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Royal London Absolute Return Government Bond Fund

Quarterly Investment Report

30 June 2025

Quarterly Report

The fund as at 30 June 2025

The purpose of this report is to provide an update on the Royal London Absolute Return 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 investment objective of the fund is to target absolute positive capital growth and the fund will seek to achieve its objective on an active basis. The Fund seeks to achieve its investment objective by outperforming its benchmark, the Sterling Overnight Index (the "Benchmark") on an annual basis by 2.5% over rolling three year periods and aims to provide positive performance over 12 month periods. The Benchmark is an index which tracks overnight funding rates in the Sterling market. The Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Fund analytics

	Fund
Fund launch date	17 November 2014
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)

Fund value

	Total £m
30 June 2025	972.97

Asset allocation

	Fund (%)
Conventional credit bonds	50.94
Money Market Instruments	25.96
Conventional gilts	9.31
Conventional foreign sovereigns	6.28
Index linked foreign sovereigns	4.83
Index linked gilts	2.15
Index linked credit bonds	0.53

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.70	1.06	0.65
YTD	3.20	2.17	1.03
1 Year	6.53	4.68	1.85
3 Years (p.a.)	6.29	4.31	1.98
5 Years (p.a.)	4.29	2.65	1.64
10 Years (p.a.)	2.57	1.54	1.03
Since inception (p.a.)	2.53	1.48	1.05

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on Z Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 17 November 2014.

Performance commentary

The fund posted a strong return over the quarter, outperforming its cash benchmark by 65bps, and remains significantly ahead of benchmark over one and three years. Year to date the fund has achieved higher returns than both all stock UK and Global bond indices.

The largest contributor to performance was again from the core holdings of sterling money market instruments. These assets yielded above 4.50% and benefited from expectations that UK rates would be cut over the next 12 months.

Duration positions added value, particularly through tactically trading the volatility seen in markets as economic data continued to be mixed and the market reacting to every social media post from Trump on tariffs. Long positions in the UK bonds and Europe were the main positives for the portfolio. Duration positions in Japan detracted, notably in Japan where 30-year yields hit multi-year highs.

Curve positions were mixed, with the underperformance of 30-year Japanese bonds detracting from performance whilst curve positions in the US,UK and Europe added value.

Inflation positions were neutral for performance over the quarter.

Cross market positions added significant value, notably long UK and US positions and also tactically trading the UK long 1y1y vs US 1y1y spread.

The position in long gilts relative to swaps added value during the quarter.

Performance and activity

Return Contribution

	Quarter	1 year	Target return (of live trades)
Cash	92.63	411.23	-
Duration	45.45	98.26	-
Curve	10.12	31.01	-
Cross Market	16.65	4.37	-
Inflation	(1.07)	58.41	-
RV	5.28	16.15	-
FX Hedges	108.37	429.23	-
Total	**169.06**	**619.43**	**-**

Top Contributors

	Strategy	Q2 Contribution (bps)
Floating	Floating	55.00
Fixed	Fixed	37.90
Cross Market	UK/US	16.00
Duration	UK	15.00
Inflation	Japan	9.00

Bottom Contributors

	Strategy	Q2 Contribution (bps)
Duration	Japan	(9.00)
Curve	Japan	(5.00)
Inflation	UK	(2.00)
Cross Market	AUS/UK	(1.00)
RV	EUR	(1.00)

Performance and activity

Portfolio Exposure

Trades	Position size	Net duration exposure	Market beta	Target return (bps)
Inflation				
UK Breakeven curve (shrt 5y vs long 20y RPI)	0.40	0.00	0.00	20.00
Long US 5y Inflation	0.10	0.00	0.05	2.00
Curve				
UK 10-30 Flattener	0.30	0.00	0.03	5.00
AU 3-30 Flattener	0.20	0.00	0.10	5.00
Cross Market				
Long Spain vs France	0.20	0.00	0.00	2.00
Long US RY vs UK Ry	0.20	0.00	0.00	2.00
Long UK 1y1y vs US	0.20	0.00	0.00	10.00
Long Ger vs FR	0.10	0.00	0.00	2.00
Relative Value				
Short 10 year German Asset swap	0.20	0.00	0.00	5.00
Short 30 year Iota	0.20	0.00	0.00	5.00
Duration				
Long 7 Year Gilts	0.10	0.10	0.08	3.00
Long 30 year UK RY	0.20	0.20	0.20	7.00
Long 30 Year UK	0.10	0.10	0.05	3.00
Long 30 year Japan	0.30	0.30	0.15	20.00

