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Royal London Diversified Asset-Backed Credit Fund

Quarterly Investment Report

31 December 2025

Quarterly Report

The fund as at 31 December 2025

The purpose of this report is to provide an update on the Royal London Diversified Asset-Backed 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 aims to achieve a positive absolute return in excess of the Bank of England Sterling Overnight Interbank Average ("SONIA") by 2% per annum over rolling 3-year periods, before the deduction of charges.
Notwithstanding that the Fund aims to deliver a positive absolute return over rolling 3-year periods, any capital invested is, in fact, at risk and there is no guarantee that a positive absolute return is generated over such specified period, or over any period. The benchmark is considered suitable as it is consistent with how the Fund is managed in seeking to provide a "cash plus" performance outcome.

Fund value

	Total £m
31 December 2025	354.07

Asset allocation

	Fund (%)
Conventional credit bonds	95.36
Index linked credit bonds	3.21
Conventional gilts	1.28
Conventional foreign sovereigns	0.15

Fund analytics

	Fund
Fund launch date	24 September 2012
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)
Duration (years)	0.52
Redemption yield (%)	5.79
Number of holdings	291
Number of issuers	189

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.94	0.98	0.97
1 Year	7.95	4.22	3.74
3 Years (p.a.)	8.99	4.63	4.37
5 Years (p.a.)	6.56	3.05	3.52
10 Years (p.a.)	5.02	1.77	3.25
Since inception (p.a.)	4.67	1.47	3.21

Past performance is not a guarantee or reliable indicator of future returns. The impact of fees or other charges, including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces your investment. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on Z Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 24 September 2012.

Please note that with effect from 12 December 2025 the fund name changed from RL Diversified Asset-Backed Securities Fund to RL Diversified Asset-Backed Credit Fund.

Performance commentary

The fund recorded a strong return in the quarter, significantly outperforming its benchmark. Year-to-date, the fund remains well ahead of its benchmark. The fund's diversified nature was reflected in the diversity of performance drivers in the quarter and helped to dampen risk despite volatile markets.

During the quarter, the fund's duration position contributed to performance as it was slightly long duration and the UK Treasury yield curve shifted downwards over the quarter.

The main driver of performance, however, came from income, with strong stock picking across senior secured debt and selective junior financial debt being key to ongoing excess income and spread performance.

Spreads within secured debt remain at relatively attractive levels, whilst financial debt spreads have compressed within the market in a relative sense. The fund took the opportunity to reduce credit risk in areas of stronger outperformance, such as unsecured corporate and financial debt as well as selective secured debt and continued to focus on finding opportunities that deliver higher risk-adjusted returns within secured debt areas both in primary and secondary markets. This area remains a key area for potential further spread compression relative to the wider credit market.

Spread compression within the water sector was evident, highlighting comfort taken by investors as a range of water companies, that had lagged wider utility spreads, performed well. Most notably, Southern Water, performed strongly during the quarter, having been underpinned by an additional equity injection.

Within the fund's structured CMBS holdings, Intu Metro, Westfield and Canary Wharf performed well, having lagged prior. The AA also announced an early redemption of their 2027 debt, at a premium to market, which benefitted the fund.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	2.01
HWAYS 2021-1X A 3.7254 18 Dec 2031	1.60
WSTSTR_2 1.642 04 Aug 2026	1.38
DIRECT LINE INSURANCE GROUP PLC 4 05 Jun 2032	1.32
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.31
UK CONV GILT 1.5 22 Jul 2026	1.24
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.22
CO-OPERATIVE BANK FINANCE PLC 9.5 24 May 2028	1.20
DWR CYMRU FINANCING UK PLC 4.377 31 Mar 2026	1.15
PROGRESS HEALTH 5.58 02 Oct 2042	1.02
Total	**13.45**

Fund activity

Secured bonds remain a key exposure for the portfolio and we added attractively priced new issues over the period. We purchased bonds issued by Vantage Data Centers, secured on two hyperscale data centres in Newport backed by leases to strong tenants. This deal offered a notably higher credit spread than unsecured bonds from large technology companies. We also added a new CMBS deal, which was backed largely by logistics assets that we are familiar with from previous funding structures. This bond, called DBMS, is backed by 64 properties across the UK with a diversified tenant base, and came to market at spread of 128bps over SONIA, a level in excess of many BBB unsecured corporate bonds, despite its AAA rating.

