For professional clients only, not suitable for retail clients.

# Royal London European Sustainable 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 European Sustainable 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 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 outperform the ICE BofAML Euro Corporate & Pfandbrief Total Return EUR Index (the "Benchmark") by 0.50% per annum over rolling three year periods (gross of fees) by investing in bonds that are deemed to make a positive contribution to society. Investments in the Fund will adhere to the Investment Manager's Ethical and Sustainable Investment Policy, as detailed in the "responsible investment" section of the Prospectus. Investors should note that the Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark. For further information on the Fund's index, please refer to the Prospectus.

Benchmark: ICE BofA ML Euro Corporate & Pfandbrief Total Return EUR Index

## Fund value

| | Total €m |
|---|---|
| 31 March 2024 | 143.81 |

## Fund analytics

| | Fund |
|---|---|
| Fund launch date | 29 July 2021 |
| Base currency | EUR |
| Duration (years) | 5.51 |
| Gross redemption yield (%) | 4.17 |
| Number of holdings | 206 |
| Number of issuers | 123 |

# Performance and activity

## Performance

| | Fund (%) | Benchmark (%) | Relative (%) |
|---|---|---|---|
| Quarter | 1.22 | 0.35 | 0.87 |
| 1 Year | 8.34 | 6.59 | 1.76 |
| Since inception (p.a.) | (2.61) | (3.22) | 0.61 |

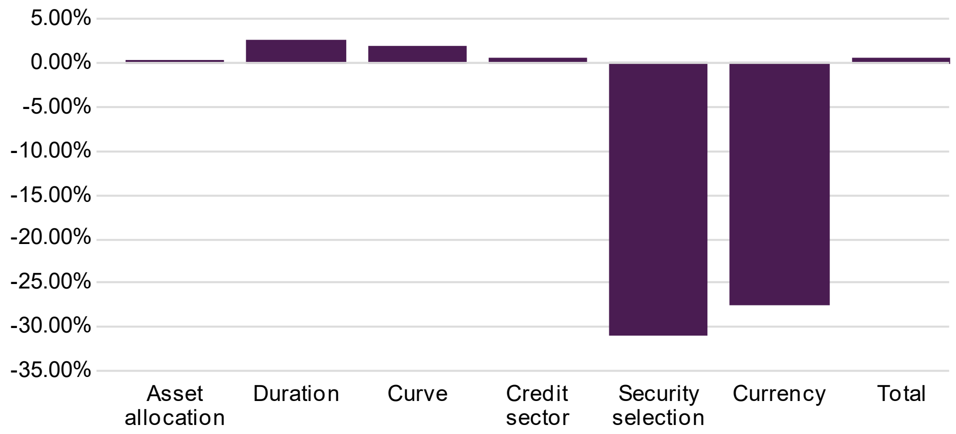
Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on Royal London European Sustainable Credit Fund (Z Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 29 July 2021.

## Performance commentary

The fund outperformed the index over the quarter (Z Acc, euro share class). Performance over the period was driven by a combination of tighter credit spreads and the additional yield built into the portfolio. Although our exposure to areas such as utilities was negative during the period given the higher proportion of longer-dated bonds in this area.

Stock positioning was positive over the period, notably our exposure to subordinated bank bonds and insurance, which performed strongly relative to the market.

## Attribution over the quarter



# Performance and activity

## Top 10 holdings

| | Weighting (%) |
|---|---|
| HSBC HOLDINGS PLC 6.364000000 2032-11-16 | 1.45 |
| HANNOVER RE 1.375000000 2042-06-30 | 1.27 |
| GEWOBAG WOHNUNGSBAU-AG B 0.125000000 2027-06-24 | 1.24 |
| BANCO SANTANDER SA 5.750000000 2033-08-23 | 1.21 |
| COOPERATIEVE RABOBANK UA 3.875000000 2032-11-30 | 1.19 |
| APTIV PLC 1.600000000 2028-09-15 | 1.19 |
| ALLIANZ SE 2.121000000 2050-07-08 | 1.14 |
| NATWEST GROUP PLC 5.763000000 2034-02-28 | 1.09 |
| BANQUE FED CRED MUTUEL 4.125000000 2033-06-14 | 1.06 |
| BNP PARIBAS 1.625000000 2031-07-02 | 1.03 |
| **Total** | **11.87** |

## Fund activity

We continued to invest in bonds that meet both our demanding financial and sustainable criteria, and which fit into the sustainable themes that we think will endure and offer long-term solutions to the challenges that the world faces. We also aim to construct the fund to ensure that it yields more than the benchmark index. We believe that this positioning will be beneficial in the medium term, given the current valuation of credit markets and attractive opportunities we see.

