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Royal London Index Linked 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 Index Linked 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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The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in index-linked bonds issued by the UK government, known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Index Linked Government (All Stocks) Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is regarded as a good measure of the performance of index-linked UK government bonds. The Index is considered an appropriate benchmark for the Fund's performance, as many of the Fund's potential investments will be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK Index Linked Gilts sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 June 2025	365.09

Asset allocation

	Fund (%)	Benchmark (%)
Index linked gilts	98.22	100.00
Index linked credit bonds	1.17	-
Index linked foreign sovereigns	0.33	-
Conventional gilts	0.27	-

Fund analytics

	Fund	Benchmark
Fund launch date	15 February 1990	
Fund base currency	GBP	
Benchmark	FTSE UK Gilts Index Linked Government (All Stocks) Total Return GBP	
Duration (years)	14.30	13.75
Real yield (%)	1.61	1.61
Gross redemption yield (%)	4.72	4.69
Number of holdings	36	35

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.01	0.86	0.15
YTD	(0.05)	(0.57)	0.53
1 Year	(4.57)	(5.19)	0.62
3 Years (p.a.)	(6.03)	(7.78)	1.75
5 Years (p.a.)	(8.40)	(8.82)	0.42
10 Years (p.a.)	(0.01)	(0.57)	0.56
Since inception (p.a.)	3.03	2.47	0.56

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

Performance commentary

Against a backdrop of elevated volatility, global index linked markets delivered a positive return for the quarter.

The fund produced a positive absolute return for the quarter, ahead of the benchmark. The fund benefited from duration and cross-market positioning, offsetting a small negative from curve positioning.

Cross-market positioning was positive. We started the quarter with overweight positions in France and Australia, taking profits on France early on after strong performance. Our Australian overweight was also positive over the period – this is a strategic position that we have had for some time and we augmented this on a tactical basis, by taking some profits in May and then re-entering in June after the market had lagged somewhat. We also added to US exposure early in the period as 30-year TIPS yields hit 2.85%. With the Federal Reserve generally dovish over the quarter, this helped TIPS outperform gilts and we took profits late on.

Curve positioning was negative for performance. In overall terms, we had a curve flattening bias, on the basis that we felt the short end had performed strongly compared to longer dated, and that decreased demand for longer assets and the softer supply this would bring would support the long end. However, while our overweight in 30-year index linked gilts was helpful, our underweight in 10-year equivalents hurt returns as this part of the curve continued to perform well.

Performance and activity

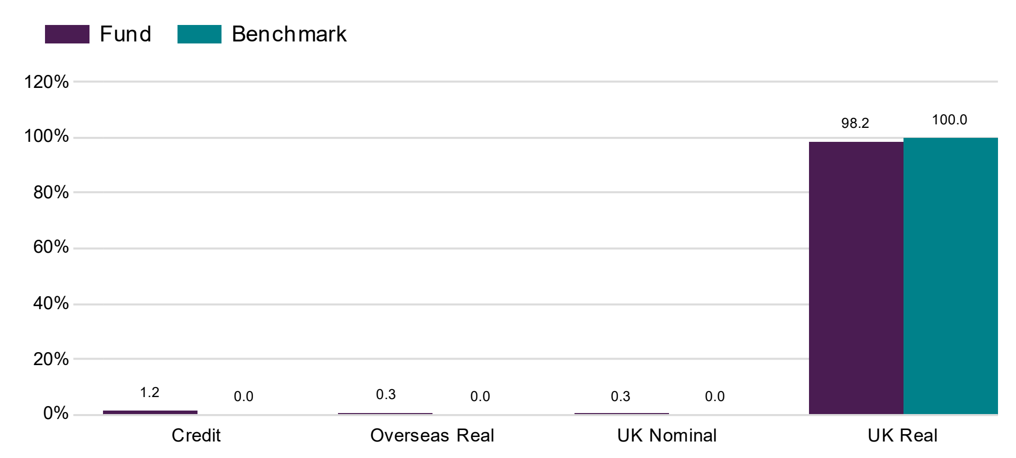
Fund activity

We have held a strategic long duration position for some time, a stance that we are happy to continue with given real yields above 2%. Although yield levels ended the quarter little changed, we also adjusted the scale of our long throughout the quarter on a tactical basis to take advantage of market sentiment overshooting. An example of this could be seen early in the quarter, where the market sold off materially on fears over the impact of tariffs, pushing real yields above 2.5%. We increased our long duration position, benefiting when the market subsequently rallied, and we took profits. The combination of supply events, macroeconomic risk and geopolitical risk meant that volatility remained high and we were able to benefit from this.