Water company bonds have generally performed well in 2025, recovering from significant volatility over previous years. We believe the water industry still offers attractive yield premia compared to other regulated utilities, despite materially reduced risk following the completion of the regulatory review in 2025. We added a new issue from Southern Water during the period, which has been underpinned by £900m of additional equity support injected since the summer.

We have been lending to the Housing Association sector for decades and remain supportive given a combination of strong social credentials, stable regulatory oversight and bond security, that helps to dampen volatility. During the quarter, we added to the sector, purchasing bonds issued by Haven Funding and Places for People. Over the year, sector spread performance has lagged the market, which should leave scope for additional performance in coming years.

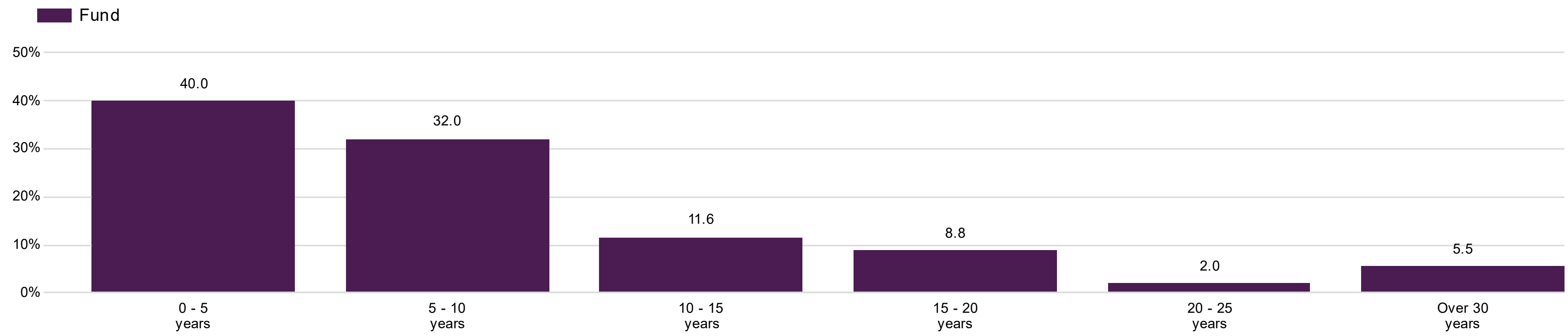
In the secondary market, we added to Unique, a bond secured on pubs now owned by Stonegate. As well as strong fundamental protection due to a very low LTV, the bond's legacy structure compared to Stonegate's more contemporary bonds increases the likelihood of early redemption. To date the issuer has been making more incremental re-purchases of the bonds at prices significantly in excess of prevailing market levels. We also added to existing exposure in pub operator Marstons, and Sainsbury's supermarket CMBS, Longstone, as these secured bonds also offer attractive spread levels and relatively low leverage.

Reflecting the investment flexibility and diversity of opportunities that can be exploited in the fund, we extended our exposure to French government owned, EDF by selling 2064 bonds and purchasing 2114 bonds from the same issuer which offered a materially higher yield, despite a minimal increase in duration. Further sales in the quarter largely included reducing exposure to the bank and insurance sectors, with a particular focus on offloading unsecured or subordinated debt, taking profit on these positions that had performed well throughout the year.