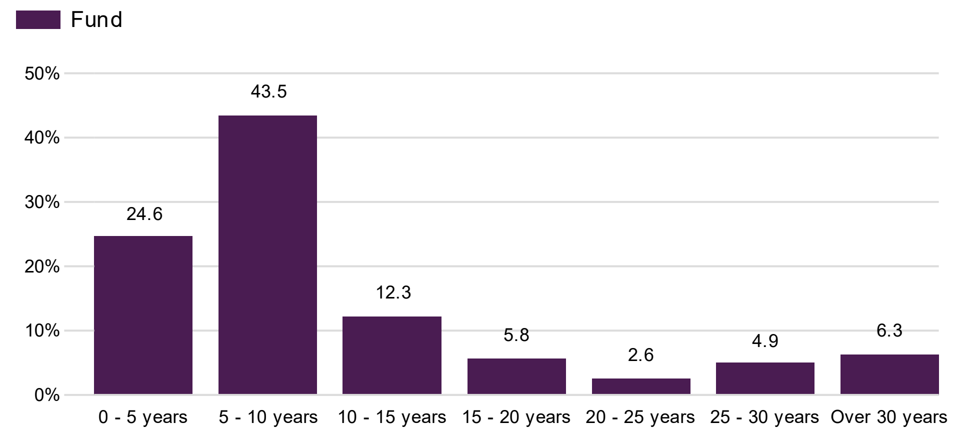
After a somewhat subdued end to 2023, the new issue market was very active in the first quarter, providing multiple opportunities to add high yielding bonds to the portfolio. Financials remained a major part of this activity and we added a new senior issue from Credit Agricole, although we were more focused on relatively short-dated subordinated bonds given the more attractive risk / return profile we see in this part of the capital structure. Examples during the period including Spanish banks Banco Sabadell, Santander and BBVA as well as Lloyds and Dutch insurer NN Group – all of these coming to market at very attractive above-market yields. The AT1 market continues to recover from the Credit Suisse collapse with issuance picking up once more, and we added AT1 bonds from Dutch bank ABN Amro at a yield of around 7.5%.

There was a wide variety of non-financial companies coming to the market, giving us opportunities to enhance diversification across both sector and geography. In telecoms, we added new issues from Spanish telecoms provider Telefonica as well as US telecoms giant Verizon, while we also added a new issue from German train operator Deutsche Bahn. Finally we also picked up a new 2036 euro-denominated issue from Dutch telecommunications company KPN. The company has strong ESG credentials, and the bonds came at an attractive yield premium to the market.

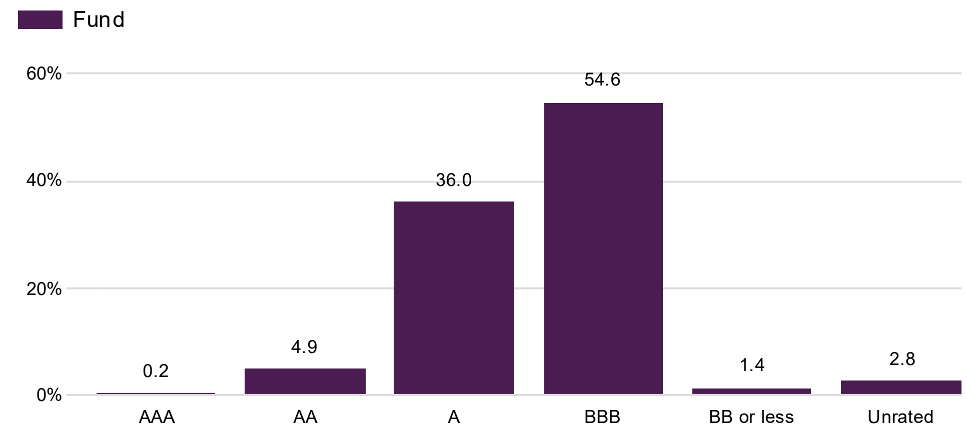
We used secondary market availability to enhance yield. Examples included selling 2028 subordinated bonds from CNP Assurances, adding 2029 subordinated bonds from the same issuer for a pick-up in yield.

