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Royal London International Government Bond Fund

Quarterly Investment Report

30 June 2025

ROYAL LONDON ASSET MANAGEMENT

Quarterly Report

The fund as at 30 June 2025

The purpose of this report is to provide an update on the Royal London International 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's investment objective is to achieve a total return over the medium term (3-5 years) by investing at least 80% in government bonds globally. The Fund's performance target is to outperform, after the deduction of charges, the JP Morgan Global Bond Index ex UK (Traded) Total Return (GBP hedged) Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of government bonds across the developed markets. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA Global Government Bond sector is considered an appropriate benchmark for performance comparison.

Benchmark: JP Morgan Government Bond Index Global Ex UK (Traded) Total Return (GBP Hedged)

Fund value

	Total £m
30 June 2025	1,106.83

Asset allocation

	Fund (%)	Benchmark (%)
Conventional foreign sovereigns	96.00	100.00
Index linked foreign sovereigns	3.80	-
Conventional gilts	0.20	-

Fund analytics

	Fund	Benchmark
Fund launch date	4 November 2011	
Fund base currency	GBP	
Benchmark	JP Morgan Government Bond Index Global Ex UK (Traded) Total Return (GBP Hedged)	
Duration (years)	6.89	6.45
Gross redemption yield (%)	3.03	3.22
Number of holdings	124	1,043

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.25	1.15	0.10
YTD	2.70	2.37	0.33
1 Year	5.27	4.81	0.47
3 Years (p.a.)	2.52	1.56	0.96
5 Years (p.a.)	(0.12)	(1.16)	1.03
10 Years (p.a.)	1.72	1.16	0.56
Since inception (p.a.)	2.10	1.85	0.25

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 4 November 2011.

Performance commentary

The quarter started off with the seismic shock of Donald Trump's, Liberation Day, where a swathe of punitive tariffs were announced across the US's trading partners. Global Bond markets took immediate fright at this, and in a classic Flight to Quality / risk off move, the knee-jerk reaction was for bunds to outperform other European bond markets, whilst US treasuries, UK gilts and Japanese JGBs all rallied on the announcement.

Having been overweight duration for the whole quarter, in which yields, on the whole, fell, duration will have been a small positive contributor to overall performance. Gains from an overweight exposure to European peripheral markets will have been partially offset by an exposure to rising longer term yields in Japan.

The fund began the quarter around 0.25 of a year long duration versus its benchmark, the majority of which was held in peripheral Europe (Spain). May saw something of an 'about turn' in duration as focus shifted towards the potential longer-term impact of increased international trading costs, not least on inflation and the read-through to central bank monetary policy. Robust US economic jobs data saw US treasuries underperform, particularly at the short end and we actively traded the five-year part of the curve. May was also something of a seminal month in Japanese government bond markets, with 30-year Japanese yields reaching their highest ever levels, as the market took fright at a lack of support from traditional buyers, and saw forced selling from certain parts of the investor base, having been stopped-out of curve flattening positions. With currency adjusted yields close to 7%, we felt that this represented good fundamental value and were happy to add duration in this area.

A subsequent story regarding the Japanese Ministry of Finance canvassing investor appetite on future long-dated issuance saw a swift retracement of the sell-off and we trimmed our exposure into this strength. Towards the end of May, European markets rallied as Trump mooted the possibility of imposing 50% tariffs on goods from the EU, and we used this to sell duration, before adding back using supply of a new 10-year bond issued by Spain, accompanied by a sale of Italy into strength on the last day of the month. During June, duration positioning was reasonably stable, at just under half a year long. The month saw Europe underperform the US as focus shifted to increased debt issuance to fund increased spending, not least on defence. US yields fell over the month, following the rises seen in May, buoyed by dovish comments from certain members of the Federal Reserve.

Inflation will have been a small positive contributor to performance during the second quarter, with tactical trading of 30-year US real yields at distressed levels being a key driver of this.

