For professional clients only, not suitable for retail clients.

Royal London Global 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 Global 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.

Contents

The fund

Fund performance objective and benchmark

The Fund's investment objective is to outperform the Bloomberg Global Aggregate Corporate Hedged USD (the "Benchmark") by 0.75% per annum over rolling three year periods (gross of fees). The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track it.

Benchmark: Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD

Fund value

	Total $m
31 March 2024	461.55

Fund analytics

	Fund	Benchmark
Fund launch date	10 February 2021	
Base currency	USD	
Duration (years)	6.87	5.99
Gross redemption yield (%)	5.43	4.95
Number of holdings	290	16,199
Number of issuers	165	2,823

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.74	0.10	0.64
1 Year	7.12	5.89	1.23
3 Years (p.a.)	(1.19)	(1.30)	0.11
Since inception (p.a.)	(2.01)	(2.02)	0.01

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 Global Sustainable Credit Fund (Z Acc) (USD). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 10 February 2021.

Performance commentary

The fund outperformed the index over the quarter (M Acc USD). Performance over the period was driven by a combination of tighter credit spreads and the additional yield built into the portfolio. In addition, having taken profits on a number of long-dated holdings late in 2023, we added to short-dated exposure, primarily through the new issue market, and this helped relative performance over the quarter as yields increased somewhat.

The combination of sector and stock positioning was positive over the period, notably our exposure to subordinated bank bonds, which performed strongly relative to the market, as did core sustainable holdings in the likes of Thermo Fisher and Topaz Solar.

Performance and activity

Top 10 holdings

	Weighting (%)
LLOYDS BANKING GROUP PLC 7.953000000 2033-11-15	1.29
LLOYDS BANKING GROUP PLC 4.582000000 2025-12-10	0.95
XYLEM INC 2.250000000 2031-01-30	0.93
HSBC HOLDINGS PLC 7.390000000 2028-11-03	0.93
REPUBLIC SERVICES INC 2.300000000 2030-03-01	0.91
LEGAL & GENERAL GROUP 5.250000000 2047-03-21	0.88
PRUDENTIAL FINANCIAL INC 5.375000000 2045-05-15	0.87
NN GROUP NV 4.625000000 2048-01-13	0.87
PHOENIX GRP HLD PLC 5.375000000 2027-07-06	0.82
AVISTA CORP 4.350000000 2048-06-01	0.81
Total	**9.26**

Fund activity

We invest in bonds that meet both our demanding financial and sustainable criteria. We 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.

The sustainable criteria we use mean that our portfolio will tend to have certain differences with the benchmark index. For instance, while it will have significant exposure to the banking sector, this is typically much lower in US banks than the index, reflecting the higher weighting of investment banks that typically do not score well on our criteria. In addition, the portfolio will usually have lower exposure to China and India, where issuers may look attractive in financial terms, with many offering significant yield premia, but again do not score well on our criteria.

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 new senior issues from Credit Agricole and UK mortgage specialist OSB, 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 UK institutions Lloyds and NatWest – 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%.

