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Royal London UK Government 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 UK Government 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.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund aims to provide a return greater than that of the FTSE Actuaries UK Conventional Gilts (All Stocks) Total Return GBP Index, over rolling 5-year periods, through a combination of capital growth and income, after the deduction of charges.

Fund value

	Total £m
31 December 2025	1,293.25

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	98.35	100.00
Conventional foreign sovereigns	1.28	-
Conventional credit bonds	0.37	-

Fund analytics

	Fund	Benchmark
Fund launch date	8 February 1990	
Fund base currency	GBP	
Benchmark	FTSE Actuaries UK Conventional Gilts All Stocks Index (Total Return, GBP)	
Duration (years)	8.37	7.62
Redemption yield (%)	4.41	4.31
Number of holdings	32	69

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	3.44	3.10	0.34
1 Year	5.46	5.03	0.44
3 Years (p.a.)	2.54	1.73	0.82
5 Years (p.a.)	(4.29)	(5.32)	1.03
10 Years (p.a.)	0.53	(0.07)	0.60
Since inception (p.a.)	2.21	2.00	0.21

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 Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 30 April 2010.

Performance commentary

The fund outperformed its benchmark in the final quarter of the year, which was dominated by two main factors: the UK Budget and the final Bank of England (BoE) meeting of 2025.

Leading into the Budget, weeks of policy speculation and partial leaks kept focus on three questions: whether the Chancellor could credibly address the fiscal shortfall with sufficient headroom against fiscal rules; whether the inflation-supportive measures would tackle the UK's inflation problem, keeping the BoE in play to cut rates further over the next 6-12 months; and, how the UK Debt Management Office (DMO) would adjust the gilt remit for the remainder of the 2025/2026 fiscal year.

The Budget ultimately increased the fiscal buffer and set out policies supportive of lower inflation. The gilt remit rose by c.£4bn, enabling the DMO to cancel five auctions, leaving the market with little to no long-end supply until April 2026 at the earliest. This dynamic lowered long-end yields and supported performance both on the curve and cross-market.

In December, the BoE delivered a 25bps rate cut from 4% to 3.75%, broadly in line with market expectations that had built through October and November as economic data softened. The only real uncertainty was what the vote split would be. In the end, only Governor Bailey shifted from his November stance leaving the committee split 5-4 in favour of a cut. The decision helped anchor short-end rates, while long-end dynamics remained driven by supply and cross market factors.

The fund's outperformance was primarily due to the fund's strategic long duration position relative to the benchmark, as yields fell. We continue to view short-end gilts as underpriced given the path of policy easing into 2026, while the long-end remains attractive versus overseas on suppressed UK long-dated supply.

The DMO drastically reduced the percentage of long-dated bonds as part of its ongoing financing operations given the changing demand dynamics, the steepness of the curve and the outright level of yields. As a result, issuance is being skewed shorter, helping stabilise the longer end relative to the 10-to-15-year part of the curve. Consistent with our curve view throughout the fourth quarter, the fund remained underweight the belly, with a bias to 7-year and 30-year maturities.

The fund's curve position was positive for performance.

Performance and activity

Fund activity

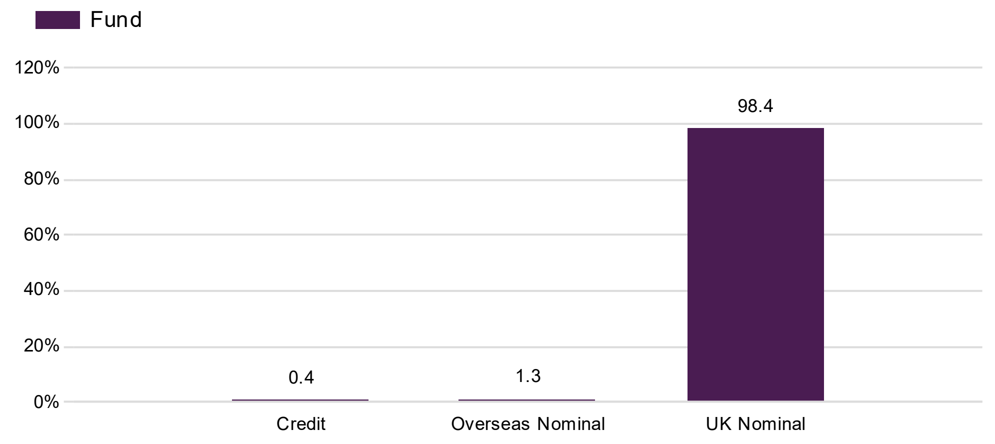
The fund held a strategic long duration position relative to the benchmark throughout the fourth quarter. It started the period just shy of a year long but reduced duration in late October, taking risk off ahead of the Budget- including taking profits on our 30-year Australian government bond long and trimming UK index-linked exposure. After the Budget, we added risk back on, finishing the quarter about +0.75y versus the benchmark, having briefly dipped to just over half a year long in late October.

