January, before largely trading in a range between 4% and 4.2% for the rest of the quarter. The rising yield environment helped short-dated bonds to outperform their longer-dated equivalents.

Market commentary

In contrast to the losses in the government bond market, the sterling investment grade credit market (iBoxx non-gilt index) returned 0.06% over the quarter, with the effect of higher yields mitigated by tighter credit spreads and the higher carry in this area. The shorter duration of the credit market index also helped offset some of the government market headwind. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightened from1.15%to 1.02%(iBoxx). Given the rise in yields, sectors with a greater proportion of long-dated bonds performed poorly, including utilities and social housing. Of the major sectors, supranationals was the worst performing sector, while in financials, the banks and insurance sectors performed well.

Data released in the first quarter confirmed that the UK experienced a technical recession in the second half of 2023 but painted a picture of stronger economic activity in the first quarter, with falling inflation and more signs of softening underlying domestic inflationary pressure. Fourth quarter GDP fell 0.3% quarter-on-quarter in real terms after falling 0.1% in the third quarter. Meanwhile, CPI inflation fell a bit further to 3.4% year-on-year in February from 3.9% for the November release. Core inflation fell to 4.5% year-on-year from 5.1% over the same period. By the end of the quarter (the January data release) regular pay growth figures were showing more sign of slowing, at 6.1% (3M/Y) for the 3-months to January (from 7.2% three-months earlier). Consistent with falling – but still above target – inflation, but with activity and labour market data far from awful, the Bank of England continued keep rates on hold at 5.25%. The Budget saw the Chancellor present further tax cuts, adding net stimulus near term but with the projections for future years still implying sizeable real terms spending cuts for unprotected government departments.

Outlook

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 at around 2-3%, with global defaults not much higher, and we expect this to track to 3%-5% over the course of next year. We expect that most high yield issuers will wait for interest rates to recede from their relatively high levels before returning to the tap markets. They are relatively comfortable with the position that credit spreads are not going to be too volatile, and they have a good handle on the strength of their balance sheets.

With a dovish update in March, companies are becoming less focused on the US Federal Reserve as they adapt to the 'higher for longer' environment. With monetary policy lags appearing longer than they used to be there is some recognition by central

banks that policy tightening needs time to work and that the impacts of policy tightening are still feeding through. This is causing spreads to tighten as investors are now convinced the fallout won't be coming until late 2024 or early 2025.

In our view, the way through difficult 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 towait for defaults as the recovery process can take time: however, should they occur, the key is to have an adequate solvency cushion.

We still believe 2024 should play out similarly to 2023: maturity wall concerns being 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.

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.

Disclaimers

Important information

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Issued in April 24 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 Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations, and has been established as an umbrella fund with segregated liability between Funds.

It is not a recognised scheme under the Financial Services and Markets Act 200.

The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich L-5826 Hespergange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

For more information on the Fund or the risks of investing, please refer to the Prospectus available via the relevant Fund Information page on www.rlam.com.

Most of the protection provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The “SONIA” mark is used under licence from the Bank of England (the benchmark administrator of SONIA), and the use of such mark does not imply or express any approval or endorsement by the Bank of England. “Bank of England” and “SONIA” are registered trade marks of the Bank of England.

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Risk 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.

Concentration Risk
The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

Leverage Risk
The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

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 purpose of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as 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 the these derivatives will be within the parameters allowed for linked funds by the Financial Conduce Authority and Prudential Regulation Authority.

Efficient Portfolio Management (EPM) Techniques
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 form 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.

Performance to 31 March 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 years
Funds (gross)	1.40	6.32	8.75	6.45	18.51
Fund (net)	1.39	6.28	8.67	6.23	18.18

Annualised (%)

3 Years (p.a.)	5 years (p.a.)
2.10	3.45
2.03	3.39

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
Funds (gross)	8.75	(4.39)	2.38	21.96	(8.71)
Fund (net)	8.67	(4.46)	2.31	21.87	(8.71)

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 Royal London Multi Asset Credit Fund (Z Inc).

Glossary

Asset split
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 the Fitch rating.

Duration
Measure of sensitivity of a Fixed Income instrument to charges 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 size
Total value of the fund as of the last business day of the calendar month. The valuations are based on signed off prices and are on a mid-price basis.

Performance
Performance is calculated using the signed off NAV per share. The impact of fees or other charged include tax, where applicable, can be material on the performance of your investment. The impact of fees reduce the return.

Sector breakdown
Breakdown of the fund assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme.

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

Yield to worst
Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting.