For professional clients only, not suitable for retail clients.

Royal London Sterling Credit 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 Sterling Credit 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

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, which should be considered as a period of 3-5 years, by investing predominantly in sterling-denominated corporate bonds. The Fund's performance target is to outperform, after the deduction of charges, the Markit iBoxx Sterling Non-Gilts Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is regarded as a good measure of the performance of investment grade corporate bonds denominated in sterling. 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 Sterling Corporate Bond sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 June 2025	2,336.15

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	98.20	99.40
Index linked credit bonds	1.47	-
Conventional foreign sovereigns	0.14	0.60
Other	0.19	-

Fund analytics

	Fund	Benchmark
Fund launch date	1 September 2008	
Fund base currency	GBP	
Benchmark	Markit iBoxx GBP Non-Gilts All Maturities	
Duration (years)	6.58	5.30
Gross redemption yield (%)	6.51	5.05
Number of holdings	337	1,229
Number of issuers	220	484

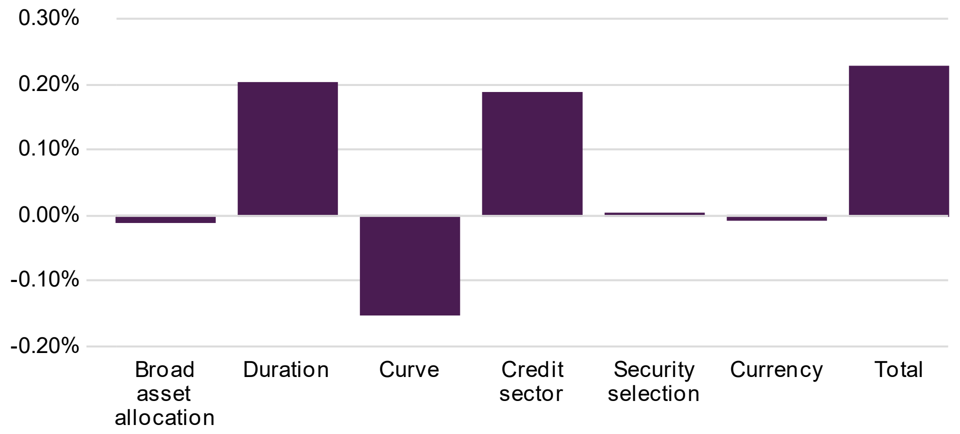
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.96	2.78	0.18
YTD	4.76	3.50	1.27
1 Year	8.44	5.33	3.10
3 Years (p.a.)	5.76	2.46	3.30
5 Years (p.a.)	2.08	(1.00)	3.08
10 Years (p.a.)	3.94	2.14	1.80
Since inception (p.a.)	5.83	4.04	1.79

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 1 September 2008.

Attribution over the quarter



Performance commentary

The second quarter saw positive returns from sterling credit investment grade markets (Iboxx). Against this, the fund outperformed the index. Following a volatile first half of 2025, performance remains comfortably ahead of the index.

Sector selection was the largest positive for the portfolio. Our bias towards insurance bonds was helpful as the sector performed strongly, as was our longstanding underweight in supranational bonds. The lower perceived risk of the supranational sector contributed to it lagging the wider market.

Stock selection effects were negative and the largest effect on performance over the quarter. We saw positive effects from holdings in the insurance sector, with exposure to long-dated bonds from Legal & General, Prudential and Aviva supporting returns. However, these positive impacts were offset by the negative impact of holdings in the structured sector. Many bonds in this area saw positive returns, but in a market of falling yields and tighter spreads, these often lag the broad market. In addition, 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 3 June. 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 downgrades from Moody's towards the end of the quarter. We continue to see these latter two names as reasonable risk reward opportunities within the context of our diversified portfolios, and continue to closely monitor the issuers.

