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Royal London Sterling Extra Yield Bond 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 Sterling Extra Yield Bond 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
ESG	8
Market commentary	11
Further information	13
Disclaimers	14
Performance net and gross	16
Glossary	17

ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The investment objective of the Fund is to achieve a high level of income. The Fund seeks to achieve a gross redemption yield (GRY) of 1.25 times the gross redemption yield of the FTSE Actuaries British Government 15 Year index. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Fund value

	Total £m
31 December 2025	1,859.47

Asset allocation

	Fund (%)
Conventional credit bonds	93.82
Conventional gilts	2.66
Index linked credit bonds	1.31
Other	2.22

Fund analytics

	Fund
Fund launch date	11 April 2003
Fund base currency	GBP
Benchmark	FTSE Actuaries British Government 15 years Index
Duration (years)	4.27
Redemption yield (%)	6.96
Number of holdings	260
Number of issuers	197

Performance to 31 December 2025

Performance

	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)
A Inc GBP	2.03	5.75	11.23	11.00	7.23	7.97
Z Inc GBP	2.04	5.76	11.23	11.00	7.23	7.27

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. Source: Royal London Asset Management; Gross performance.

Performance based on RL Sterling Extra Yield Bond Fund (A Inc), since inception date of the share class is 11 April 2003 and RL Sterling Extra Yield Bond Fund (Z Inc), since inception date of the share class is 13 December 2013.

Performance commentary

The fund reported another strong quarter in the final three months of 2025, capping off a robust year. The fund reported double digit returns in 2025 with investment grade, high yield and unrated bonds all contributing to this performance. In the fourth quarter, returns were driven by holdings in the bank, insurance and structured sectors.

Distributions in respect of the fourth quarter of 2025, payable at the end of February, are 1.81p, 1,78p, 1.69p and 1.67p respectively for the A, B, Y and Z class income shares. These compare to amounts of 1.97p, 1.94p, 1.83p and 1.82p distributed in respective for the third quarter of 2025.

Stock selection effects remain the driver of the fund. This was particularly noticeable within our banking and financials sector holdings, where AT1 bonds were strong performers. Examples include our picks in Aberdeen, Nationwide and Santander. Insurance stock selection was also helpful. Lower tier 2 bonds were the strong performers over the quarter, particularly bonds from Prudential and PGH.

Our core holdings in general industrial bonds showed positive performance across the quarter, especially Brooge Petroleum, which repaid its bond, and offshore accommodation provider Floatel International. Aggregated Micro Power was a positive for the quarter, after repaying its bond after years of an attractive 8% coupon. Aggregated Micro Power is an energy company focused on biomass boilers and flexible electricity generation. These bonds were repaid at par during the quarter, providing a modest uplift to performance. The bonds are unrated, meaning many other credit investors will have overlooked the opportunity. Our credit research was positive on the issue, and it was providing capital to a business that is helping with the switch to more sustainable energy as well as providing an 8% coupon while we held this. It is a small but notable example of how our approach can unearth opportunities others overlook.

The fund's structured sector holdings were also a positive, with water company South East Water performing well, alongside Telereal and Heathrow Finance.

Performance and activity

Top 10 holdings

	Weighting (%)
ELECTRICITE DE FRANCE SA 7.375 31 Dec 2079	2.67
UK CONV GILT 1.5 22 Jul 2026	2.65
ABBEY NATIONAL PLC 10.0625 31 Dec 2079	2.04
CO-OPERATIVE GROUP HOLDINGS (2011) 7.5 08 Jul 2026	1.98
SANTANDER UK % NON CUM PREF PLC	1.97
INTULN_13-11 8.75 06 Dec 2028	1.94
CENTRICA PLC 6.5 21 May 2055	1.76
M&G PLC 6.34 19 Dec 2063	1.63
PHOENIX GROUP HOLDINGS PLC 5.75 31 Dec 2079	1.59
CANARY WHARF GROUP INVESTMENT HOLD 3.375 23 Apr 2028	1.54
Total	**19.77**

Fund activity

New issue activity slowed in the final month of the quarter thanks to the normal Christmas lull, but the fund remained active and we continued to see strong liquidity in the secondary market offering attractive opportunities to invest.