Performance and activity

Performance commentary (continued)

Cross market positioning was a small positive contributor to performance. In what was an extremely volatile quarter for government bond markets, we saw a high correlation across global government bond markets for the majority of the time, though there were certain instances where this was not the case. A good example of this was the moves seen around Liberation day. Despite a narrative of bunds potentially losing their 'safe haven' status post March's relaxation the fiscal debt brake, when European markets opened on April 3, we saw the spread of French bonds over German bonds increase by close to 20bps, and that of Italy increase by around 30bps. We thought this was unfounded, and were happy to oppose, selling Germany into both France and Italy, taking profits shortly afterwards as spreads began to normalise.

Italian bonds have continued to outperform bunds, (and other European markets), as encouraging economic data, potential boosts to growth from EU funding, benign politics and increased buying from overseas investors have driven the spread tighter and tighter. We have been running a small overweight to Italy over the period but ended the period close to neutral on our view that further tightening versus Germany may be limited. Elsewhere within Europe, we have been underweight France versus Spain, as we feel that France is likely to face budgetary and political headwinds as the year progresses, and have also switched some bund exposure into US treasuries following outperformance, and the fact that the market has seemed less focus on the fiscal expansion plans (and associated funding needs) previously announced by Germany.

Curves steepened over the quarter, as the market repriced longer-term debt, in the face of increased spending plans, a deteriorating fiscal outlook, sovereign debt downgrades (in the case of the US) and, particularly in the case of Japan, a significantly reduced demand for longer maturity bonds from traditional investors in this part of the yield curve. Over the course of the quarter, the US 5s30s curve steepened by around 40bps, the bund 5s30s curve by around 20bps, the Australian 5s30s curve by around 30bps and the Japanese 5s30s curve by a huge 60bps (at one point by nearly 80bps). In the case of the US and Europe, the fund was positioned well for these moves, running curve steepeners and we trimmed exposures over the quarter. However, the fund was also running a flattening exposure to Japan, entered prior to the quarter, as we felt that long-dated Japanese yields looked cheap on a historical basis, and with the Bank of Japan likely to need to tighten policy rates to tackle inflation, the expectation was for the yield curve to flatten. The large steepening in the curve will have detracted from performance, meaning that overall, yield curve positioning will have been slightly negative for the quarter.

Short end rates remained relatively well anchored, as markets believed that further central bank policy easing would be necessary, albeit some of this got pushed further out due to uncertainty surrounding the impact of the tariffs proposed by the US, and any reciprocal tariffs. Much debate, particularly in the US, centred on whether tariffs would end up being harmful to growth (hence requiring policy easing) versus their potential inflationary impact (so any rate cuts could add fuel to the inflationary fire).

Performance and activity

Fund activity

The fund was marginally underweight the US and overweight Australia and held a small overweight duration exposure to Japan. The fall in yields in April, as result of the Liberation Day announcements, saw this long duration stance contribute positively to performance, as all markets saw strength. We actively traded our duration position through this period of elevated volatility, choosing to do so largely in bunds, which (alongside US treasuries and UK gilts) were at the epicentre of the flight to quality move, and subsequent sell-off following the tariff pause. By the end of the month, the fund was around 0.1 years longer duration than at the end of March, as we used weakness at the longer end of the US market, particularly in 30-year real yields to take the fund overweight the US.

The fund was particularly active in inflation space over the quarter. A key exposure over the period was an overweight in 30-year US real yields. We began building a position as these breached 2.45% and added as these moved higher. We think that in an economy where real long-term GDP growth is in the 1.8% to 2% range, a 30-year real yield at these levels is very attractive.

