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Royal London Short Duration Gilts 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 Short Duration Gilts 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

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 short-duration (1-5 years) UK government bonds, which are also known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Government up to 5 Years Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of short duration UK government bonds quoted on the London Stock Exchange. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK Gilts sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 June 2025	1,537.77

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	97.56	100.00
Conventional credit bonds	2.44	-

Fund analytics

	Fund	Benchmark
Fund launch date	7 November 2013	
Fund base currency	GBP	
Benchmark	FTSE UK Gilts Government up to 5 Years Total Return GBP	
Duration (years)	2.66	2.16
Gross redemption yield (%)	3.89	3.76
Number of holdings	22	18

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.97	1.70	0.27
YTD	3.59	3.10	0.48
1 Year	5.73	5.10	0.63
3 Years (p.a.)	3.24	2.43	0.80
5 Years (p.a.)	1.39	0.69	0.70
10 Years (p.a.)	1.23	0.95	0.28
Since inception (p.a.)	1.20	1.04	0.16

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 Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 8 November 2013.

Performance commentary

The fund performed well in the period, on an absolute and relative basis, despite the heightened market volatility and geopolitical news dominating front pages.

In spite of this volatility, 10-year gilt yields have traded within a defined range since mid-December of last year, where they have been broadly sitting between 4.4% and 4.8%. Shorter maturity gilt yields were trading in a well-defined range in the first quarter of 2025, sitting between 4.2% and 4.4%, but slipped in the second quarter, to sit between 4% and 4.2%. The fall in yield for five-year gilts has likely been spurred on by the economic data in the period being more supportive of central bank rate cuts, leading the market to price in two further cuts from the Bank of England.

The shape of the curve has also shifted in the second quarter, as investors react to the ongoing geopolitical turbulence. In the first quarter, we saw aggressive steepening of the curve, with 'Liberation Day' and the range of tariffs announced by the US government adding to this move at the start of the second quarter.

But, since then however, markets have been relatively well behaved and calm. There has been stability at the long end but in shorter-maturity bonds, the 2s5s curve generally continued to steepen over the quarter.

The fund started the quarter over half a year long and ended the period half a year long. During the quarter, we tactically traded this position, taking advantage of the market volatility by buying and selling five-year gilts.

The fund reached a low of a third of a year long, reduced going into the May Bank of England meeting, where the market was well priced for a dovish outcome. With the outcome of the meeting being far more hawkish than anticipated, five-year yields rose and we increased duration – taking the fund to its high in the period of over half a year long but ended the period half a year long.

Performance and activity

Fund activity

The fund maintained its overweight position to high coupon sub-five-year gilts versus neighbouring low coupon bonds, as we were happy to pick up the additional yield on offer.

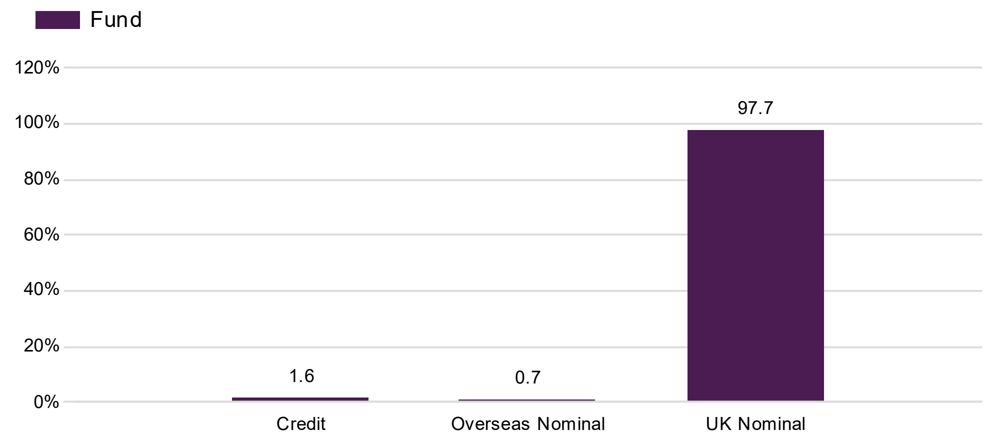
In the period, the fund did enact a switch, which contributed to the outperformance, where we sold our holding in 2032 bonds and into 2033 'Green gilts,' picking up over 20bps of yield for an additional 18 months in maturity.

The fund does not hold any inflation exposure, as we see shorter maturity index-linked bonds as expensive in this environment relative to shorter maturity nominal bonds. During the quarter, five-year breakeven yields fell from 3.5% to 3.2%.