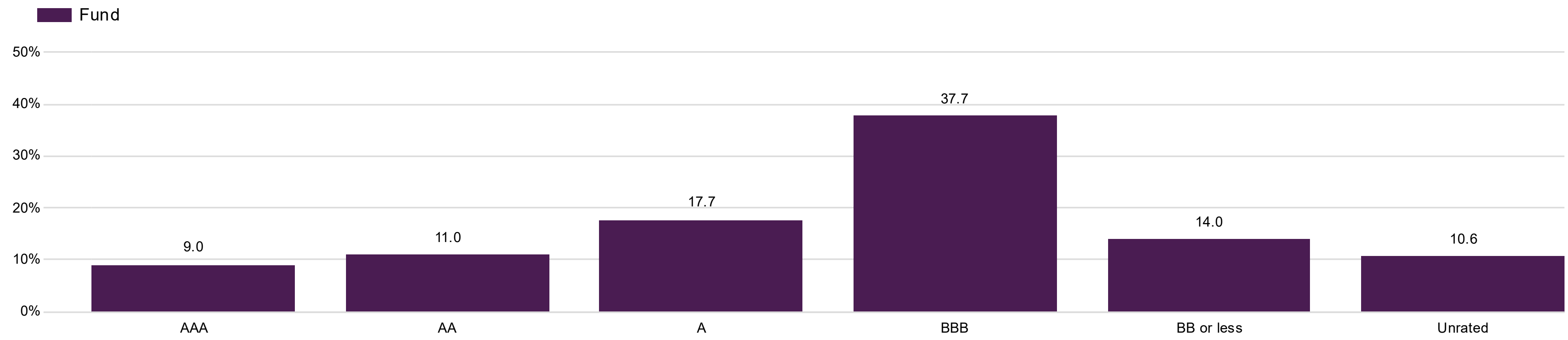
We also added selectively to areas with further scope for outperformance, such as legacy bank and insurance debt, as well as selective activity within the insurance sector, where bonds have lagged bank counterparts.

Fund breakdown

Maturity profile

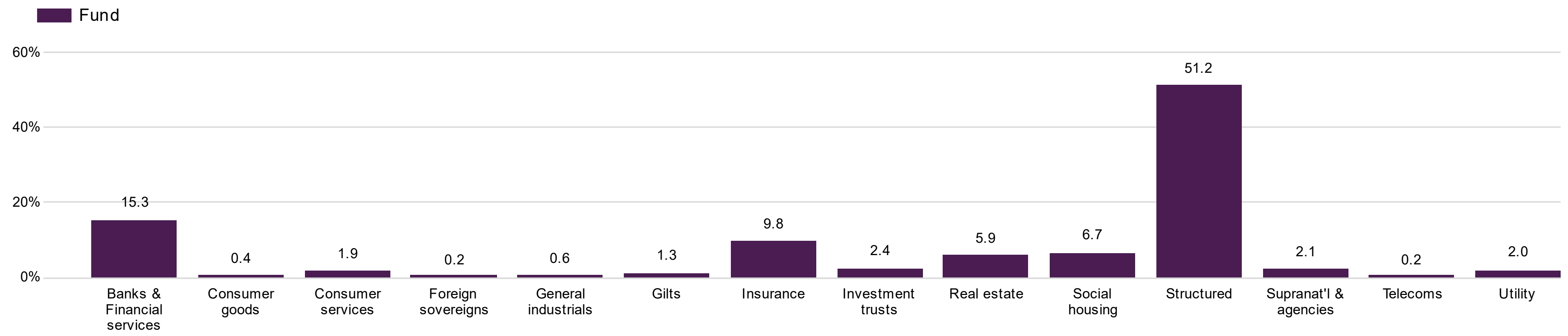


Credit ratings



Fund breakdown

Sector breakdown



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	13	23
Number of engagements	19	61

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

Biodiversity	1
Climate	12
Climate - Transition Risk	11
Climate - Physical Risk	1
Environment	3
Governance	3
Corporate Governance	2
Remuneration	1
Social & Financial Inclusion	5
Just transition	4
Social & Financial inclusion	1

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and 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 Holdings plc – Just Transition

Purpose:

HSBC Holdings plc, a global bank, was engaged as part of our long-running engagement with banks on just transition, seeking for it to integrate social considerations into its Net Zero transition plan.