# Fund breakdown

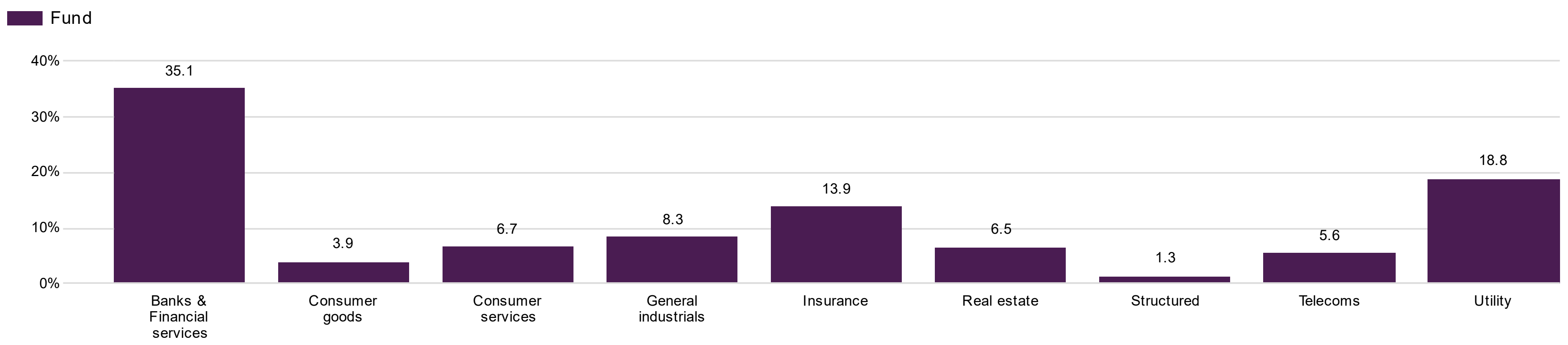
## Maturity profile




## Credit ratings




## Sector breakdown



# Characteristics and climate

## ESG characteristics rationale

The Fund focuses on the sustainability of the products and services of the companies it invests in, as well as their standards of environmental, social, governance ("ESG") management, alongside financial analysis. The investment approach is fundamentally based on positive screening; identifying companies that are making a positive contribution towards a cleaner, healthier, safer and more inclusive society, through assessing both what a company does and how it does it, and through active engagement to encourage continual improvement. The fund will not invest in companies that undertake business activities deemed to be detrimental to society and that breach our Do No Significant Harm principle. Further details of the Funds Sustainable Investment process can be found in the ethical and sustainable investment policy at www.rlam.com

## ESG characteristics

| | Yes | No |
|---|---|---|
| ESG integration | ✓ | |
| Promotes environmental or social characteristics | ✓ | |
| Sustainable fund objective | ✓ | |
| Additional exclusions | ✓ | |

## Additional exclusions

Exclusion criteria that make sure a fund does not invest into a specific service or product. Royal London Asset Management has a controversial weapons exclusion across all investments.

| | |
|---|---|
| Adult entertainment | ✓ |
| Alcohol | ✓ |
| Animal welfare | ✓ |
| Armaments | ✓ |
| Controversial weapons | ✓ |
| Fossil fuels | ✓ |
| Gambling | ✓ |

| | |
|---|---|
| High environmental impact | ✓ |
| Human rights issues | ✓ |
| Nuclear power | ✓ |
| Nuclear weapons | ✓ |
| Tobacco | ✓ |

## Climate metrics

| | Fund | Benchmark | Difference (%) |
|---|---|---|---|
| Financed emissions (tCO2e) | 3,787 | n/a | n/a |
| Financed emissions coverage | 62.99% | n/a | n/a |
| Carbon footprint (tCO2e/$M invested) | 24.52 | 74.82 | (67.23) |
| Carbon footprint coverage | 62.99% | 77.09% | (18.29) |
| Weighted average carbon intensity (tCO2e/$M sales) | 80.86 | 108.28 | (25.32) |
| Weighted average carbon intensity coverage | 98.64% | 97.56% | 1.11 |

All climate metrics presented above are for Scope 1-2 emissions. Unless specified in the objective, the data is for information only and should not be taken to mean they are being managed to/controlled.

