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This fund uses the Sustainability Focus label which is for funds that invest mainly in assets that focus on sustainability for people or the planet.



Royal London Sustainable Short Duration Corporate 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 Sustainable Short Duration Corporate 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	7
ESG	9
Market commentary	13
Further information	14
Disclaimers	15
Performance net and gross	17
Glossary	18

The fund

Fund performance objective and benchmark

The Fund's financial objective is to achieve a total return and outperform, after the deduction of charges, the ICE Bank of America Merrill Lynch Sterling Non-Gilt (1-5 Years) Total Return (GBP Unhedged) over rolling 5-year periods.

The Fund's sustainability objective is to invest in companies or issuers that make a positive contribution to one or more of the "Sustainability Themes" (Clean, Healthy, Safe, Inclusive), through their products or services as determined by the Investment Manager using its "Sustainability Standard".

Fund value

	Total £m
31 December 2025	148.47

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	100.00	99.09
Conventional foreign sovereigns	-	0.91

Fund analytics

	Fund	Benchmark
Fund launch date	23 November 2022	
Fund base currency	GBP	
Benchmark	ICE BofA 1–5 Year Sterling Non-Gilt Index (Total Return, GBP)	
Duration (years)	3.09	2.70
Redemption yield (%)	5.21	4.30
Number of holdings	217	546
Number of issuers	144	283

Past performance is not a guarantee or reliable indicator of future returns. Please refer to the glossary for a description of the yield used.

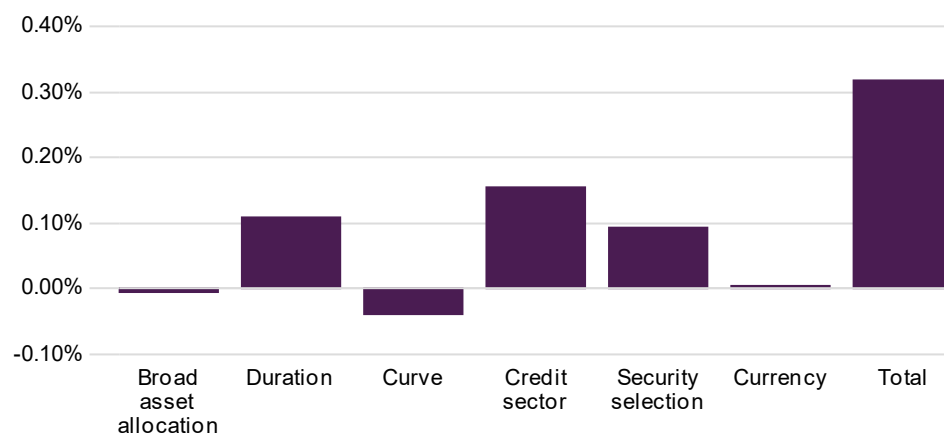
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.34	1.68	0.65
1 Year	7.70	6.36	1.34
3 Years (p.a.)	7.26	5.76	1.50
Since inception (p.a.)	7.05	5.43	1.63

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. 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 23 November 2022.

Attribution over the quarter



Performance commentary

The fund's sustainability objective is to invest in companies that make a positive contribution to one or more of the Sustainability Themes – clean, healthy, safe, and inclusive. Our sustainable credit funds combine our long-standing credit philosophy with our heritage in sustainable investing, and most notably provide access to critical sectors that are not available via equity markets.

These areas can include non-for-profit UK housing associations providing homes at social and affordable rents, building societies providing basic financial services to households, and privately held regulated utilities enabling the transition to a lower-carbon economy. Our sustainable funds have no exposure to bonds of oil & gas companies or extractive industries. We are also underweight in the general industrial and consumer goods sectors, and to a lesser extent in consumer services.

The fourth quarter saw positive returns from sterling credit investment grade markets (iBoxx). Against this, the fund outperformed the index. Performance was comfortably ahead of the index for 2025 as a whole.

Duration was a positive story for the fourth quarter. We remain focused on bottom-up credit selection, rather than taking positions based on overall market yield levels. While our government bond strategies have also been long duration, our positioning is more a function of the attractive opportunities in mid and longer-dated bonds rather than a view on yields. This was positive over the quarter.