Over the quarter, the fund reduced exposure to banks & financials, as well as general industrials, while upping exposure to telecommunications and gilts – reflecting the appeal of strong cashflows in short-dated gilts as we waited for opportunities to invest in corporate bonds. Banks and financials remain the largest part of the index. Our portfolios have a long-standing high level of exposure to the sector as we believed that credit spreads looked very attractive for the risk taken. Following two years of outperformance, the overall valuation picture looks less compelling than it did, leading to lower exposure over time. However, we continue to find attractive opportunities, including adding a subordinated new issue from international healthcare provider BUPA at a very attractive spread. Part of the increased exposure to telecommunications came from participating in a new sterling-denominated issue from US firm Verizon, these hybrid bonds offering a yield of over 6%.

Structured bonds remain a key exposure for the portfolio. With overall credit spreads tightening over the year, we took advantage of new issue opportunities to add secured bonds that often offered more attractive spreads than similar unsecured bonds. During the quarter, we added Vantage Data Centers, a securitisation of real estate and tenant lease payments from two operating wholesale data centres in Newport. This deal offered an attractive loan to value (LTV), has highly rated tenants, and pays an attractive credit spread – notably higher than unsecured bonds from large technology companies.

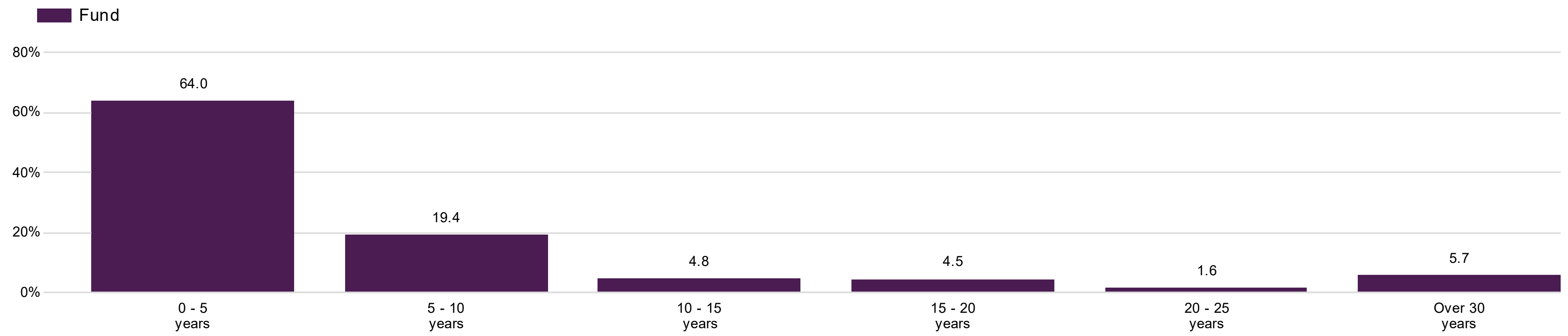
Water company bonds have generally done well in 2025. The water industry still offers attractive yield premia compared to other regulated utilities, despite the reduced risk following the completion of the regulator review in 2025. We added a new issue from Southern Water during the period; the company recently strengthened with £900m of equity support since summer 2025.

The fund took part in new euro issues from aluminium tube packaging firm Alltub and Norwegian seafood producer Hofseth, with both deals offering attractive spread levels of over 500bps. The fund also took part in a new US dollar short-dated bond from renewable energy infrastructure firm Kinetics Energies, offering a yield above 9%.