Outcome:

HSBC is updating its Net Zero transition plan and benchmarking peers to improve just transition disclosures. The bank recognised deficiencies in managing climate-related human rights risks and sector-specific social impacts, but emphasised ongoing measures, such as the implementation of enhanced vulnerability standards and various financial inclusion initiatives. HSBC emphasised challenges in retrofitting liability and Use of Proceed loans in the retail mortgage market. Following our meeting, we will review our draft assessment and share it with the bank to encourage improved disclosure and integration of social considerations.

Lloyds Banking Group plc – Just Transition

Purpose:

Lloyds Banking Group plc (Lloyds), a UK-based financial institution, was engaged as part of our long-running engagement with banks on just transition. We sought the integration of social considerations into the company's decarbonisation strategy.

Outcome:

Lloyds continues to integrate just transition across its strategy, committing £1 billion to its Regional Impact Fund to address regional inequality and drive inclusive economic growth. The bank showcased partnerships with the North East Combined Authority and Office of Investment to channel private investment into green infrastructure. It also expanded its 'Eco Home Reward' scheme, offering up to £2,000 cashback for energy efficiency measures, returning over £2 million to customers in 2025. Lloyds is working with Octopus Energy to reduce heat pump installation wait times and exploring property-linked financing. Before implementing mortgage policy changes, Lloyds conducted analysis to ensure alignment with just transition principles. We will continue this engagement to monitor disclosure improvements.

Fund Engagement

Engagement outcomes

Yorkshire Water – Environment

Purpose:

Yorkshire Water, a UK water utility, was engaged to assess its climate resilience and pollution control strategies.

Outcome:

Yorkshire Water is investing £1.5 billion to upgrade storm overflow systems and implement nature-based solutions such as wetlands and tree planting to improve water quality and biodiversity. The company is also deploying ~20,000 sewer monitors and intelligent pumps to prevent failures, supported by a broader digital transformation programme and investment in green skills for its workforce. On financing, Yorkshire Water is focusing on inflation-linked debt and reducing gearing (a measure of financial leverage) to maintain stability. We will continue engagement to monitor progress on biodiversity initiatives and resilience disclosures.

Market commentary

Market overview

Markets were focused on the US during the fourth quarter, with rate cuts from the Federal Reserve bookending the longest US Federal Government shutdown in history. The decision was accompanied by language suggesting a pause after three cuts in the final four months of 2025.

In the euro zone, the European Central Bank left rates unchanged – with inflation concerns causing reluctance to cut further after four cuts in the first half of 2025. The Bank of England (BoE) cut rates from 4% to 3.75%, the sixth cut since mid-2024 from the recent peak of 5.25%. The BoE noted that inflation was still a concern (reflected in a 5-4 vote) but concerns over downside risks include unemployment edging to its highest rate since the Covid pandemic.

Risk assets closed the year strongly – the third consecutive year of double digit returns for equities. After the sharp fall in the wake of the Trump tariff announcement in early April, global equity markets generally ground higher, including during the fourth quarter, helped by ongoing optimism over AI as well as supportive corporate earnings. For the year as a whole, there was strong performance from all major markets – the US, Europe, UK and Japan – with the US lagging in common currency terms after the US dollar weakened significantly.

Government bond yields were mixed, with US and German government bond yields edging higher, while UK yields moved lower on hopes that the November budget announcement would be gilt-friendly. Gilts rallied as Budget news broke but the initial volatility was absorbed during the course of the day, with expected tax hikes backloaded and some action to curb short-term inflation announced.

Benchmark 10-year gilt yields fell from 4.70% to end at 4.55%, meanwhile UK 30-year gilt yields took a step back from their highest levels in almost 30 years seen in the summer. In the US, 10-year treasury yields rose slightly to 4.14% from 4.13% at the end of September but seen volatility in the interim. The German 10-year bund yield was 2.82% at the end of the fourth quarter, rising from 2.67% three months prior.

The sterling investment grade credit market (iBoxx non-gilt index) returned 2.58% over the period under review. Gilts outperformed credit over the quarter, helped by the longer duration of this market in a quarter where UK government bond yields edged lower. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) was relatively unchanged over the period. Spreads began and ended the quarter at 0.77% (iBoxx), compared to the narrowing of spreads seen during the second and third quarters after the widening seen in the first quarter. Sector returns were generally positive, led by banks, insurance and structured bonds.

