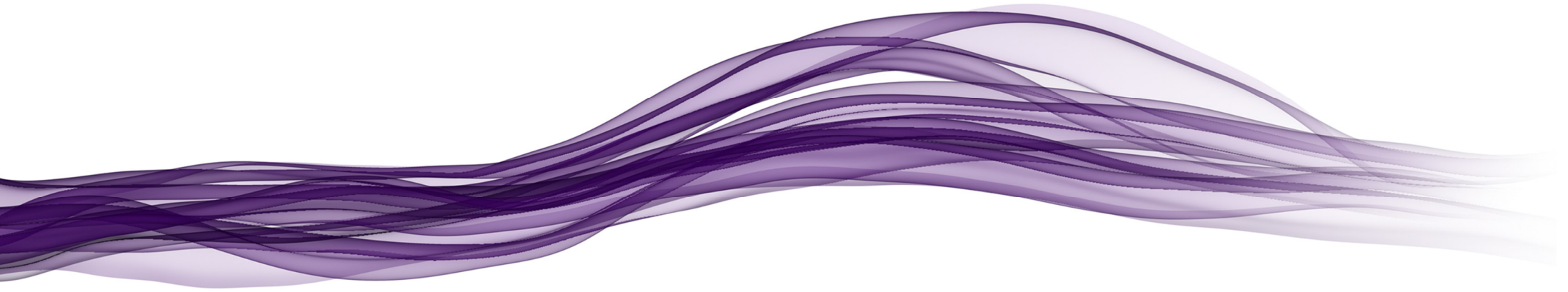


For professional clients only, not suitable for retail clients.



# Royal London Short Duration Gilts 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 Duration Gilts 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
Fund breakdown	6
Market commentary	8
Further information	10
Disclaimers	11
Performance net and gross	13
Glossary	14

# The fund

## Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in short-duration (1-5 years) UK government bonds, which are also known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Government up to 5 Years Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of short duration UK government bonds quoted on the London Stock Exchange. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK Gilts sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index

## Fund value

	Total £m
31 March 2024	1,322.57

## Asset allocation

	Fund (%)	Benchmark
Conventional gilts	95.38%	100.00%
Conventional credit bonds	3.63%	-
Money market instruments	0.93%	-
Securitised	0.05%	-

## Fund analytics

	Fund	Benchmark
Fund launch date	7 November 2013	
Base currency	GBP	
Duration (years)	2.48	2.25
Gross redemption yield (%)	4.23	4.18
Number of holdings	31	19

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.04	(0.01)	0.06
1 Year	4.28	3.30	0.98
3 Years (p.a.)	0.31	(0.47)	0.79
5 Years (p.a.)	0.57	(0.02)	0.59
10 Years (p.a.)	0.77	0.64	0.13
Since inception (p.a.)	0.74	0.63	0.11

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 Royal London Short Duration Gilts (Z Inc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 8 November 2013.

## Performance commentary

The fund was in line with its benchmark during the first quarter.

Yields on 10-year gilts moved higher over the quarter with the vast majority of this move coming in the first three weeks of January, as the market unwound a large portion of December's strong rally. Since the middle of January, the market has broadly moved sideways, in what has been a relatively tight trading range; 10-year gilt yields, have, for much of the quarter, traded between 3.9% and 4.1%. The sell-off in early January was led by the front end of the curve, with five-year yields rising most, as markets reappraised both the timing of the first cut, and the number of cuts it expected from the BOE in 2024. By the end of the quarter the first cut was priced for June with three cuts in total for 2024, against forecasts of March and six cuts respectively at the start of the year. Central to this was the surprising resilience of both the UK and global economic data versus expectations.

Despite this broadly 'hawkish' narrative, there was significant interest in the Bank of England's March meeting. Going into the meeting the market had expected a split vote to keep rates on hold. And whilst that was the case, the lack of any members voting for a hike came as somewhat of a surprised, providing the market with a more dovish impulse.