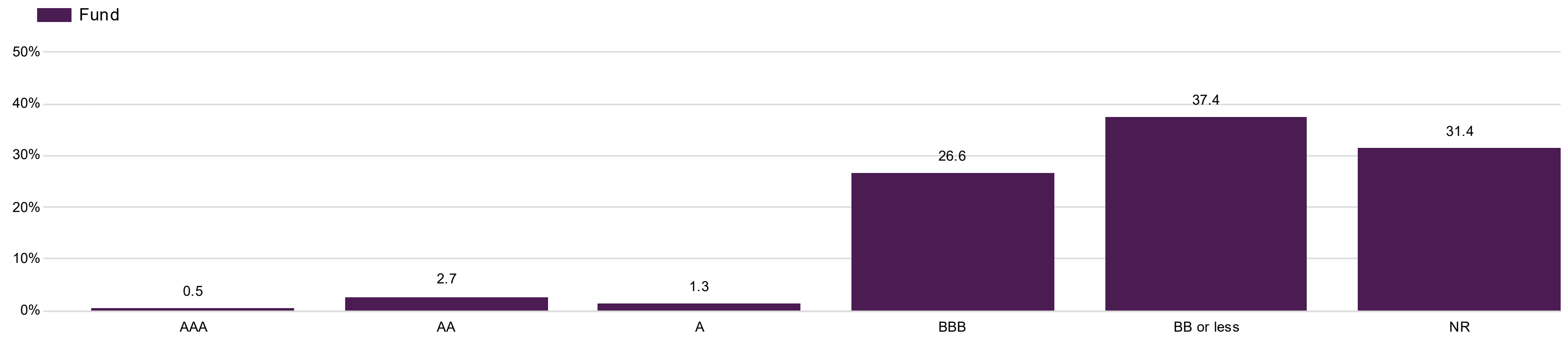
The fund also took part in new issues from motor association AA and adding geographic diversity to the fund, took part in a new euro issue from German laboratory glassware firm Duran Life Science.