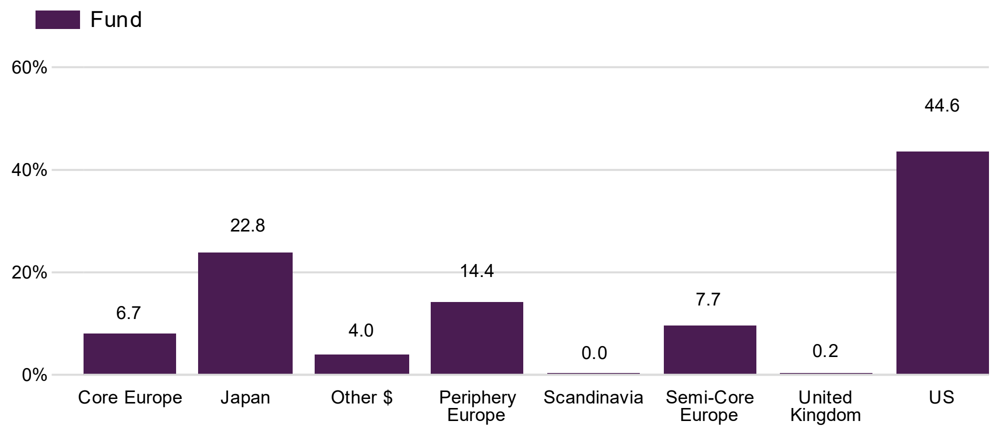
At one point during April, at peak uncertainty surrounding US trade policy, these yields hit 2.87%, driven by position stop-outs elsewhere. Given the way we build positions, we were able to add to our exposure at these extreme levels and subsequently benefited as a degree of calm returned to markets following a conciliatory tone from Trump, and we exited the additional exposure three days later at a real yield of 2.62%. We remain constructive on 30-year US real yields above 2.4% and continue to run a long exposure to the security.

Elsewhere in inflation linked markets, we entered a position in five-year US breakevens late in the quarter, as these fell below 2.3% Given the headwinds from global trade conditions, we think that this represents a good entry level and has proved to be something of a floor to the trade over the past nine months, even before the tariff increases. We have also entered a position in long-dated (30-year) Australian breakevens, at 2.15%, switching our long exposure in 30-year nominal bonds into their inflation linked equivalents at historically attractive levels.

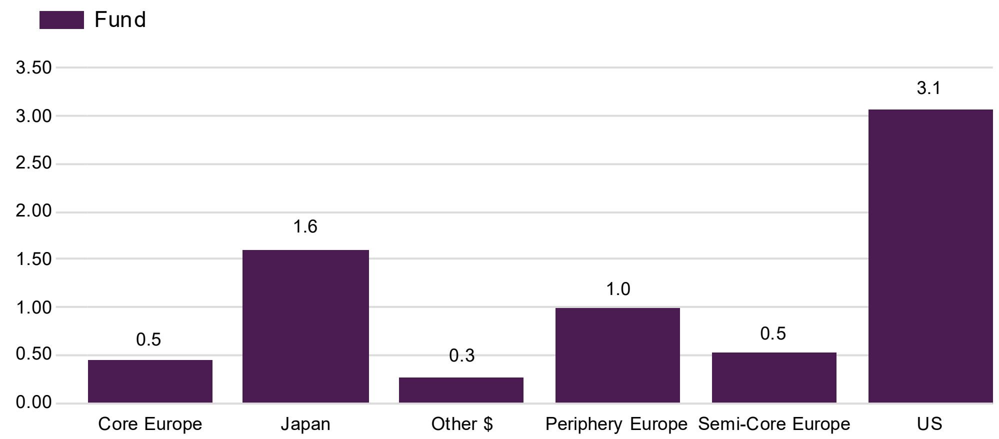
The broad structure of the portfolio in cross market terms over the quarter did not change significantly. Within Europe we remain overweight peripheral markets (particularly Spain) vs an underweight to Core (Germany) and Semi-Core (France and Belgium). Within dollar markets, we have been running an overweight to Australia, out of the US, though did trim this part way through the quarter and we remained relative neutral to Canada. The increased exposure to Japan was more of an outright duration view, as opposed to cross market.

