For professional clients only, not suitable for retail clients.

Royal London Diversified Asset-Backed Securities 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 Diversified Asset-Backed Securities 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's investment objective is to achieve a positive absolute return in all market conditions over rolling 3-year periods, by predominantly investing in asset-backed securities and other sterling-denominated corporate bonds. The Fund's performance target is to outperform, before the deduction of charges, the Bank of England Sterling Overnight Interbank Average (SONIA) plus 2% per annum over rolling 3 year periods. The benchmark is considered suitable as it is consistent with how the Fund is managed in seeking to provide a "cash plus" performance outcome.

Fund value

	Total £m
30 June 2025	352.57

Asset allocation

	Fund (%)
Conventional credit bonds	95.36
Index linked credit bonds	3.19
Conventional gilts	1.31
Conventional foreign sovereigns	0.13

Fund analytics

	Fund
Fund launch date	24 September 2012
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)
Duration (years)	0.81
Gross redemption yield (%)	6.15
Number of holdings	313
Number of issuers	204

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.03	1.06	(0.03)
YTD	3.15	2.17	0.98
1 Year	7.12	4.68	2.44
3 Years (p.a.)	7.78	4.31	3.47
5 Years (p.a.)	6.66	2.65	4.01
10 Years (p.a.)	4.49	1.60	2.90
Since inception (p.a.)	4.49	1.37	3.12

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 24 September 2012.

Performance commentary

The underlying fund outperformed its benchmark during the quarter, however, a swing in the end quarter price (downwards) meant that recorded performance was broadly in line with the benchmark. Despite a volatile first half of 2025, performance remains comfortably ahead of the index year to date.

The fund's diversified nature was reflected in the diversity of performance drivers in the quarter which helped to effectively dampen risk despite volatile markets.

The fund's strong income generation was the main driver of performance in the quarter. However, these positive impacts were offset by the negative impact of certain holdings in the structured sector.

Specifically, we saw a negative impact from Thames Water – the bonds falling after US private equity firm KKR pulled out of a potential acquisition of the utility on the 3rd June. Although this increased the prospect of administration for the company, management continue to work on a private sector recapitalisation process, and current bond prices are already discounting significant bond haircuts, implying that any further downside is more limited.

Our holding in global transport operator Mobico was also a drag on performance. Here the bonds traded weaker on the lower-than-expected proceeds from sale of its US school bus business and subsequent downgrade from Moody's towards the end of the quarter. We believe these bonds continue to provide reasonable risk and reward within the context of our diversified portfolios.

Despite these two negatives, our structured holdings overall contributed positively to performance in the quarter. With secured shopping centre debt from Westfield and Trafford and secured bonds from water companies including South East Water performing well.

Similarly, the market appeared to recognise the clear credit enhancements of secured bonds issued by select pub companies, such as Mitchells & Butlers and Unique, which offer strong yields despite very low leverage, resulting in strong performance. Amongst strong market bids, we were able to add to our exposure to both issuers in the quarter at levels where we believe we are over-compensated for the fundamental risk.

Although the fund is largely invested in secured bonds, our selective exposure to financial (bank and insurance) bonds was also helpful as the sector performed strongly.

Direct Line was a solid performer in the quarter following the announcement of its takeover by Aviva earlier this year. This event is likely to lead to bond upgrades, which should lead to further outperformance. Esure was another standout in the insurance sector, with Belgian insurer

Performance and activity

Performance commentary (continued)

Aegis agreeing a takeover for the firm early in the quarter, resulting in a stronger overall credit exposure

Our flexibility to look wider and extract value across multiple sources yielded a positive result over the period with the early redemption at par of an underperforming CMBS bond Euro 38, which is secured on Aldgate Tower in London.

Following downgrades of the bond from its original AAA rating and an extension of the loan maturity, we had acquired bonds previously at prices significantly below par.