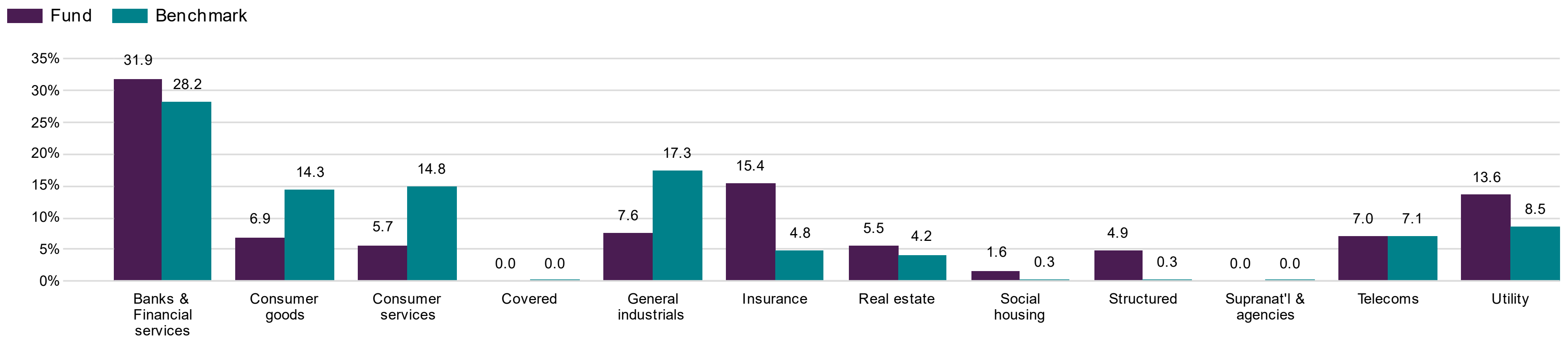
Exposure to structured bonds remains a relatively modest part of the portfolio but a useful source of diversification. Issuance has been somewhat low in recent months, but there were opportunities in the sector during the quarter. Examples included Land Securities and a rare new issue from Telereal – the latter secured on BT telephone exchanges.

There was a variety of non-financial companies coming to the market, giving us opportunities to enhance diversification across sector and geography. 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.

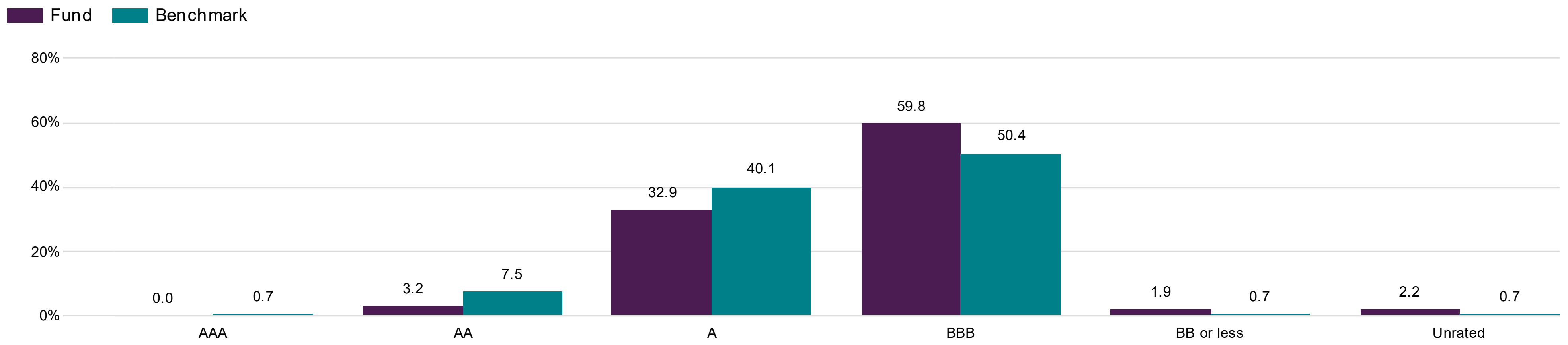
We used secondary market availability to enhance yield. Examples included a switch in core holding Thermo Fisher, where we sold 2047 US dollar bonds into 2041 euro bonds for a material yield pick-up, and selling 2028 subordinated bonds from CNP Assurances, adding 2029 subordinated bonds from the same issuer for a pick-up in yield.