Gilt supply has been a hot topic for some time, and this was no different during the first quarter. With March's budget out the way, and the remit for gilt supply now known to the market, attention can shift to what lies ahead. One key feature of the DMO's announcement was the reduction in the percentage of long gilts and linkers to be issued in fiscal year 2024, at the expense of slightly higher issuance in short and medium maturity bonds. This was well predicted by the market, and thus had little impact on either the outright level of gilts or the shape of the curve.

# Performance and activity

## Fund activity

The fund started the year slightly short relative to the benchmark but added duration as the period went on, ending the quarter 0.2 of a year long relative to the benchmark. We decided to add duration as yields rose, with our duration coming from an increase in the holdings of 2029 gilts.

The fund's duration position remains focused in the five-year portion of the curve, but we continue to tactically trade around market volatility.

We started adding duration when five-year yields hit the 4% mark – which was around the middle of February – and we did not see yields rise much further from that position.

The fund remains overweight in the two-to-three year part of the curve.

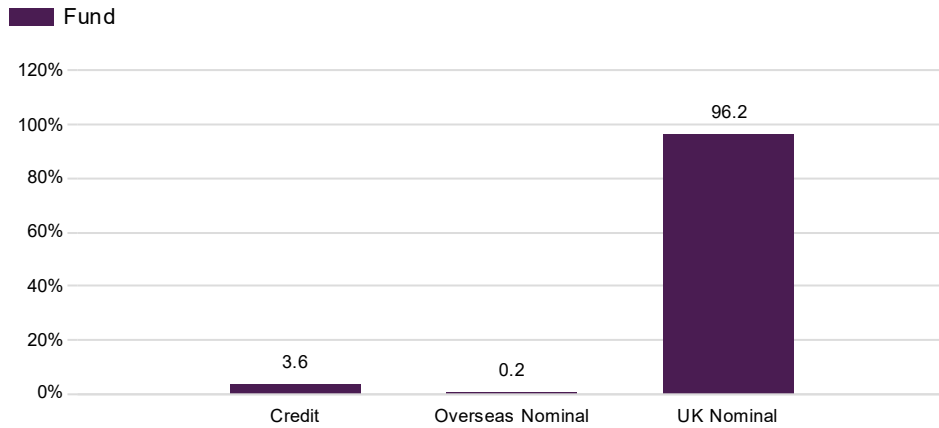
Our relative-value positioning retains a large overweight position in certain 2025 and 2027 bonds – which have seen strong performance versus neighbouring bonds so far this year.

During the period, the fund added 6-month UK Treasury bills, with the yield on them coming in 25-30bps higher than equivalent maturity gilts.

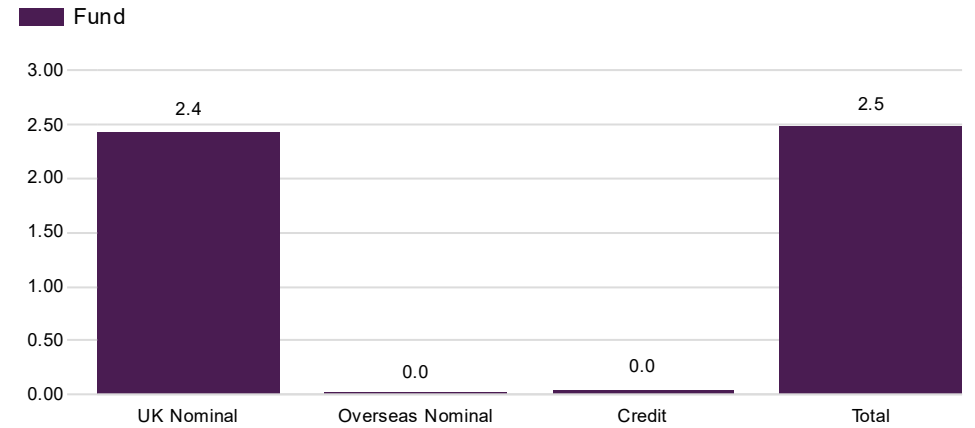
The fund has no inflation exposure.