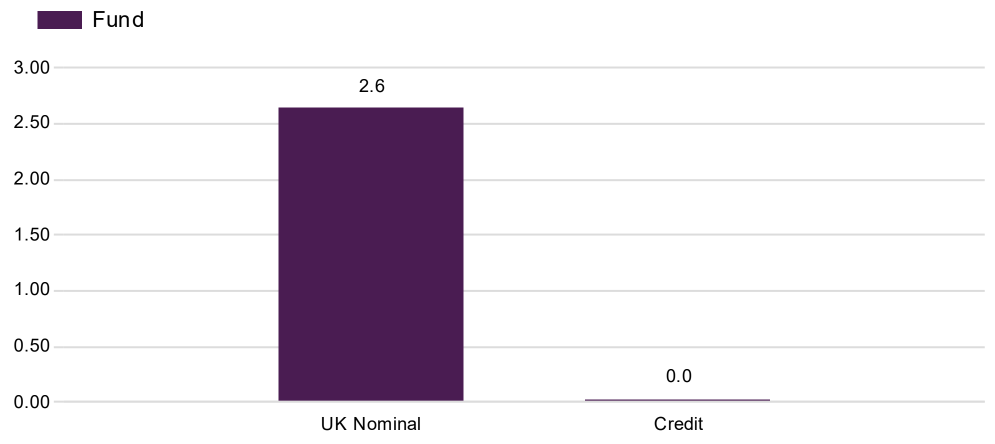
The fund holds no overseas bonds, as we view shorter maturity gilts attractive compared to global equivalents.

Fund breakdown

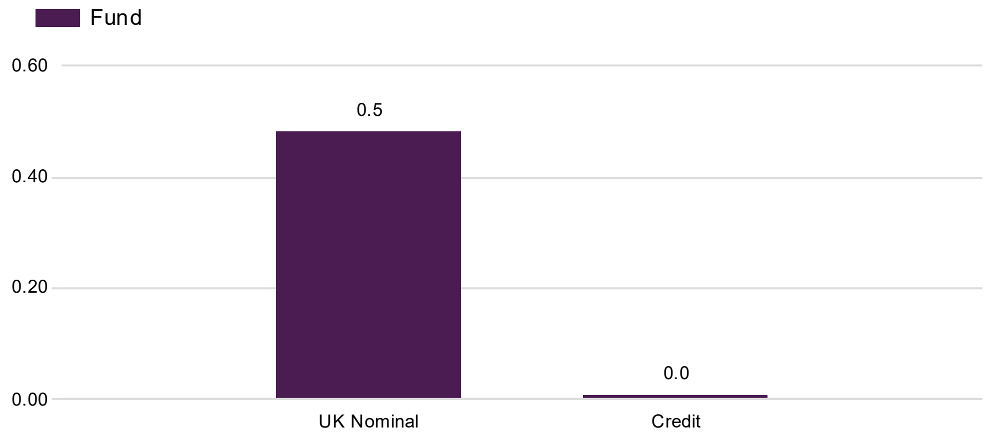
Asset split by percentage



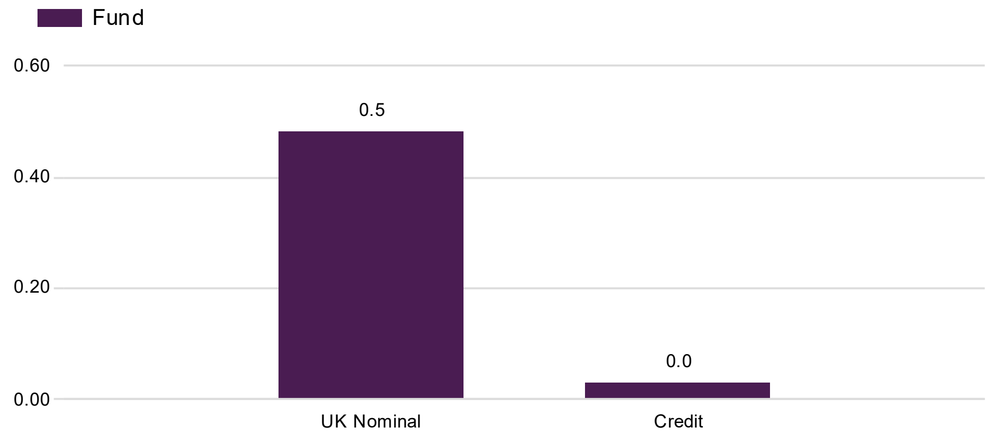
Asset split by duration



Asset split by duration change on quarter

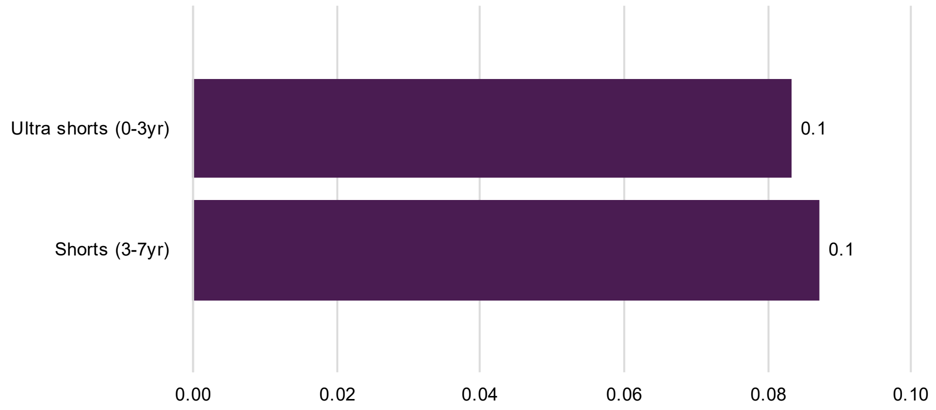


Asset allocation relative to benchmark (duration)



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 c4.4-4.8%.