Fund breakdown

Maturity profile

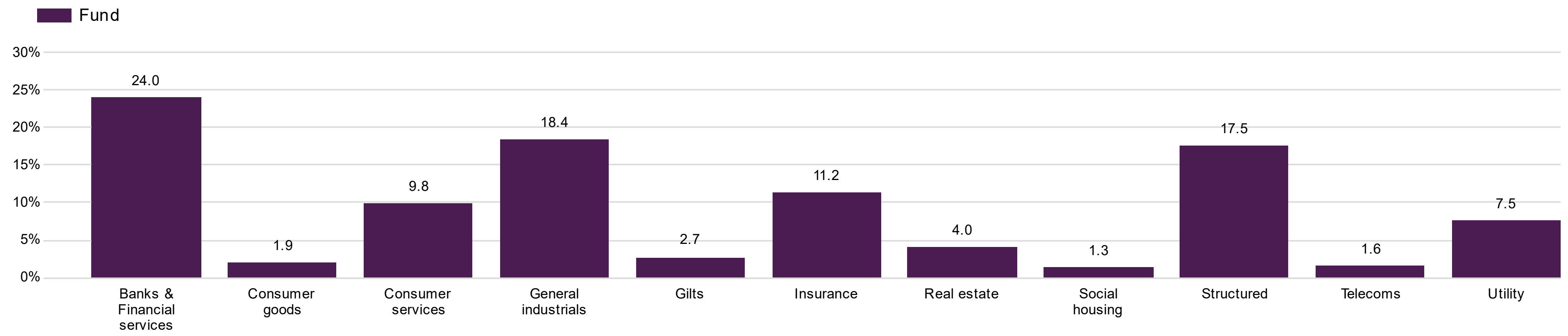


Credit Ratings

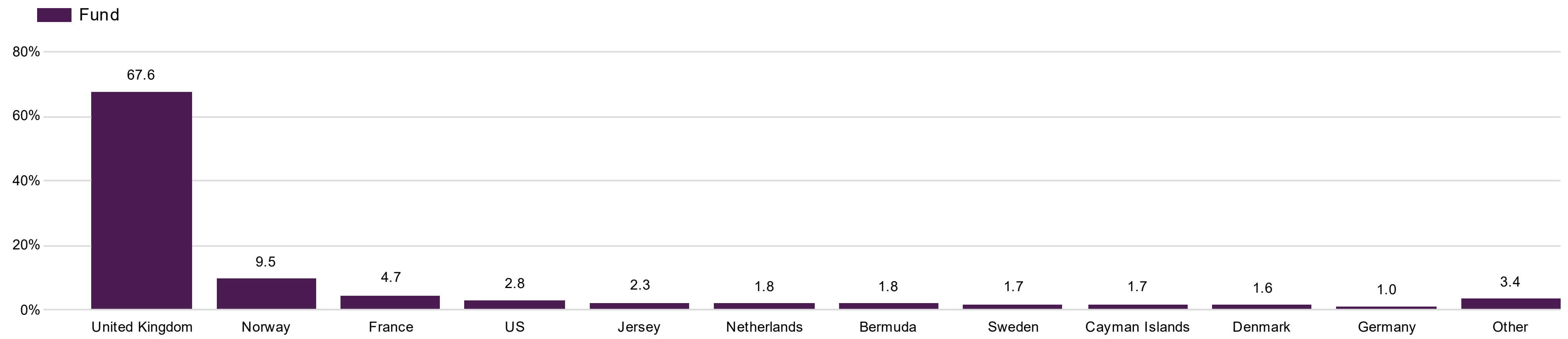


Fund breakdown

Sector breakdown



Geographical 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.

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.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	11	22
Number of engagements	17	48

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	11
Climate - Transition Risk	10
Climate - Physical Risk	1
Environment	3
Governance	2
Corporate Governance	2
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.

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

Financial 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 peak of 5.25%. The BoE noted that inflation was still a concern (reflected in a 5-4 vote) but concerns over economic risks including an unemployment rate that has edged to its highest rate since Covid.

Equities closed the year strongly – the third consecutive year of double digit returns. After the sharp fall in the wake of the Trump tariff announcement in early April, global equity markets rebounded strongly and managed to progress from there, 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. Corporate bonds have benefited from falling interest rates and the strong corporate backdrop.

In the quarter, 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 beneficial for the gilt market. Gilts rallied as Budget news broke but retraced during the course of the day, with expected tax hike measures and some action to curb short-term inflation announced.

In the fourth quarter, benchmark 10-year gilt yields fell from 4.70% to end at 4.55%, meanwhile UK 30-year gilt yields fell 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 this does not capture the volatility seen in yields over that period. The German 10-year bund yield was 2.82% at the end of the fourth quarter, up 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 fell. 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, beginning and ending the quarter at 0.77%, compared to the narrowing of spreads seen during the second and third quarters after the widening seen in the first quarter.

Economic overview

Business surveys look consistent with most major economies seeing growth in the fourth quarter, showing resilience in the face of higher US tariff rates and global trade tensions. Despite inflation generally remaining above central bank targets, there were further rate cuts in Q4 from the US Federal Reserve and Bank of England. The US economy was disrupted in Q4 by the US government shutdown. In the UK, some activity may have been held back in light of uncertainty around the later than usual Budget.

The BoE cut rates by 25bps in December, but with four of the nine MPC members voting for no change. Developments since the November meeting included a fall in GDP, a rise in the unemployment rate and weaker than expected inflation. The long-awaited (late) November Budget saw (sizeable) expected tax hike measures, designed to curb short-term inflation and the Chancellor more than doubled the fiscal headroom she has before breaking the main fiscal rule. Third quarter GDP (released in the fourth quarter), showed growth slowing further to 0.1% quarter-on-quarter. Meanwhile, the UK labour market data released towards the end of the quarter painted a cooling picture of the labour market with a further rise in the unemployment rate to 5.1%, falling employment and slowing private sector pay growth. Inflation remained above the BoE's target, but November inflation data was a downside surprise at 3.2% year-on-year after 3.6%.

In the US, third quarter GDP was a stronger than expected 4.3% quarter-on-quarter annualised. The government shutdown starting at the end of September ended up being the longest in history, not ending until mid-November. This disrupted the economy but also the flow of economic data. Much of the data for the quarter was not released until December and was difficult to interpret given the impact of the shutdown itself and its effect on data collection. Payrolls and unemployment data continued to point to a soft labour market with November payroll gains at only 64K and the unemployment rate at 4.6% (4.4% in September and 4.1% in June). Inflation remained above target, but CPI fell from 3.0% year-on-year in September to 2.7% on the November data, significantly weaker than expected.