# Fund breakdown

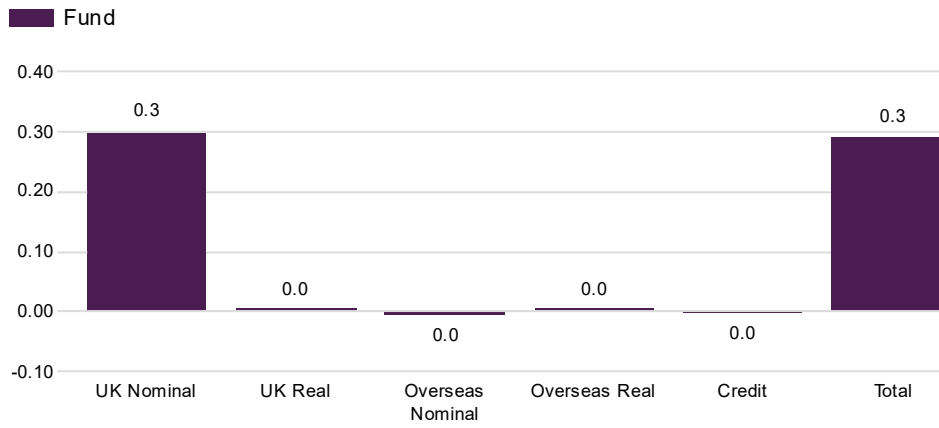
### Asset split by percentage



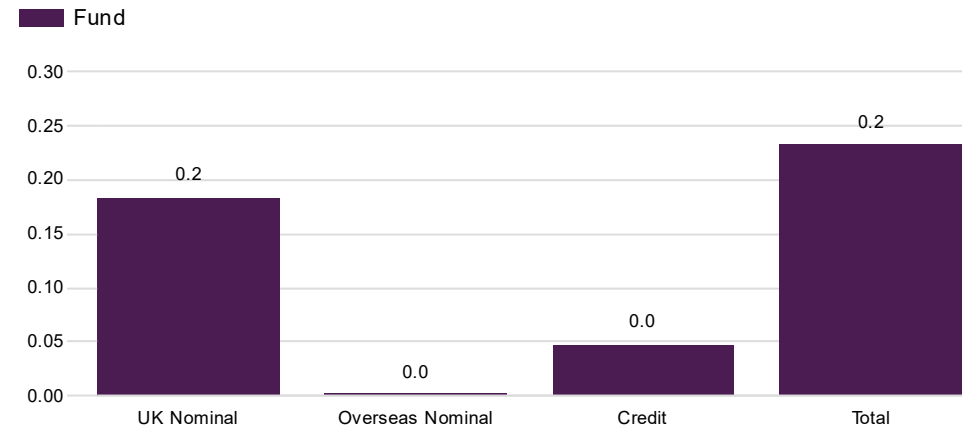
### Asset split by duration



### Asset split by duration change on quarter

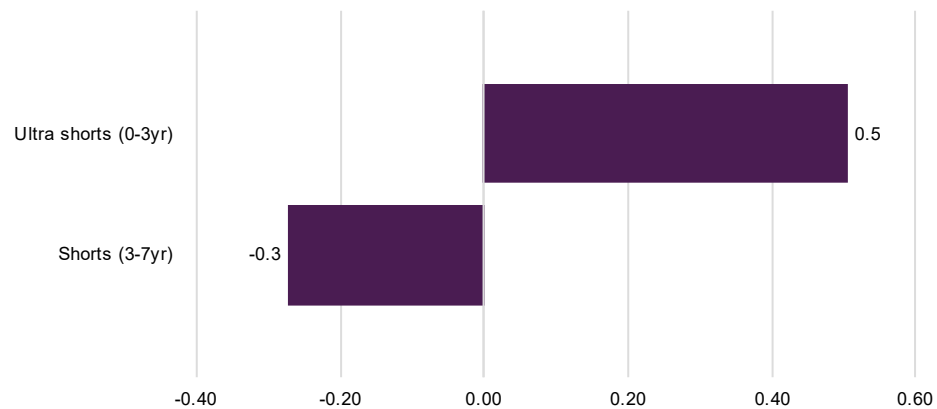


### Asset allocation relative to benchmark (duration)

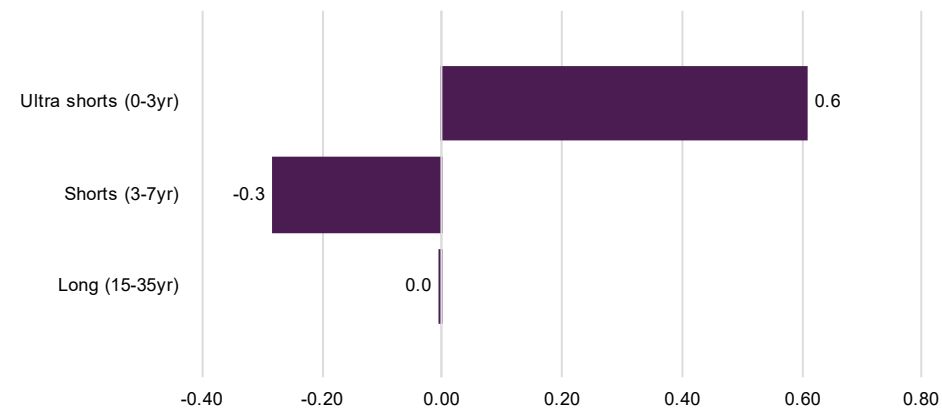


# Fund breakdown

Maturity profile relative to benchmark



Maturity profile change on quarter



# 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.

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.

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 relatively resilient, the Bank of England continued to 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.

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 or 2024, but with the number of cuts pencilled in for 2025 being reduced from four cuts to three. 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.

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 from 1.15% to 1.02% (iBoxx).

## Outlook

We believe that inflation will continue to drift lower in 2024, although it is likely to remain above target in most economies by the end of the year. Shallow recessions are possible but are unlikely



# Market commentary

to be deep enough at this stage to ease the excessive tightness seen in labour markets. As we move through 2024, central banks are likely to start reducing rates, but with yields below base rates in all markets, this is well priced.

In the UK, the market is now assuming base rates have peaked at 5.25%, with the first cut priced in for June 2024 and falling to a terminal level of around 3.5% by late-2026.

Supply will remain high for the next few years, with around £200bn per annum forecast over each of the next five years. Alongside quantitative tightening (where the BoE is selling its gilt holdings back into the market), this could represent a headwind for gilts. However, when considering gilts in a global context, we believe the gilt market is somewhat priced for this, with the UK curve much steeper than both the US and German bonds.

## 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](http://www.rlam.com), including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# Disclaimers

## Important information

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at [www.rlam.com](http://www.rlam.com).

Issued in April 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).

FTSE indexes and data are an intellectual property of FTSE International Limited ("FTSE"). "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. The Index is calculated by FTSE or its agent.

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.

## 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.

## 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.

## 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.

## 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.

## Charges from capital risk

Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

# 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>	0.04	3.57	4.28	0.94	2.88	0.31	0.57
<b>Fund (net)</b>	(0.01)	3.46	4.05	0.28	1.77	0.09	0.35

## 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>	4.28	(1.62)	(1.60)	0.29	1.63
<b>Fund (net)</b>	4.05	(1.84)	(1.82)	0.07	1.41

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 Short Duration Gilts (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 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.

## 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 holdings

Total number of unique holdings of 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.