## Implied temperature rise

| | Fund (%) | Benchmark (%) | Difference (%) |
|---|---|---|---|
| Implied temperature rise (ITR) coverage | 62.99 | 76.86 | (18.04) |
| % of portfolio below 2°C ITR | 53.21 | 47.42 | 12.21 |
| % of portfolio below 1.5°C ITR | 26.81 | 17.44 | 53.74 |

## SBTi net - zero

| | Fund (%) | Benchmark (%) | Difference (%) |
|---|---|---|---|
| SBTi Net-Zero committed | 25.13 | 26.41 | (4.84) |
| SBTi Near-Term committed | 17.17 | 11.60 | 47.99 |
| SBTi Near-Term targets set | 30.68 | 37.68 | (18.58) |

# 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 | 20 |
| Number of engagements | 11 | 59 |

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

| | |
|---|---|
| **Climate** | **2** |
| Climate - Transition Risk | 2 |
| **Governance** | **6** |
| Remuneration | 2 |
| Strategy | 2 |
| Board | 1 |
| Corporate Governance | 1 |
| **Social & Financial Inclusion** | **4** |
| Just transition | 3 |
| Social & Financial inclusion | 1 |

## Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; 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

| HSBC Bank Plc - Just Transition |
|---|
| Purpose: |
| To review and provide feedback on the company's draft Net Zero Transition Plan. |
| Outcome: |
| HSBC's Net Zero Transition Plan, informed by GFANZ and TPT, sets a strategic vision for sector specific transitions and an actionable plan. In a feedback session with the Chief Sustainability Officer, the company highlighted its commitment to the real economy decarbonisation, especially in developing markets. The plan details a sectoral approach based on global financing needs, and HSBC's strategies to support decarbonisation and leverage financing opportunities. It also emphasises a fair and inclusive transition, with ongoing efforts to integrate just transition principles. We will continue to engage with the company, placing particular emphasis on the operationalisation of their commitment to a just transition. |

# Market commentary

## Market overview

Economic attention over the quarter has been on inflation. At the start of the quarter investors focussed on the persistence of large price increases and central bank messaging on rates being held higher for longer. Yet, as headline inflation fell, sentiment swung dramatically towards the end of the quarter, pushing markets to price in interest rate cuts in 2024. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all left rates unchanged over the quarter, maintaining official rates at multi-year highs. The Fed has now held rates unchanged at its last three meetings. There has however been a significant shift in messaging, with the US central bank now indicating that it expects to cut rates by 0.75% in 2024. The ECB has similarly kept rates steady at its two most recent meetings, but central bankers in the eurozone said that no rate cuts have yet been discussed.

In tune with the other major central banks, and potentially marking the high point in the UK interest rate cycle, the Bank of England left interest rates unchanged over the period. The Monetary Policy Committee continued to be split – at the December meeting three of the nine members were still voting for a rate hike. UK inflation has fallen significantly, with the annual inflation rate falling to 3.9% in November. This is the lowest rate of increase in over two years. However, this remains well above the BoE 2% target, with core and wage inflation significantly higher than the headline rate.

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.

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.

## Outlook

The rally in bond yields seen late last year, prompted by hopes that falling inflation would lead to relatively rapid and numerous interest rate cuts, was largely unwound in the first two weeks of 2024. This reflects the change in interest rate expectations and the sensitivity of markets to incoming economic data. We expect yields to remain sensitive to economic data, and unless there is a significant deterioration in underlying trends, we expect this to lead to range bound-yields.

Headline inflation is expected to keep falling in the US, euro zone and UK in the next few months. However, we are mindful that underlying pressures in the labour market and parts of the services sector mean that headline inflation figures may be somewhat misleading, while growth is also quietly positive. Overall, the global tone is that rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.

With bond yields generally higher than they were at the start of the year, and interest rate cuts now closer, we believe that overall government bond yields look attractive. Credit spreads have come in further – and are now looking somewhat tight in some areas – but we believe that these continue to compensate credit investors for the risk of default.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection, and our view remains that the medium term our focus on delivering attractive income will generate strong returns for 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

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.