Fund breakdown

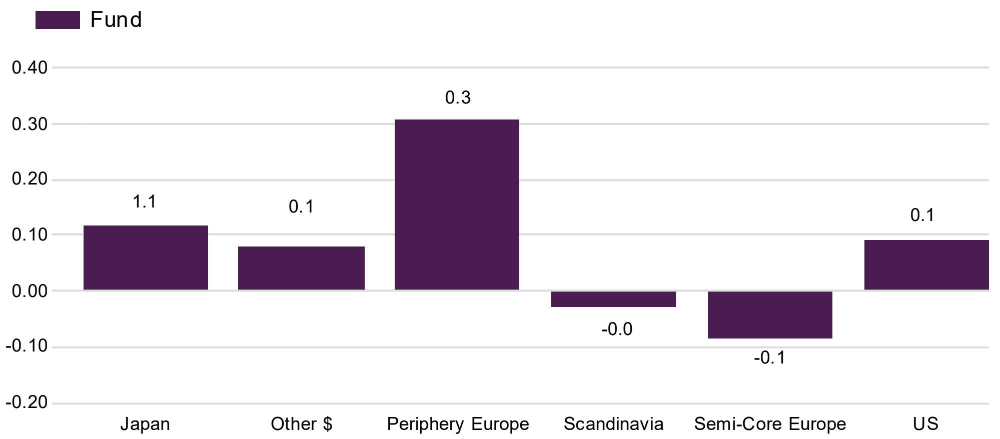
Geographic split by % weight



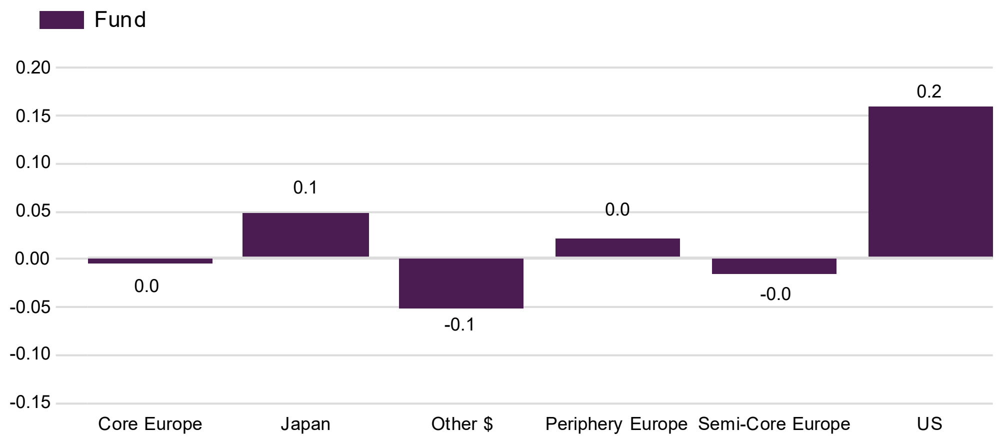
Geographic split by duration



Duration position relative to benchmark

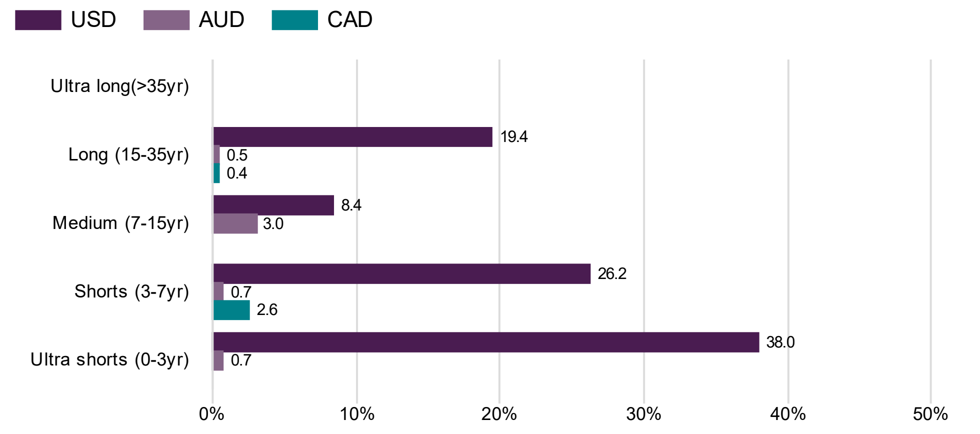


Relative duration quarter on quarter

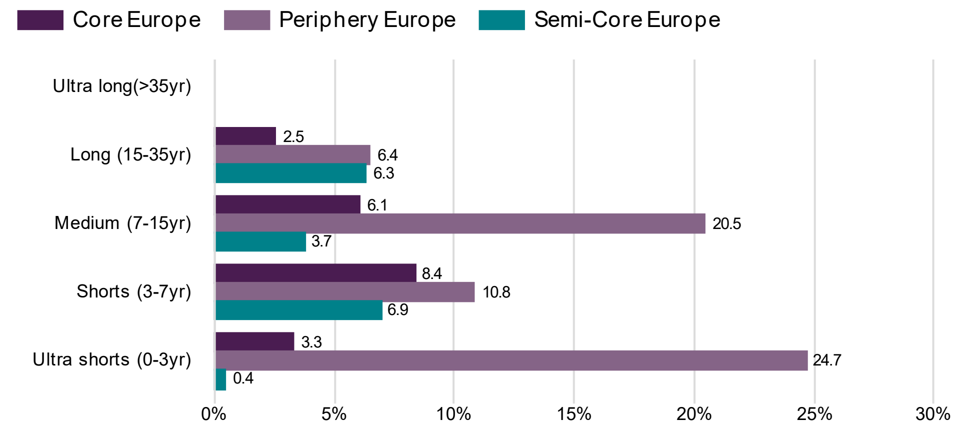


Fund breakdown

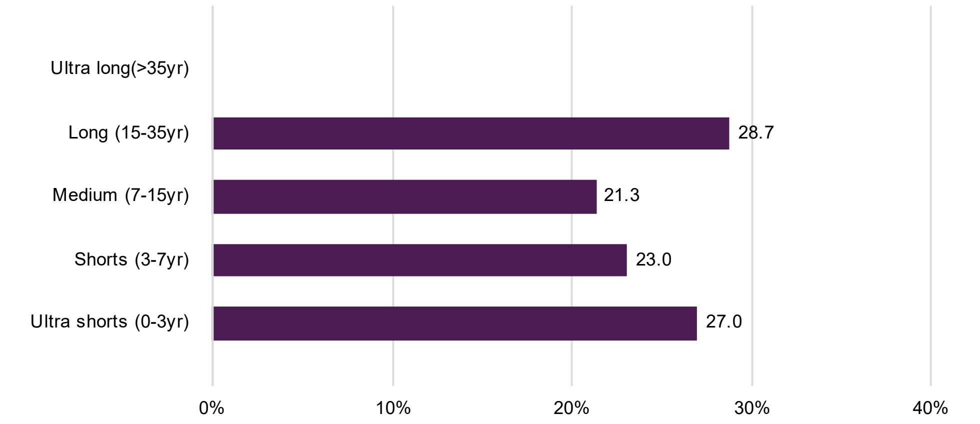
Dollar bloc



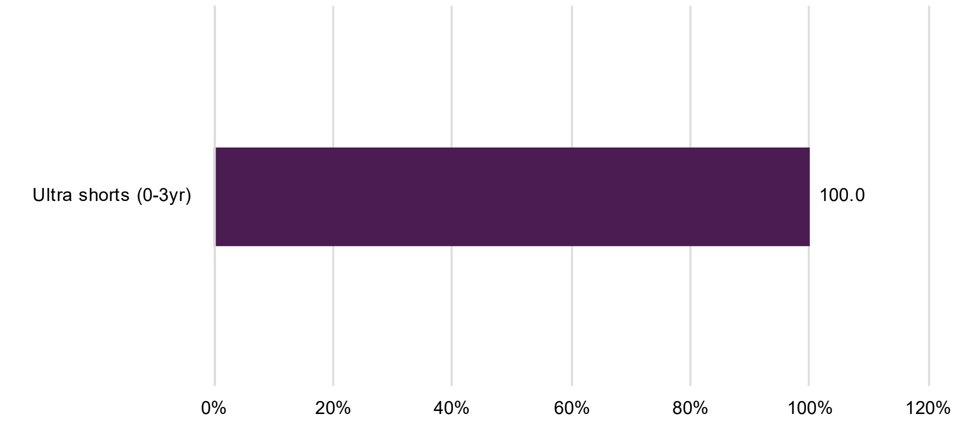
Euro bloc



Japan

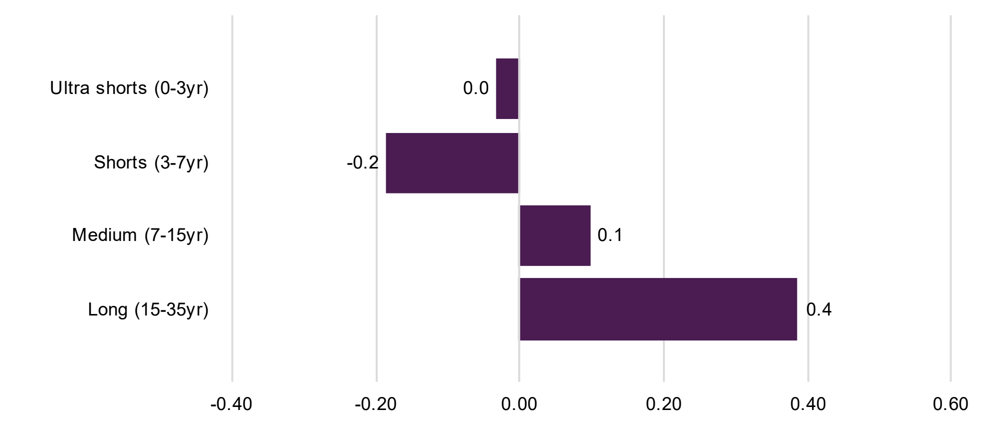


UK



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 c4.4-4.8%.

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.

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.

Outlook

There were some extraordinary moves in global government bond markets over the three months, driven by US trade policies, reciprocal rhetoric, policy pauses and U-Turns, and investor positioning. During the period, we saw heightened geopolitics tensions, an escalation of conflict in the Middle East (which was largely ignored by government bond markets) and a significant re-pricing of longer-term government debt. By staying active and nimble, and an even greater emphasis on short-term tactical trading activity (as opposed to longer term, strategic positioning), we were able to successfully navigate this period.

Looking ahead, 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 geo-political tensions remain. This should all lead to volatility remaining elevated, presenting us with opportunities to exploit for the fund.

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.

Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval.

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.

Emerging markets risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

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 30 June 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.25	2.70	5.27	7.77	(0.60)
Fund (net)	1.17	2.55	4.96	6.80	(2.08)

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
2.52	(0.12)
2.22	(0.42)

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)	5.27	3.04	(0.65)	(6.72)	(1.12)
Fund (net)	4.96	2.73	(0.95)	(7.00)	(1.41)

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 International Government Bond 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.

Real yield

Real yield shows the inflation-adjusted redemption yield for the underlying fund and therefore does not include the impact of fees. For share class level yields, please see the latest factsheet.