Performance and activity

Portfolio Exposure

Trades	Position size	Net duration exposure	Market beta	Target return (bps)
Duration				
Long Japanese Real Yield	0.10	0.00	(0.03)	1.00
Cash				
Cash	0.20	0.25	-	425.00
Overall Net Duration Position	**3.10**	**0.95**	**0.63**	**517.00**

Performance and activity

Asset allocation – duration

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.01	(0.20)	0.00	0.00	0.21	0.00	0.00	0.02
Canada	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.02
European Union	(0.01)	0.00	0.24	0.00	0.00	0.00	0.00	0.23
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	0.00	0.00	(0.20)	0.00	0.00	0.00	0.00	(0.20)
Germany	0.00	0.00	(0.16)	0.00	(0.06)	0.00	0.00	(0.22)
Italy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	0.05	0.00	(0.29)	0.00	0.50	0.00	0.00	0.25
Netherlands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norway	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.29	0.00	0.00	0.00	0.00	0.29
Supranational	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.28	0.02	(0.11)	0.00	0.78	(0.22)	0.00	0.74
United States	(0.20)	(0.01)	0.00	0.00	0.10	0.00	0.00	(0.10)
Total								1.06

Performance and activity

Asset allocation - inflation

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.00	0.00	0.00	0.00	0.10	0.00	0.00	0.10
Canada	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
European Union	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Germany	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Italy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.06
Netherlands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norway	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Supranational	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.29	(0.01)	(0.01)	0.00	0.00	(0.23)	(0.01)	0.03
United States	0.11	0.00	0.00	0.00	0.11	0.00	0.00	0.21
Total								0.40

Performance and activity

Stand alone risk contribution

	Quarterly Vol (%)	Annual Vol (%)
Inflation	0.02	0.05
Curve	0.05	0.11
Duration	0.20	0.40
Relative Value	0.03	0.06
Cross Market	0.02	0.04
FX Hedges	0.14	0.28
IOTA	(0.00)	(0.01)
Cash	0.02	0.04
Futures	0.02	0.03
Overall Volatility	**0.50**	**1.00**

Risk Model Factor Risk Breakdown

	Standalone Risk Portfolio (bp)	Risk Contribution Portfolio (bp)	% of overall risk
Rates	95.06	88.19	88.10
Inflation	28.77	5.23	5.22
Spreads	21.21	7.28	7.27
Foreign Exchange	2.08	(0.59)	(0.59)
Time	0.00	-	-
Other	0.00	-	-
Total	**147.11**	**100.10**	**100.00**
Diversification across Risk Factors (%)			**(32)**

Performance and activity

Fund activity

The fund began the quarter around 1.1 years long, and ended the quarter at 1 years, with a range of 0.5 years to 2.2 years over the quarter. We reduced duration early in the quarter, selling US and UK bonds prior to the Liberation Day announcement on tariffs. As yields rose sharply – particularly in the US – duration was increased to 2 years, buying US real yields at 2.8% and UK real yields at 2.5%, also increasing holdings of shorter dated UK bonds. Japanese 30-year bonds were also purchased as yields rose to 3%. Duration was then traded tactically, particularly around supply events, before being reduced back to 1 year as yields fell in June.

We also added duration at a number of syndications including 13-year UK real yields, and European new issues including a green issue in France, Portugal, Spain and Italy. These positions were more tactical.

During the quarter we entered into a number of cross market positions. European bonds were sold, both versus the US and the UK, and the positions closed before the quarter end. We tactically traded the UK/US 1y1y spread, increasing the position to 0.4 as the spread reached 60 basis points and then reducing as the spread narrowed as the Bank of England became more doveish.

Curve positions in the US and Europe were closed but as the Japanese curve steepened we increased our exposure to curve flatteners.

As long-dated gilts underperformed swaps early in the quarter, we re-entered the swap spread position given the DMO's announcement of lower long-dated supply. Spreads narrowed by around 15 basis points and this position was closed.

Inflation exposure was increased by buying long-dated UK and US real yields. As five-year UK inflation rose towards 3.5% on the tariff announcements, we sold five-year RPI turning our long 20-year position into an inflation curve position. Towards the end of the quarter we entered a long position in US five-year CPI.

Market commentary

Market Overview

The second quarter of 2025 continued the extraordinary series of events that impacted the first quarter. The quarter began with geopolitical news and US policy contributing to a huge spike in volatility across many markets. Somewhat surprisingly, over the quarter the major equity and credit markets shook off this weak start to grind into positive territory for the period as a whole.