As holders of this bond, we were then able to maintain exposure to the collateral at an attractive level through participation in a new CMBS issue, Pine Finance, which was issued to refinance Euro 38, following a significant equity injection from the ultimate owners.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.85
HWAYS_21-1X 4.2172 18 Dec 2031	1.64
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	1.51
DWR CYMRU FINANCING UK PLC 4.377 31 Mar 2026	1.49
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.31
UK CONV GILT 3.5 22 Oct 2025	1.29
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.23
CO-OPERATIVE BANK FINANCE PLC 9.5 24 May 2028	1.16
WSTSTR_2 1.642 04 Aug 2026	1.12
PROGRESS HEALTH 5.58 02 Oct 2042	1.05
Total	**13.65**

Fund activity

We were highly selective in the early part of the quarter as spreads tightened, taking a disciplined approach in seeking out inefficiencies and value.

The fund remained most active in the secondary market but also took the opportunity to add certain new issues. During the quarter we purchased senior secured bonds from a debut sterling issuer, Transurban, the Australian toll road operator which operates assets both domestically and internationally.

We also acquired a secured new issue from Associated British Ports, one of the UK's largest ports operators, whose assets include major ports such as Southampton and Humber.

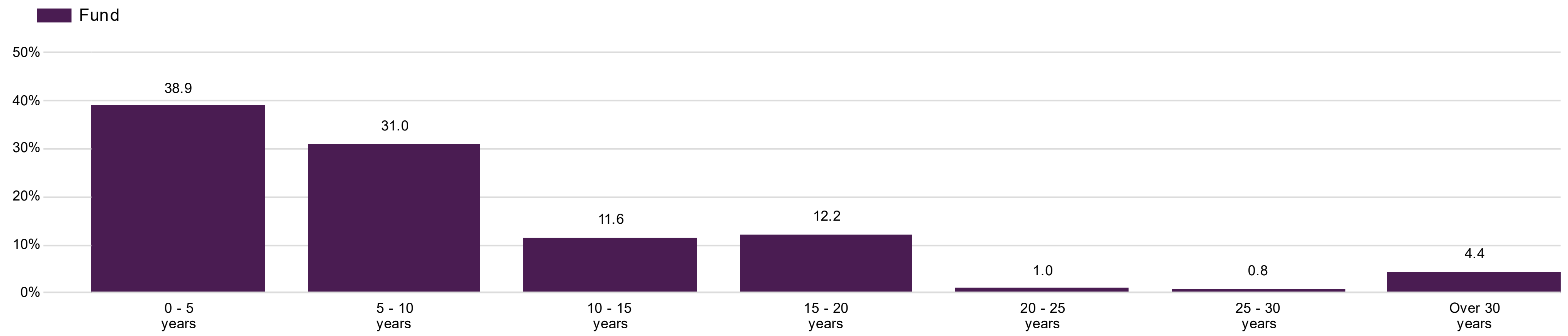
More widely, we added euro paper from German bank OLB, reflecting the wide spread for AT1 risk despite the expected upgrade in debt following a change of ownership. Also in financials, we purchased legacy bonds from AXA and Generali where we see attractive upside of a potential early call.

Outside of financials, we added PRS Finance, bonds issued by the entity that administer the UK government's guarantee scheme for borrowers in the private rented sector, offering an attractive credit spread for government guaranteed debt.