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 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: 33 rue de Gasperich, L - 5826 Hesperange, 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 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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# 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.

**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.

**Responsible investment style risk**

The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number of securities in which the Fund may invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities.

# Performance to 31 March 2024

## Cumulative (%) / Annualised (%)

| | 3 Month | 6 Month | 1 Year | 3 Years | Since Inception | 3 Years (p.a.) | Since Inception (p.a.) |
|---|---|---|---|---|---|---|---|
| **Fund (gross)** | 1.22 | 7.97 | 8.34 | - | (6.83) | - | (2.61) |
| **Fund (net)** | 1.14 | 7.79 | 8.00 | - | (7.62) | - | (2.92) |

## 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)** | 8.34 | (7.87) | - | - | - |
| **Fund (net)** | 8.00 | (8.16) | - | - | - |

**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 European Sustainable Credit Fund (Z Acc);Since inception date 29 July 2021.

# Glossary

## Asset allocation

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

## Attribution

Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

## Carbon footprint

Exposure to high emitters in the portfolio, expressed in tCO2e/$M invested. Financed emissions are divided by the portfolio value, the same approach for listed companies and private issuers is applied in this metric.

## 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.

## ESG Integration

The systematic and explicit inclusion of environmental, social and governance (ESG) factors into investment analysis and investment decisions.

## Exclusions

Explicitly prohibits investing in a particular company, sector, business activity, country or region.

## Financed emissions

The emissions from activities in the real economy that are financed through lending and investment portfolios, expressed in tCO2e. Emissions are attributed to a portfolio based on the portion of the company's value the portfolio holds, and using different accounting values for public and private corporates. We provide financed emissions for scope 1 and 2 emissions.

## 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 restrictions definitions

**Adult Entertainment:** Companies which own or produce adult entertainment services, or engage in the distribution or sale of adult entertainment services.
**Alcohol:** Companies which have involvement in brewing, distillation or sale of alcoholic drinks.
**Animal Welfare:** Companies that conduct animal testing (other than for purposes of human or animal health and/or where it is required by law or regulation).
**Armaments:** Companies who manufacture armaments or nuclear weapons or associated products.
**Controversial Weapons:** Weapons which have an indiscriminate and disproportional impact on civilians or weapons that are illegal and prohibited by international conventions and treaties.
**Fossil Fuels:** Companies involved in the exploration, extraction or refining of oil, or gas, or coal, plus any activity relating to thermal coal.
**Gambling:** Companies who promote irresponsible gambling which includes betting shops, casinos or amusement arcades.
**High Environmental Impact:** Companies which have a high environmental impact, and which have 'no evidence' of appropriate environmental management systems.
**Human Rights Risks:** Companies with a strategic presence operating in countries of concern and which have 'no evidence' of policies or systems to manage human rights risks.
**Nuclear Power:** Companies who generate energy from Nuclear Power.
**Nuclear Weapons:** Companies that manufacture, nuclear; or are involved in the production of intended-use parts, whole weapons systems, or exclusive delivery platforms.
**Tobacco:** Companies which are growing, processing or selling tobacco products.

# Glossary

### 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.

### Implied temperature rise (ITR)

ITR aims to measure the global warming outcome from the emissions trajectory of a company, if the whole economy followed the same trajectory.

### 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 daily end of day NAV per share produced by HSBC based on the mid price.

### Promotes environmental or social factors

An ESG Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

### SBTi

The Science-Based Targets initiative is a consortium of organisations that set up the definition and promotion of science-based target setting.

### 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.

### Sustainable fund objective

A product that has sustainable investment or a reduction in carbon emissions as its objective.

### Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, expressed in tCO2e / $M revenue. Scope 1 and scope 2 GHG emissions are divided by companies revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value). The WACI is calculated as a weighted average sum of the holdings with carbon intensity coverage.

In line with our bespoke and targeted approach to credit analysis, we have developed an in-house carbon data tool that addresses coverage and mapping issues with third party systems. The development of this tool has been a critical element of RLAM's ESG integration into our credit process, addressing coverage and mapping issues with third party systems. This enhanced coverage is reflected in the WACI figures provided in this report, with all other metrics instead being based on data from MSCI.