Outlook

Sterling credit markets have shown remarkable resilience in 2025, weathering external noise and tightening spreads. Despite elevated interest rates and persistent volatility, sterling investment grade credit provided strong returns in 2025. Many of the same uncertainties we were looking at 12 months ago remain in place today – along with some new ones: US policies on tariffs, a new Fed chair and engagement on conflicts such as Gaza and Ukraine remain unpredictable; global inflation is falling but not as fast as economists would like; more central bank rate cuts are expected but there is little consensus around the quantum of these; vast amounts of money are being poured into AI with little attention on the return on that capital.

Sterling credit spreads have continued to tighten through 2025 and are now at levels last seen before the Global Financial Crisis. We see this as logical: defaults are low, company balance sheets are generally healthy, and investors have been buying credit because of attractive yields. At a fundamental level, we still believe that credit spreads over-compensate investors for default risk, and that the all-in yield on sterling credit remains attractive. Furthermore, we continue to find attractive investment opportunities, partly through the new issue market but also by focusing on exploiting market inefficiencies. By focusing on bottom-up analysis, we continue to build overall portfolios that we believe offer attractive risk / return profiles with above-market yields.

While near-term absolute performance is likely to be heavily influenced by movements in the yields of underlying government bond markets, we expect relative performance to continue to be meaningfully influenced by the comparative exposure to supranational bonds and to more economically sensitive or cyclical industrial and consumer sectors. However, we believe that continued emphasis on diversification and our bias towards secured and collateralised debt to help mitigate default risk, as well as our focus on income, will continue to support returns as has been the case through the present environment of volatile yields.

We remain confident that we can further achieve an attractive yield premium in our sterling credit portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the ‘mechanised’ approaches used by annuity providers, Exchange Traded Funds and passive funds that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that the more credit is treated as a commoditised asset class, the greater the level of inefficiencies that an active manager can exploit.

For more insights into the outlook for 2026, including from our CIO, Will Nicoll, go to the Our Views section at www.rlam.com

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

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Issued in January 2026 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.

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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

Investing in assets denominated in a currency other than the base currency of the Fund means the value of the investment can be affected by changes in exchange rates.

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.

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.

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.

Performance to 31 December 2025

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.94	4.65	7.95	29.50	37.45	8.99	6.56
Fund (net)	1.83	4.43	7.50	27.86	34.56	8.53	6.11

Please note that with effect from 12 December 2025 the fund name changed from RL Diversified Asset-Backed Securities Fund to RL Diversified Asset-Backed Credit Fund.

Year on year performance (%)

	31/12/2024 - 31/12/2025	31/12/2023 - 31/12/2024	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021
Fund (gross)	7.95	8.49	10.57	0.05	6.08
Fund (net)	7.50	8.03	10.10	(0.37)	5.63

Past performance is not a guarantee or reliable indicator of future returns. The impact of fees or other charges, including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces your investment.

Source: RLAM as at 31 December 2025. All figures are mid-price to mid-price for the Royal London Diversified Asset-Backed Credit Fund Z Acc GBP share class.

Glossary

Asset allocation

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

Bonds

Securities that represent an obligation to repay a debt, with interest. Investment grade bonds are high quality bonds that are viewed as being highly likely to make all scheduled payments of interest and principal. Low quality bonds carry higher risk but also typically pay higher rates of interest. Corporate bonds are those issued by companies to raise finance.

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.

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.

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

The Fund price is taken at mid-day using swing prices where applicable, while the index performance is priced at close of business. Significant intra-day market movements at the start or end of the day may therefore distort comparisons.

Positive absolute return

The gain in an asset's value in absolute terms, rather than in relative terms.

Pricing

The Fund's price may swing to bid or offer to protect existing investors from the costs associated with buying or selling the fund's underlying assets when other investors are entering or leaving the fund. Performance is based on this pricing.

Redemption yield

The weighted average rate of discount at which the future obligations of interest and capital payments of each of the fund's holdings equates to its current price, gross of relevant fund management costs and gross of tax.

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.