Sector positioning was positive over the quarter. Our overweight in insurance bonds was helpful as the sector performed strongly, as was our exposure to the structured sector, which provides exposure to several areas with strong sustainability credentials. Our longstanding underweight in supranational bonds also helped performance as the lower perceived risk of the supranational sector contributed to it again lagging the wider market.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	2.30
SGSHR 2021-1X A 3.7254 17 Nov 2051	1.64
Assicurazion Generali 6.269 31 Dec 2079	1.58
BAZALGETTE FINANCE PLC 2.375 29 Nov 2027	1.51
WSTSTR_2 1.642 04 Aug 2026	1.42
DIRECT LINE INSURANCE GROUP PLC 4.75 31 Dec 2079	1.41
PRINCIPALITY BUILDING SOCIETY 8.625 12 Jul 2028	1.36
NATWEST GROUP PLC 2.105 28 Nov 2031	1.35
CO-OPERATIVE BANK FINANCE PLC 6 06 Apr 2027	1.33
CO-OPERATIVE BANK FINANCE PLC 9.5 24 May 2028	1.26
Total	15.16

Fund activity

Stock selection effects were positive during the quarter. This was particularly noticeable within our banking and financials sector holdings, where AT1 and tier 1 performance was mixed in general, but with strong returns from HSBC and Skipton Building Society. Holdings in the insurance sector also performed well, notably M&G.

Financials, including both banks and insurance, remain a large part of the index. Our portfolios have a long-standing exposure to these sectors, reflecting our view on the attractiveness of credit spreads relative to fundamental risks. 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.

Examples over the quarter included senior bonds from Commerzbank – which is not a major issuer in the sterling market and therefore offered an attractive spread and diversification benefits. We also added a senior new issue from Dutch banking giant ING.

We also added tier 2 debt from specialist insurer Pension Insurance Corporation in the secondary market – a leader in the UK pension risk transfer market – where we saw attractive yield premia to the market. We also added a number of subordinated 'legacy' bonds that offered attractive yields and scope for early repayment as banks and insurers look to increase capital efficiency. Examples during the quarter included tier 1 bonds from HSBC and Commerzbank.

With overall market levels tighter after a strong 2025, we have looked at areas that would usually be seen as offering lower value. An example in the government guaranteed area was Saltaire Finance, a special purpose vehicle established to support the UK's Affordable Homes Guarantee Scheme by issuing secured bonds and on-lending the proceeds to registered housing providers for affordable housing development and energy efficiency improvements. The bonds came to market at an attractive spread relative to both market levels and the presence of the UK Government guarantee.

Structured bonds remain a key exposure for the portfolio. With overall credit spreads tightening over the year, we were happy to take 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 backed by two 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.

Performance and activity

Fund activity (continued)

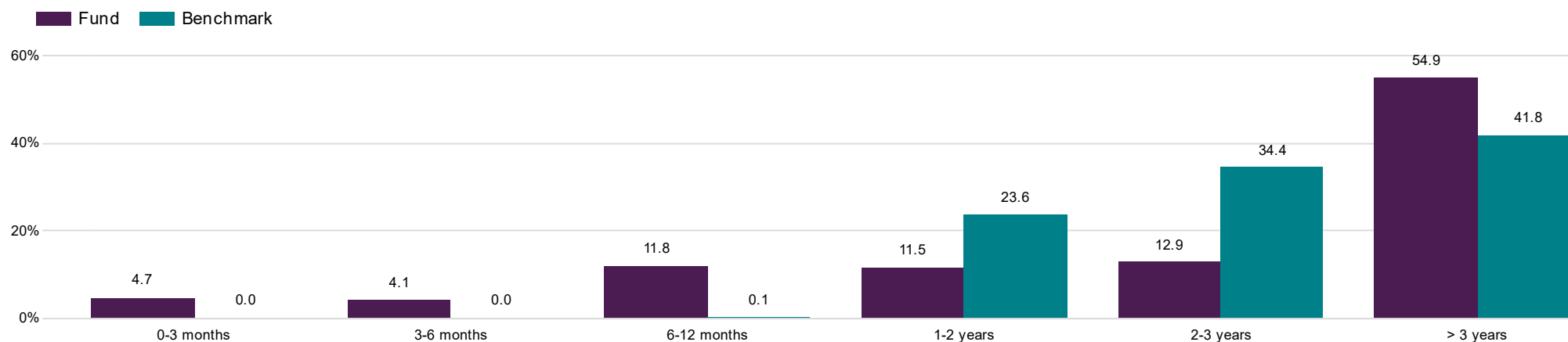
We also added AAA rated floating rate bonds from DBMS, a logistics CMBS backed by 64 properties across the UK with a diversified tenant base, that came to market at spread of 128bps over SONIA.