Fund breakdown

Sector breakdown

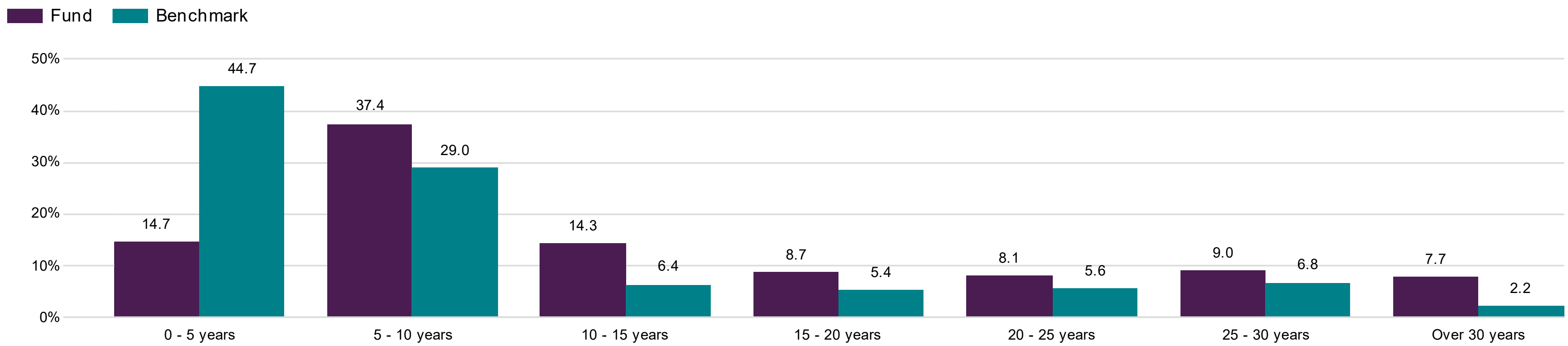


Credit ratings



Fund breakdown

Maturity profile



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)	11,522	n/a	n/a
Financed emissions coverage	74.58%	n/a	n/a
Carbon footprint (tCO2e/$M invested)	24.59	67.29	(63.45)
Carbon footprint coverage	74.58%	88.87%	(16.08)
Weighted average carbon intensity (tCO2e/$M sales)	108.53	192.20	(43.53)
Weighted average carbon intensity coverage	98.65%	97.39%	1.29

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	74.58	88.81	(16.02)
% of portfolio below 2°C ITR	52.68	44.32	18.84
% of portfolio below 1.5°C ITR	20.93	15.19	37.78

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	18.10	19.02	(4.80)
SBTi Near-Term committed	16.05	8.92	80.02
SBTi Near-Term targets set	26.14	28.59	(8.55)

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	26
Number of engagements	11	65

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	**1**
Climate - Transition Risk	1
Governance	**7**
Remuneration	3
Strategy	2
Board	1
Corporate Governance	1
Social & Financial Inclusion	**6**
Just transition	4
Labour & Human Rights	1
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.

National Australia Bank - Just Transition

Purpose:

To foster transparency and accountability, we encourage the company to disclose its strategy for incorporating just transition considerations into its decarbonisation efforts. Furthermore, we sought clarity on the company's responsible lending practices within their microfinance operations.

Outcome:

National Australia Bank (NAB) is committed to a just transition and microfinance, recognising the interconnection between the two as microfinance plays a crucial role in supporting communities affected by the energy transition. The company is developing a just transition plan and contributing to the 'UNGC Think Lab on Just Transition' for business guidance. Its microfinance efforts are philanthropic, aligning with its place-based strategy for a just transition. Good Shepherd, the company's partner, conducts internal audits and quality processes. NAB advocates for responsible microfinance and is encouraged to promote these practices nationally.

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

Responsible investment

TCFD climate report

Royal London voting and engagement

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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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 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.

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.

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.

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.

Responsible investment risk

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

Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Performance to 31 March 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception
Fund (gross)	0.74	9.08	7.12	(3.53)	(6.17)
Fund (net)	0.64	8.86	6.69	(4.68)	(7.34)

Annualised (%)

	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	(1.19)	(2.01)
Fund (net)	(1.58)	(2.40)

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)	7.12	(6.06)	(4.13)	-	-
Fund (net)	6.69	(6.43)	(4.52)	-	-

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 Global Sustainable Credit Fund (Z Acc) (USD);Since inception date 10 February 2021.

Glossary

Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

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.

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 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.

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.

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.

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.

Glossary

Sustainable fund objective

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

Top 10 holdings

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

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.