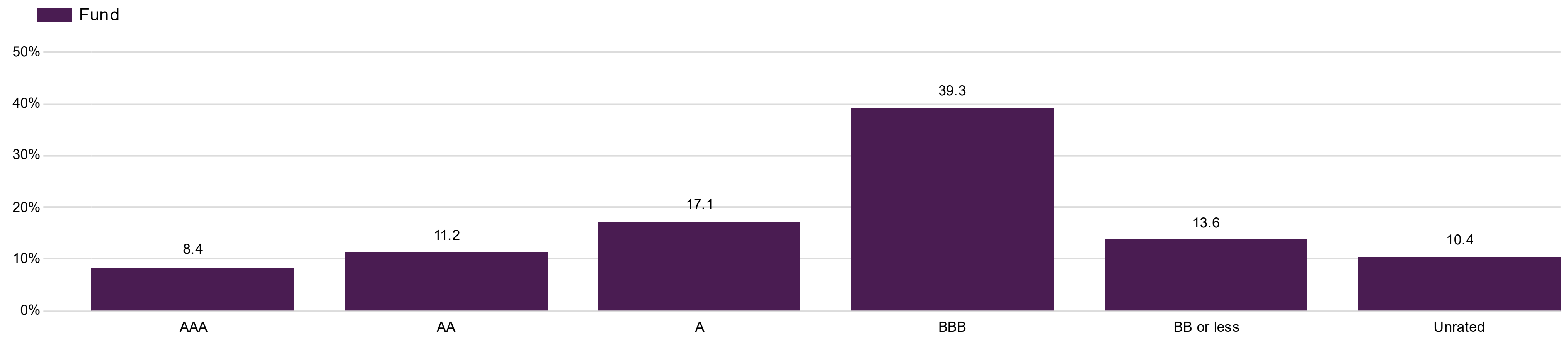
Sales activity was largely limited to raising liquidity to fund new purchases but, notably, we took profit on our Grand Union position. We originally acquired this sub benchmark social housing bond at a significant yield pick up to benchmark housing association bonds but following a merger with Libra Longhurst Housing, the credit spread on our bonds converged with the new group's existing bonds, resulting in significant price appreciation.

Fund breakdown

Maturity profile

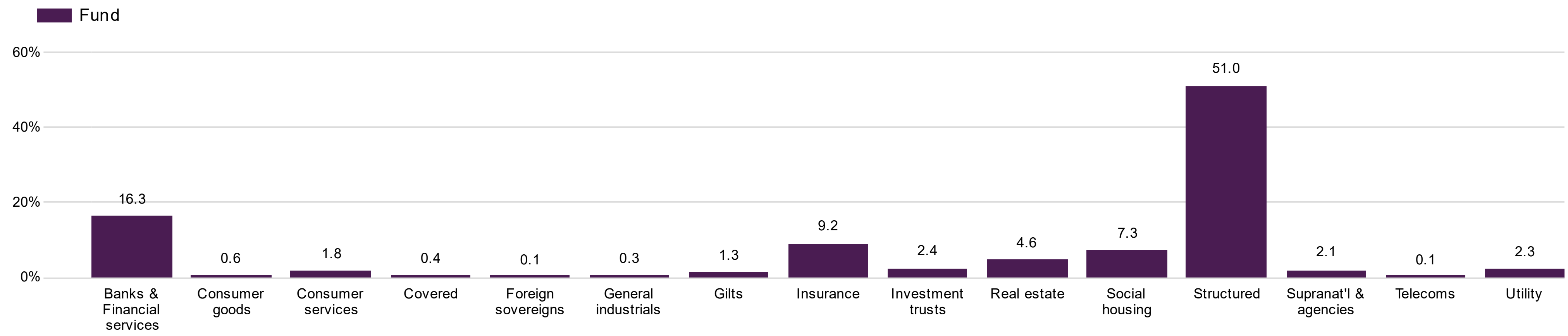


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

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

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	9	30
Number of engagements	10	71

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	**6**
Climate - Transition Risk	6
Environment	**1**
Governance	**8**
Corporate Governance	5
Remuneration	2
Strategy	1
Social & Financial Inclusion	**1**
Just transition	1

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

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

Natwest Group Plc - Net zero

Purpose:

We met with NatWest's Climate team and Investor Relations to discuss the bank's latest climate-related disclosures and transition strategy. The engagement aimed to understand how NatWest, a UK based banking group, is implementing its sustainability ambitions and responding to external policy and sector-specific challenges.