Social housing also offers security over property assets, as well as fulfilling an important societal need. We added a new issue from Blend Funding – a housing aggregator that helps smaller housing associations access debt markets efficiently. The bonds were secured, and offered an attractive spread over gilts.

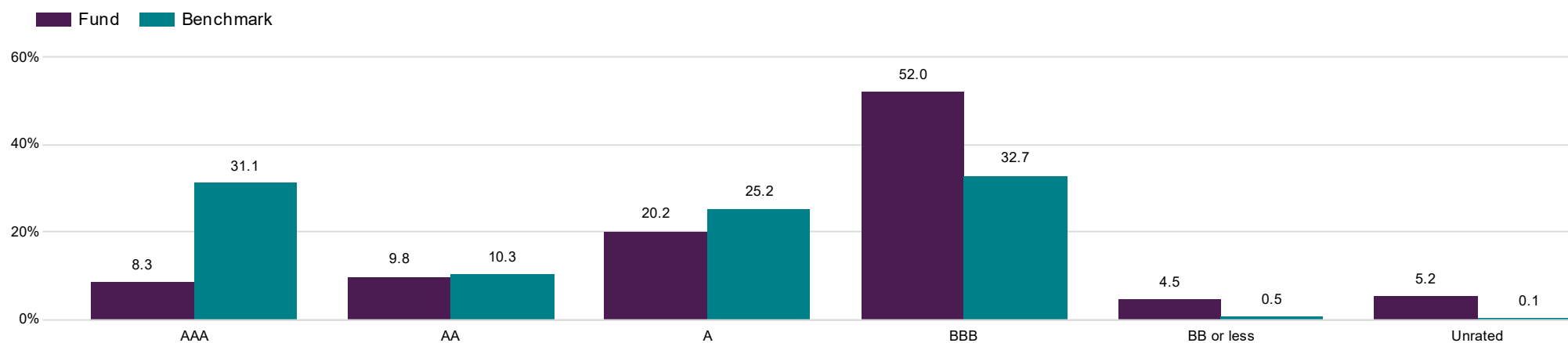
While we retain exposure to financials, secured bonds and social housing, we look for issues in other sectors that add diversification and resilience to our portfolios. During the quarter we added a new issue from US communications giant Verizon, these hybrid bonds offering a yield of over 6%.

Fund breakdown

Maturity profile

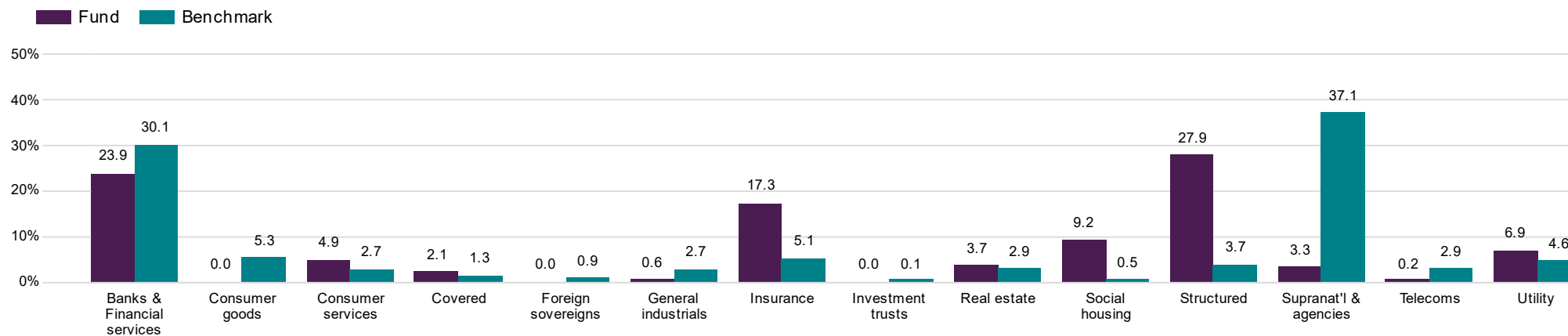


Credit ratings



Fund breakdown

Sector breakdown



Characteristics and climate








Sustainability approach

The Fund's sustainability objective is to invest in companies or issuers that make a positive contribution to one or more of the "Sustainability Themes" (Clean, Healthy, Safe, Inclusive), through their products or services as determined by the Investment Manager using its "Sustainability Standard". The Sustainability Standard requires 50% of a company or issuer's revenues to be derived from product or services aligned to one or more of the four Sustainability themes.