The US Federal Reserve cut rates 25bp at both its October and December meetings, driven by worries around the labour market. The December participant projections indicated a median expectation of one cut in 2026 and another in 2027, but language in the statement has been associated in the past with a pause. Worries about Federal Reserve independence ticked along with President Trump saying that the next Fed Chair should consult him on interest rates and saying that he would like to see interest rates at 1% or maybe lower.

Market commentary

In the euro area, the European Central Bank kept rates steady at both of its meetings in the fourth quarter. The ECB continued to take a "data-dependent", "meeting-by-meeting" approach. President Lagarde continued to note that rates are "in a good place," though amended this to say that did not mean "static". Euro area GDP held up well in the third quarter, growing 0.3% quarter-on-quarter. Headline inflation rose to 2.2% year-on-year in September but then fell back a touch to 2.1%. Core inflation lingered at higher levels though and services inflation rose a bit.

Outlook

Credit markets have been very resilient in 2025. Despite interest rates coming down, they remain high and with persistent volatility, investment grade and high yield 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.

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 downgrade risk, and that the all-in yield remains appealing. Furthermore, we continue to see 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.

Despite the uncertain outlook at present, a characteristic of the fund is the scope to invest across a wide range of assets, encompassing investment grade, high yield and unrated bonds, diversified by sector and across both sterling and non-sterling bonds. This, together with a process orientated towards mitigating risk by investment in bonds where structure or a claim on assets or on cash flows, and with a focus on income generation, has been the basis of the fund's strong performance over the longer term. While the state and challenges of economic and market conditions change over time, we believe the fund is well positioned to continue to deliver attractive returns to investors over the medium term.

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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Notice for UK Investors

The Fund is recognised in the UK under the Overseas Fund Regime (OFR) but is not a UK authorised fund and is not authorised by the Financial Conduct Authority (FCA). It is therefore not subject to the same regulatory oversight as UK authorised Funds and is not required to adhere to the UK sustainable investment labelling disclosure requirements. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available. Investors are strongly encouraged to seek independent financial advice before making any investment decisions.

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: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

The Prospectus and Key Investor Information Document (KIID) are available in English via the relevant Fund Information page on www.rlam.com. A summary of investor rights is also available in English, and can be accessed at www.rlam.com/uk/policies-and-regulatory

RLAM may terminate the arrangements made for marketing of the fund pursuant to Article 93a of Directive 2009/65/EC.

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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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.

Credit risk

Credit risk is the potential for loss due to a borrower, debtor or debt issuer defaulting on agreed obligations to make interest or capital repayments. Credit ratings are independent assessments of the credit risk of a debtor or an individual debt security. Securities that have a lower credit rating have a higher 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.

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 December 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
A Inc GBP (gross)	2.03	5.75	11.23	36.81	41.77
A Inc GBP (net)	1.82	5.31	10.30	33.41	35.94
Z Inc GBP (gross)	2.04	5.76	11.23	36.81	41.77
Z Inc GBP (net)	1.89	5.45	10.58	34.45	37.72

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
A Inc GBP (gross)	11.00	7.23
A Inc GBP (net)	10.07	6.33
Z Inc GBP (gross)	11.00	7.23
Z Inc GBP (net)	10.36	6.61

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
A Inc GBP (gross)	11.23	11.52	10.29	(4.36)	8.35
A Inc GBP (net)	10.30	10.59	9.37	(5.16)	7.45
Z Inc GBP (gross)	11.23	11.53	10.29	(4.37)	8.36
Z Inc GBP (net)	10.58	10.88	9.65	(4.92)	7.73

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 in GBP.

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.

Derivatives

A financial instrument whose price is dependent upon or derived from one or more underlying asset.

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.

Efficient Portfolio Management (EPM) techniques

The Fund may engage in EPM techniques including holdings of derivative instruments. The use of these instruments may expose the Fund to volatile investment returns and increase the volatility of the net asset value of the Fund. EPM techniques may involve the Fund entering into transactions with counterparties where there may be a risk of counterparty default. The Fund's ability to use EPM strategies may be limited by market conditions, regulatory limits and tax considerations.

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

Both the Fund and Index performance are based on close of business prices.

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, in each case calculated to the point in time at which each may redeem that results in the worst (lowest) rate, 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.