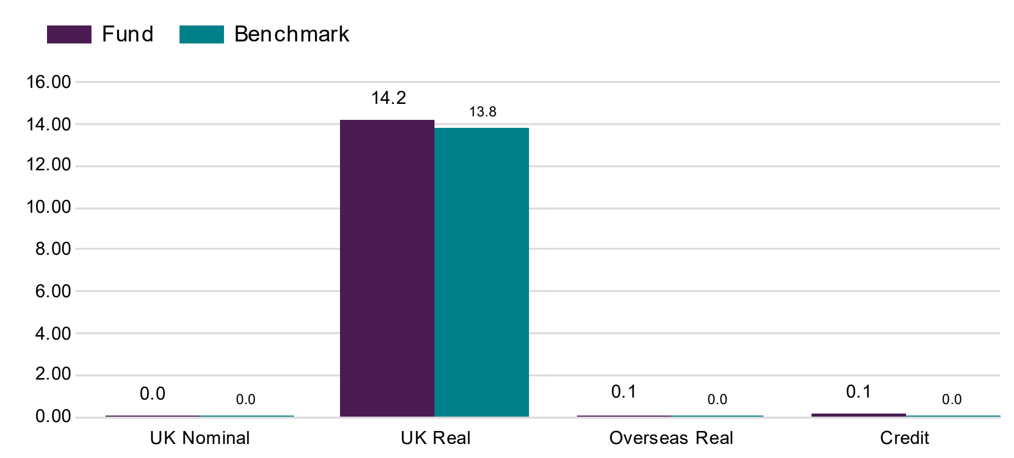
Supply events continue to provide opportunities to add value. We felt that the UK 2038 index linked syndication in June would have a negative impact on this part of the UK market. We took advantage by selling UK bonds into Australia and the US, closing the positions at a profit after the UK bonds had weakened following the syndication. In a similar vein, we sold breakevens into the syndication, switching 2036 linkers into 2037 conventionals and then taking profits late in the quarter.