Overall, at least 70% of the Fund is invested in sustainable companies or issuers. Up to 30% may be held in non-sustainable companies or issuers that do not conflict with the sustainability objective for any of the four sustainability themes of the Fund.

Fund 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.

 Pornography production	✓	 Nuclear-power generation	✓
 Non-health animal testing	✓	 Tobacco manufacturing	✓
 Armament manufacturing	✓		
 Fossil fuel extraction	✓		
 Gambling establishments	✓		

Climate metrics

	Fund	Benchmark	Difference (%)
Financed emissions (tCO2e)	1,924	n/a	n/a
Financed emissions coverage	53.42%	n/a	n/a
Carbon footprint (tCO2e/\$M invested)	9.69	11.31	(14.34)
Carbon footprint coverage	53.42%	89.67%	(40.42)
Weighted average carbon intensity (tCO2e/\$M sales)	22.28	31.13	(28.43)
Weighted average carbon intensity coverage	95.69%	94.49%	1.28

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	48.19	59.93	(19.60)
% of portfolio below 2°C ITR	29.95	36.57	(18.09)
% of portfolio below 1.5°C ITR	18.22	16.66	9.38

SBTi net - zero

	Fund (%)	Benchmark (%)	Difference (%)
SBTi Net-Zero committed	8.28	7.20	14.99
SBTi Near-Term committed	7.13	3.91	82.10
SBTi Near-Term targets set	11.66	12.96	(9.99)

Fund Engagement

Engagement definition

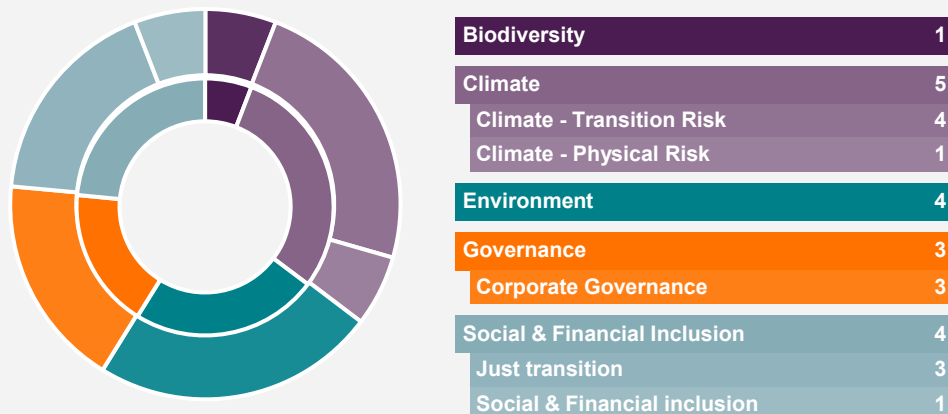
Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	9	18
Number of engagements	14	46

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



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 including an unemployment rate that has edged to its highest rate since Covid.

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 with the US lagging in common currency terms after the US dollar weakened significantly. Global credit 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.

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.

Further Information

Please click on the links below for further information:



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 II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128.

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.

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.

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.

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.

Performance to 31 December 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	2.34	3.54	7.70	23.42	23.58	7.26	7.05
Fund (net)	2.26	3.38	7.37	22.28	22.40	6.93	6.72

Annualised (%)

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)	7.70	5.59	8.53	-	-
Fund (net)	7.37	5.26	8.19	-	-

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 Sustainable Short Duration Corporate Bond Fund Z Acc GBP share class. Since inception date 23 November 2022.

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.

Environmental, social and governance

A list of predefined criteria that determines how a company operates in terms of sustainability and overall corporate governance.

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.

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.

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.

Top 10 holdings

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

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.