The quarter started with ‘Liberation day’, when the US announced a broad range of materially higher tariffs that it would be imposing on almost all countries it traded with. However, these were rapidly postponed for 90 days, partly due to the adverse global reaction to the announcement. The rest of the period saw further updates on tariffs, including the emergence of new bilateral trade agreements with the US, but the confirmation of a new regime of US trade tariffs generally had a more muted impact than the initial shock. Geopolitical factors also added to uncertainty, as Israel and the US launched air strikes on Iran leading to concerns of renewed regional warfare in the Middle East and entry of the US into another ‘forever war’.

Macro uncertainty about tariffs and the progress of President Trump’s ‘Big beautiful bill’, whether these would be implemented, and if so, what impact these would have on global growth and inflation created a difficult backdrop for monetary policymakers in central banks. Faced with the large number of policy unknowns the Federal Reserve therefore left its main policy rate unchanged, while the European Central Bank remained on its modest rate cutting cycle, trimming rates at its April and June meetings. The Bank of England cut rates at its May meeting, leaving these unchanged in June.

Government bond markets were not immune to the heightened volatility. A sign of the extraordinary nature of events was the rise in US treasury yields, and the value of the US dollar falling as uncertainty mounted. For many, this combination of rising yields and falling currency is normally reserved for emerging markets, not for the world’s largest economy. As the US President stepped back from some of the more extreme policies and tariffs, government bond yields edged lower. In a quarter of remarkable turmoil, the US, 10-year treasury yields ended almost unchanged, rising just 1bp from 4.21% and ending at 4.22%. Having jumped in the first quarter on the back of the extraordinary easing in German fiscal policy, 10-year bunds yields fell over the period from 2.70% to 2.60%. Benchmark 10-year gilt yields fell from 4.68% to 4.48%, having bounced within the year-to-date range of c4.5-4.8%.

Outlook

We expect markets to remain volatile around economic data points and envisage continuing to trade duration tactically. We anticipate this will be particularly around supply events where we expect larger discounts in 2025 as likely issuance required continues to rise. The approach to policy setting of the Trump administration and challenging geopolitics will continue to add to volatility, as has been seen over the past few months.

As far as market rate expectations are concerned, we have moved from peak optimism at the end of 2023 to almost peak pessimism at the end of 2024. Markets now price only two rate cuts in 2025. We still expect more than this – particularly in the UK – as growth is likely to slow significantly in the second half of the year

Based on this view, we plan to add duration into any weakness. Given the steepness of government bond yield curves this is more likely to be in longer dated bonds.

With regard to inflation, we have reduced our long-standing strategic position in Japanese inflation linked bonds. Inflation is now more fairly valued in Japan and any further tightening of monetary policy could impact breakevens. We would look to use strength to reduce this position further. UK short-dated inflation looks overvalued given the chances of a UK recession has increased post the budget. By contrast, longer-dated UK inflation looks cheap. With CPIH (the UK consumer price index including owner occupier housing costs) now higher than the RPI measure, the spectre of a ‘cliff edge’ in 2030 when RPI is due to be discontinued seems less of an issue.

With the Bank of Japan expected to raise short-term rates further, particularly given the weakness of the yen, we expect the Japanese curve (which is the steepest amongst g10 nations) to flatten. However, given the rise in 10-year yields we prefer to hold Japan predominately as a long duration position in 30-years where the hedged yield is close to 7%.

In Europe, the Q1 announcement of a major increase in fiscal spending in Germany which will likely lead to a significant increase in supply means that we favour being short German bonds.

Swap spreads in Europe are tighter than global counterparts. As a result, we expect European cash bonds will underperform cash. By contrast in the UK, with the DMO (Debt Management Office) announcing a significant cut in long-dated supply we have bought long gilts versus swaps as this is likely to cause spreads to narrow.

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 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.

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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

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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.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

EPM techniques risk

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

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

Interest rate risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Liquidity risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

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.

Performance to 30 June 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.70	3.20	6.53	20.09	23.38
Fund (net)	1.63	3.05	6.21	19.01	21.25

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	6.29	4.29
Fund (net)	5.97	3.93

Year on year performance (%)

	30/06/2024 - 30/06/2025	30/06/2023 - 30/06/2024	30/06/2022 - 30/06/2023	30/06/2021 - 30/06/2022	30/06/2020 - 30/06/2021
Fund (gross)	6.53	8.70	3.71	0.67	2.06
Fund (net)	6.21	8.37	3.40	0.25	1.63

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 30 June 2025. All figures are mid-price to mid-price for the Royal London Absolute Return Government Bond Fund Z Acc GBP share class.

Glossary

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

VaR

VaR is a statistical measure of the level of financial risk within the fund over a specific time.