Fund breakdown

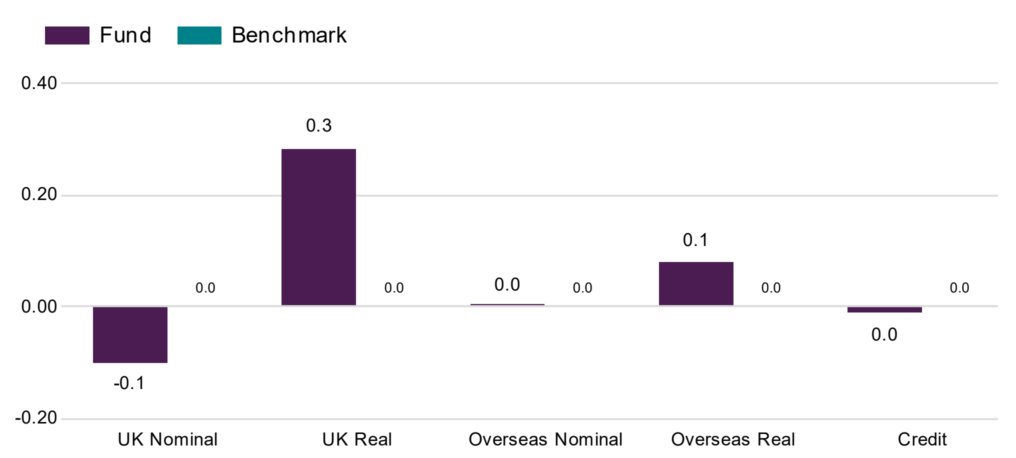
Asset split by percentage



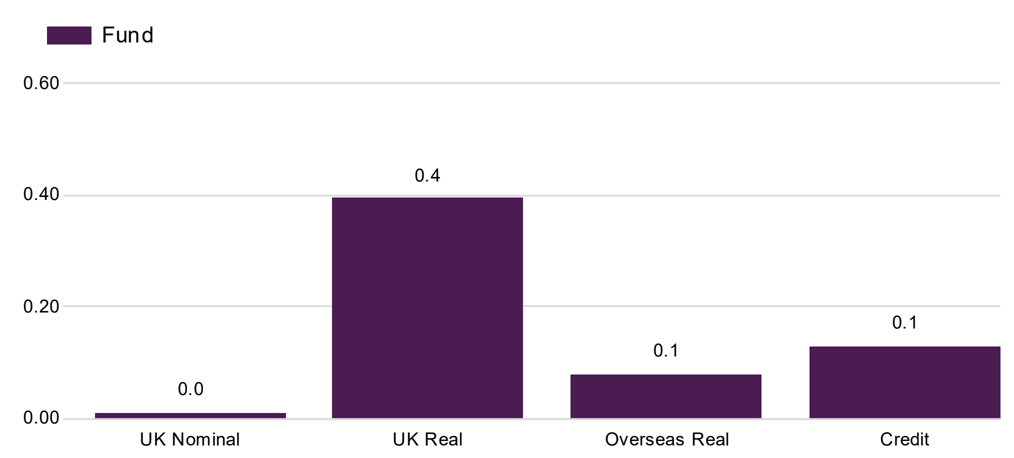
Asset split by duration



Asset split by duration change on quarter

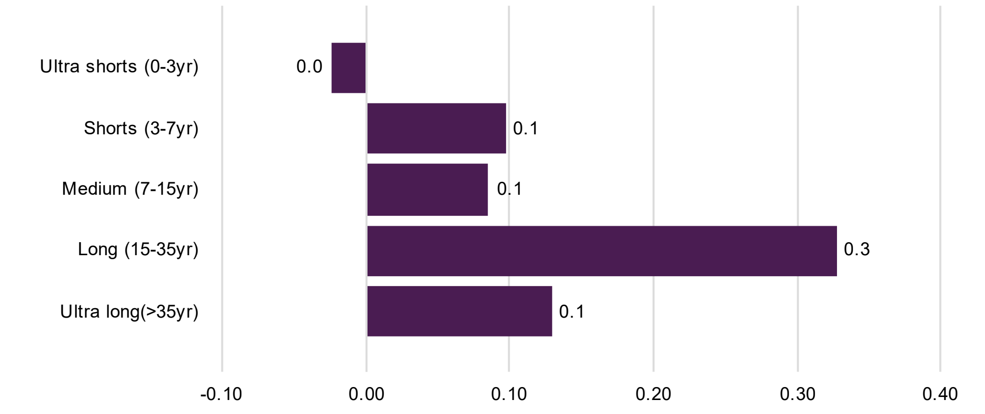


Asset allocation relative to benchmark (duration)



Fund breakdown

Maturity profile relative to benchmark



Market commentary

Market overview

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

Global geopolitical volatility remains high and it is hard to see conditions changing dramatically; Trumps tariffs have been paused, not abandoned; economic downturns, if not outright recessions, resulting from the business confidence impact of tariff uncertainty is a distinct possibility; a number of large economies face budgetary pressures whilst still needing to inject fiscal stimulus to ensure growth, and geopolitical tensions remain. This should all lead to volatility remaining elevated.

After rising in recent months, we feel that real yields look attractive. We believe that a world of rising tariffs is helpful for index linked assets as we expect these to be ultimately deflationary, and would also expect rate cuts across the globe to add to interest in this area. In addition, we believe that in general, curves are too steep, and as a result, we have a bias towards long duration positioning, with a modest overweight in long-dated bonds. For the UK, real yields are now close to levels last seen in the Truss sell-off, but we will be cautious about adding materially to long duration strategic positioning until there is more clarity on tariffs and what these may mean for global trade and inflation.

We have moved from peak optimism at the end of 2023 to almost peak pessimism at the end of 2024, with only two rate cuts expected in 2025 although we still expect more rate cuts – particularly in the UK – as growth is expected to slow significantly in the second half of the year

One trend that has been visible in recent months is the reduced issuance of long-dated debt by the UK Debt Management Office (DMO). Since the LDI sell-off of 2022, demand from pension funds for long-dated bonds in general has decreased, with the DMO reducing the proportion of long-dated syndications and auction, with this move also being driven by the higher yields on longer-dated bonds, making it cheaper to issue shorter-dated bonds.

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.

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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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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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.

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. 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.

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)	1.01	(0.05)	(4.57)	(17.04)	(35.52)	(6.03)	(8.40)
Fund (net)	0.93	(0.20)	(4.86)	(17.78)	(36.55)	(6.31)	(8.69)

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)	(4.57)	1.50	(14.35)	(19.32)	(3.67)
Fund (net)	(4.86)	1.20	(14.61)	(19.59)	(4.02)

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 Index Linked Fund M Inc GBP share class.

Glossary

Asset allocation

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

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.

Number of holdings

Total number of unique holdings of 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.