On a cross-market basis, the fund held 30-year Japanese government bonds and 30-year Australian government bonds. Given the outright level of yields in these markets, these positions were held outright and provided diversification. Tactical trading of the long-dated Australia exposure was positive for performance, taking profits on the long position to then incrementally build it back up as yields rose into year end. The Japan position was a detractor as yields rose in the period.

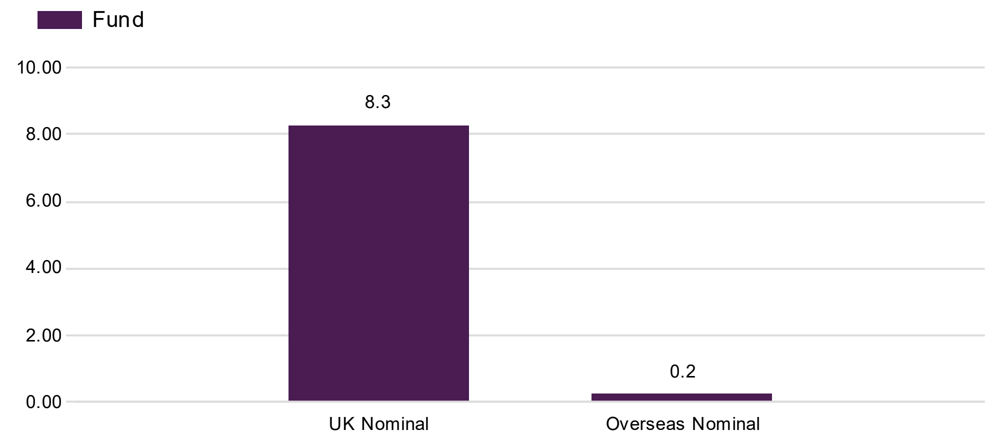
The fund ended the period with no inflation exposure. We began the fourth quarter holding linkers, tactically traded the position as real yields fell, including selling post Budget-related moves. In November, after a market sell-off, we re-established the linker exposure briefly, before swapping back into nominals.