Outcome:

The meeting clarified NatWest's current climate strategy and highlighted areas of progress and ongoing challenge. The bank reaffirmed its commitment to aligning sustainability with customer needs and embedding it into day-to-day decision-making. It plans to review its climate ambition and sectoral financed emissions targets in 2025, using the UK's 7th Carbon Budget as a reference point. While NatWest has taken steps to support residential decarbonisation-such as green mortgages, EPC targets, and its Home Energy Hub-it acknowledged barriers like skills shortages and low retrofit uptake. The bank is also reviewing its oil and gas risk acceptance criteria and welcomed feedback on the sector. We will continue to monitor NatWest's disclosures and progress.

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.

The tariff announcements and resulting policy uncertainty saw equity market volatility leap to levels matching those seen during the Covid-19 sell-off. As a consequence, the S&P 500 index recorded its fifth-worst 2-day decline since World War II and even moved into bear market territory over the month (down 20% from its highs). However, since mid-April, stocks have been climbing the wall of worry and rising steadily higher, supported by a 90-day pause to reciprocal tariffs and a US-China trade deal that eased fears of a trade embargo between the world's two largest economies.

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%.

Contrary to the expectations of many when set against the events of the quarter, the sterling investment grade credit market (iBoxx non-gilt index) returned 2.78%, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightening over the period. The narrowing of spreads from 0.95% to 0.87% (iBoxx) more or less reversed the widening seen in the first quarter. This has brought spreads back towards the tightest levels since the GFC, as demand continues to be underpinned by the attractive all-in yield and the absence of defaults. Most sectors saw positive returns, with stronger returns from utilities and insurance. As spreads declined, supranationals lagged the returns of other sectors.

Outlook

It is notable that after three months that created a lot of news headlines and uncertainty, markets largely appeared to shrug off 'noise'. Despite considerable uncertainty in the outlook, markets have returned to become driven more by current fundamentals. On an underlying basis, our credit analysis and company meetings have generally remained cautiously positive: companies are not experiencing the same volatility in their earnings that market moves would imply, and as yet, few are guiding to a major impact from tariffs. In the short term, further announcements on tariffs and US fiscal policy will undoubtedly have an impact on markets, but we believe that markets are becoming less easily spooked after a roller coaster first few months of the new administration.

In recent quarters we have reminded investors in our sterling credit strategies of the attractive all-in yields available in the asset class. We believe that will remain the case. While short-dated yields could easily fall due to lower interest rates and speculation about whether President Trump will announce a 'White House friendly' chair of the Federal Reserve, factors such as the 'Big Beautiful Bill' and increased EU defence spending will weigh on US and EU government bonds medium and longer-dated yields. In the UK, ongoing concerns over the fiscal position and the government's inability to rein in spending, as well as a potential slowing in quantitative tightening could impact gilts. As mentioned above, credit spreads have tightened and while further moves are possible, the capacity for significant moves lower in sterling yields are likely constrained simply due to the recent moves.

Market commentary

While near term absolute performance is likely to be largely influenced by movements in the yields of underlying government bond markets, we would expect relative performance to continue to be meaningfully influenced by relative 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.

For a wider view on prospects for the rest of 2025, and how Royal London Asset Management approaches volatile markets, read the thoughts of Piers Hillier, Chief Investment Officer, Mike Fox, Head of Equities, Trevor Greetham, Head of Multi Asset, and Will Nicoll, Head of Fixed Income in our mid-year outlook 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

For professional clients only, not suitable for retail clients.

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Issued in July 2025 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

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Risks and Warnings

Investment risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk

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

EPM techniques risk

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

Exchange rate risk

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.

Government and public securities risk

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

Leverage risk

The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

Performance to 30 June 2025

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.03	3.15	7.12	25.22	38.07	7.78	6.66
Fund (net)	0.92	2.94	6.67	23.63	35.08	7.32	6.20

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)	7.12	10.83	5.47	1.11	9.05
Fund (net)	6.67	10.36	5.03	0.68	8.52

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 Diversified Asset-Backed Securities Fund Z Acc GBP share class.

Glossary

Asset allocation

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

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.
This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

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.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, gross of relevant fund management costs and gross of tax.

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

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

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.