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.

Economic overview

Having cut rates in May, the Bank of England kept rates on hold at their July meeting, though with 3 of the 9 Committee members voting for another cut. Governor Bailey said rates “remain on a gradual downward path”. Consensus expectations are for further rate cuts in the second half of 2025.

June’s UK labour market release showed a rise in the unemployment rate and a further fall in the number of payrolled employees on HMRC data. Below consensus, UK GDP fell 0.3% month-on-month in April, after 0.2% growth in March. That left rolling quarter-on-quarter growth at 0.7%, but second quarter GDP growth is still on track to slow. CPI jumped in April after a rise in energy bills, water bills and vehicle excise duty (alongside more temporary impacts from the early timing of Easter). CPI fell only slightly in May to 3.4% year on year. The UK was able to agree a trade deal with the US in the second quarter, the first country to do so. That lowered tariff rates for some specific categories including autos and aerospace and will keep tariffs at 10% for most goods.

In the US, inflation releases over the quarter showed little impact from tariffs with the PCE deflator at 2.3% year-on-year by the May release (2.3% in March) and CPI at 2.4% year-on-year (2.4% in March). Although a jump in prices was visible in a few components, this was offset by movements elsewhere and economists expected stronger tariff impacts over the summer (with tariff reversals and inventory building helping to delay pass-through of tariffs to consumer prices). The final jobs report in the quarter didn’t see much change in direction. Non-farm payrolls rose more than expected at 139K in May which was not far from the average pace of the previous 12

Market commentary

months (149K). The data continued to suggest that the US labour market is not rapidly deteriorating. The unemployment rate remained 4.2% (in line with consensus). US first quarter GDP fell -0.5% quarter-on-quarter annualised after rising 2.4% in the fourth quarter 2024. This mostly reflected a surge in goods imports as importers tried to get ahead of tariffs.

The US Federal Reserve, as expected, kept monetary policy unchanged in the quarter, with the target rate remaining 4.25-4.50%. At the June meeting, new FOMC participant forecasts showed them still pencilling in two rate cuts this year, but with the forecasts showing fewer cuts than before in 2026 and 2027. However, against a backdrop of elevated uncertainty, Fed Chair Powell emphasised that no-one holds these rate path forecasts with a great deal of conviction. Fiscal policy progressed, with Trump's 'Big Beautiful Bill' (which includes an extension of the first Trump administration's tax cuts and is expected to keep the deficit at relatively high levels) passed the House.

The European Central Bank cut rates 25bps at both policy meetings in the second quarter. They continued to describe themselves as taking a "data-dependent", "meeting-by-meeting" approach and to send a message that they are not pre-committed to a particular path. However, throughout the June press conference, President Lagarde repeatedly peppered references to them being in a good position/well positioned/in a good place after the June rate cut. At the end of the quarter, markets were pricing an on hold decision in July but one further rate cut later in the year.

First quarter EU GDP (released in the second quarter) showed 0.6% quarter-on-quarter growth, strong by euro area standards. The unemployment rate remained at low levels by euro area standards over the quarter too. However, economists expected the pace of GDP growth to slow over the rest of the year. Inflation by the May release (out in June) was sitting below the ECB's target at 1.9% year-on-year and with core inflation only a little above target at 2.3%, continuing to drift gradually lower.

In Germany, Friedrich Merz was confirmed as the new German Chancellor by the Bundestag, though (unusually) at the second attempt. The Bundestag voted through reforms to Germany's debt brake, which will allow for more defence spending and a €500bn infrastructure fund.

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 geo-political tensions remain. This should all lead to volatility remaining elevated.

We expect the UK economic picture to deteriorate, which should be supportive of shorter maturity gilts. The market is pricing two further cuts from the Bank of England in 2025, before rising incrementally to a neutral rate of 4% by the end of 2029. We feel this neutral rate is too high and remain constructive on five-year maturity gilts.

We believe that UK nominal and index-linked bonds remain attractive on valuation grounds but we remain wary of the ongoing UK fiscal position. Global pressures remain while the domestic economic growth continues to underwhelm. The Labour government is struggling to fund savings, so we think tax hikes remain likely at the next Budget, which could place further pressure on growth.

Our preference is to remain long duration versus the benchmark and underweight the 'belly' of the curve, where heavy issuance will weigh on the performance of these bonds.

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

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.

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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.

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)	1.97	3.59	5.73	10.03	7.14
Fund (net)	1.91	3.47	5.49	9.31	5.97

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
3.24	1.39
3.01	1.17

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)	5.73	7.23	(2.95)	(2.48)	(0.16)
Fund (net)	5.49	7.00	(3.16)	(2.70)	(0.37)

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 Short Duration Gilts Fund Z 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.

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.

Performance

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