Fund breakdown

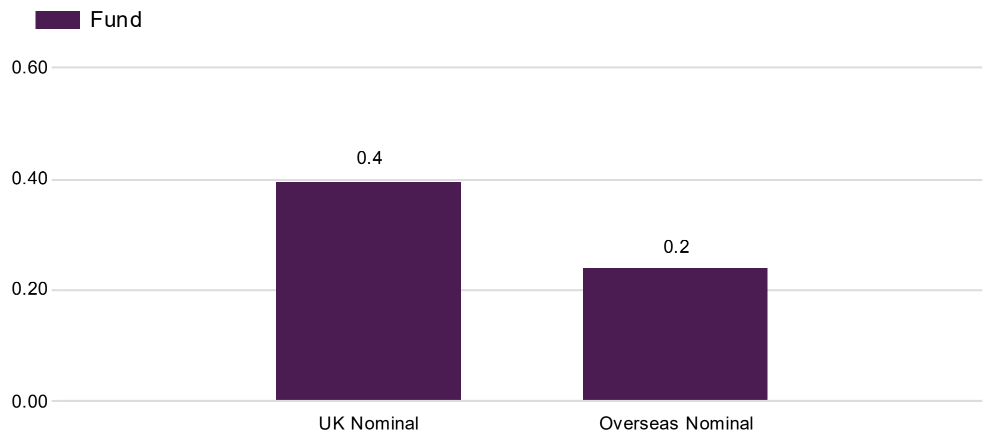
Asset split by percentage



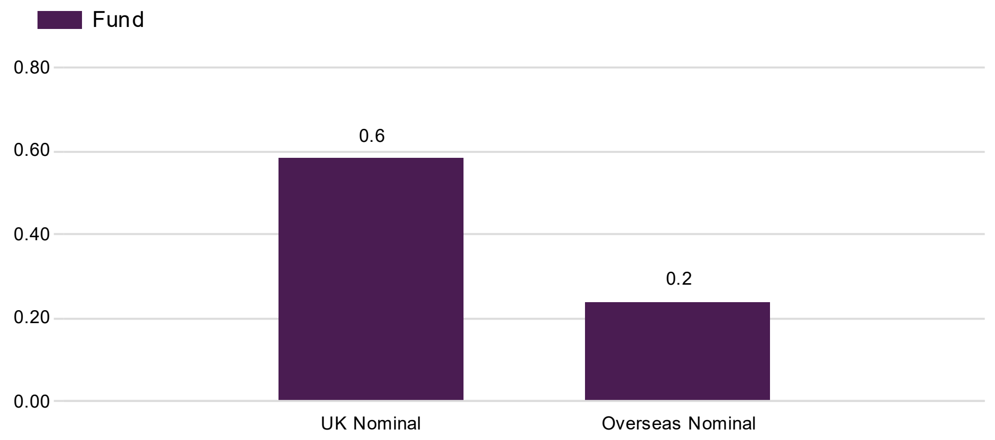
Asset split by duration



Asset split by duration change on quarter

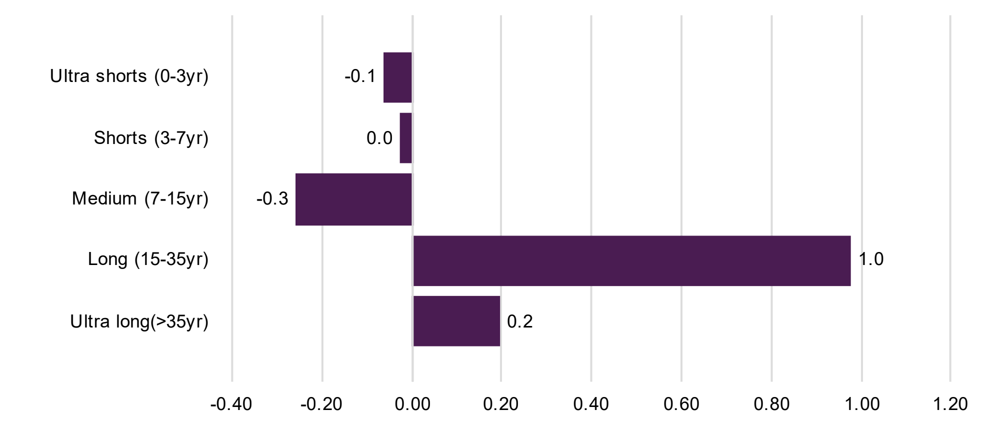


Asset allocation relative to benchmark (duration)



Fund breakdown

Maturity profile relative to benchmark



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 including an unemployment rate that has edged 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. Global credit has benefited from falling interest rates and the strong corporate backdrop leading to tighter credit spreads.

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.

Outlook

The UK economic backdrop remains poor; growth is anaemic, whilst the labour market continues to weaken, with unemployment now at its highest levels since the COVID pandemic. While markets already price policy rates lower from here, we see the risk reward skewed to even lower rates over the next 12 months. UK government bonds look attractive both outright and versus global peers, especially at the longer end, where 30-year maturity gilts yields sit above 5%, and the market is set to be starved of any true long-dated supply until at least April 2026.

With economic growth subdued, and unemployment rising steadily and a declining inflation profile, we expect the BoE to remain in play to cut interest rates throughout next year.

We expect the 2026 gilt remit to mirror 2025, with no material changes, keeping issuance skewed away from the very long end and thereby supportive for 30-year gilts.

Many of the same uncertainties remain: US policies on tariffs, a new Fed chair and geopolitical risks (such as Gaza and Ukraine); global inflation is falling but not as fast as hoped; more central bank rate cuts are likely, though the magnitude and timing are uncertain. Continued volatility is expected and, as always, active management is the key to navigating this.

Further Information

Please click on the links below for further information:

Stewardship and Responsible Investment at RLAM

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.

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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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

Credit risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Interest rate risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Counterparty risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Government and public securities risk

The Fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.

Charges from capital risk

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

Performance to 31 December 2025

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	3.44	2.45	5.46	7.84	(19.72)	2.54	(4.29)
Fund (net)	3.37	2.33	5.20	7.03	(20.81)	2.29	(4.56)

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)	5.46	(2.63)	5.02	(21.89)	(4.68)
Fund (net)	5.20	(2.88)	4.76	(22.10)	(5.02)

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 UK Government Bond Fund Z Inc 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.

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.

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.

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.

Rolling 5-Year Period

A rolling 5-year period is any period of five years, no matter which day you start on.

Total return

A total return is a combination of capital growth and income. Capital growth is defined as the rise in an investment's value over time and income as the payment an investment generates, such as dividends or bond coupons.