Performance and activity

Top 10 holdings

	Weighting (%)
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	2.15
AVIVA PLC 6.875 20 May 2058	1.33
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.27
M&G PLC 6.34 19 Dec 2063	1.19
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.11
STANDARD CHARTERED PLC 6.05126 31 Dec 2079	1.04
HSBC HOLDINGS PLC 8.201 16 Nov 2034	0.98
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	0.97
ABBEY NATIONAL PLC 10.0625 31 Dec 2079	0.97
SANTANDER UK % NON CUM PREF PLC	0.82
Total	**11.84**

Fund activity

New issue activity was lower than usual during the quarter. This was primarily due to companies being reluctant to come to market during a period of higher volatility. This reluctance was exacerbated by overall yields that are higher than they were a year or so ago, and the expectation that rates are coming down further over the remainder of this year. In addition, many companies were active in locking in funding when rates were more favourable. As a result, this gives them more flexibility as to when they come to market. However, secondary market liquidity was plentiful, and volatility meant that we could find attractive opportunities to add to portfolios.

Financials are a major part of credit indices. AT1 bonds are deeply subordinated and are designed to absorb losses should a bank have difficulties. Our exposure to these bonds is limited to those institutions where our credit analysis shows a strong capital position and business model, as well as offering an attractive yield to reflect the risks of the instrument. Examples where we identified high quality offerings over the quarter included new issues from Nationwide and Barclays.

Elsewhere, we added a new tier 2 issue from Credit Agricole. These bonds have performed well since issue in May. In the secondary market, we added euro-denominated tier 2 bonds from CNP Assurances, part of La Banque Postal operating across Europe and in Brazil, presented the opportunity to add bonds available at a material premium to market spread levels.

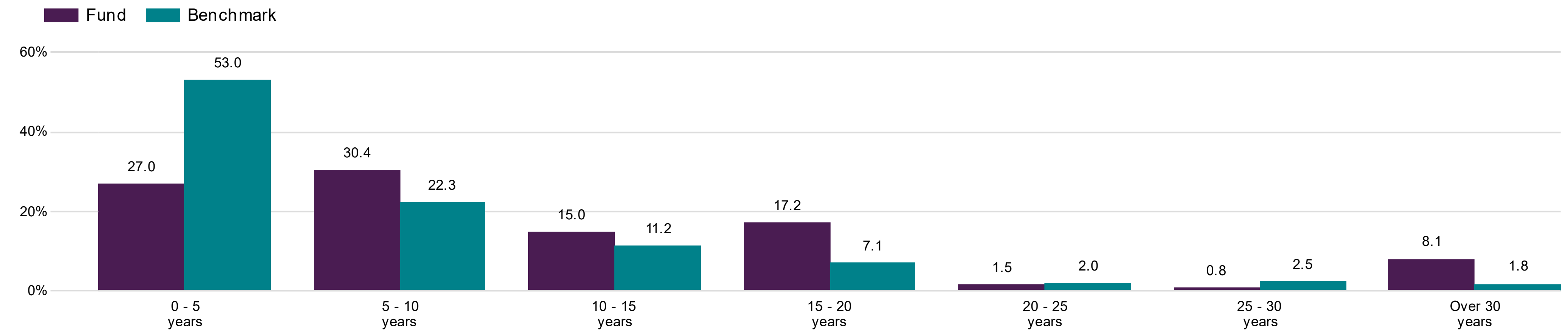
In utilities, we added the UK's first 'blue bond' issue from Bazalgette – a familiar name in our portfolios that is funding the Thames Tideway project. Blue bonds are a type of labelled bonds – tagged Blue to denote that these should benefit the seas or marine environments. Despite their environmental credentials, the attraction of these bonds lies in the underlying credit fundamentals and security backing the loan rather than simply the label attached to the bonds.

The portfolio remains underweight in supranational bonds, based on our view that although the risk-adjusted spread on these bonds is unattractive compared to other parts of the market. However, we will invest where we feel that this risk-adjusted spread is attractive. During the quarter we added Saltaire Finance, who provide financing to social housing providers under the UK Government's Affordable Housing Guarantee Scheme. Both offer an attractive credit spread for government guaranteed debt.

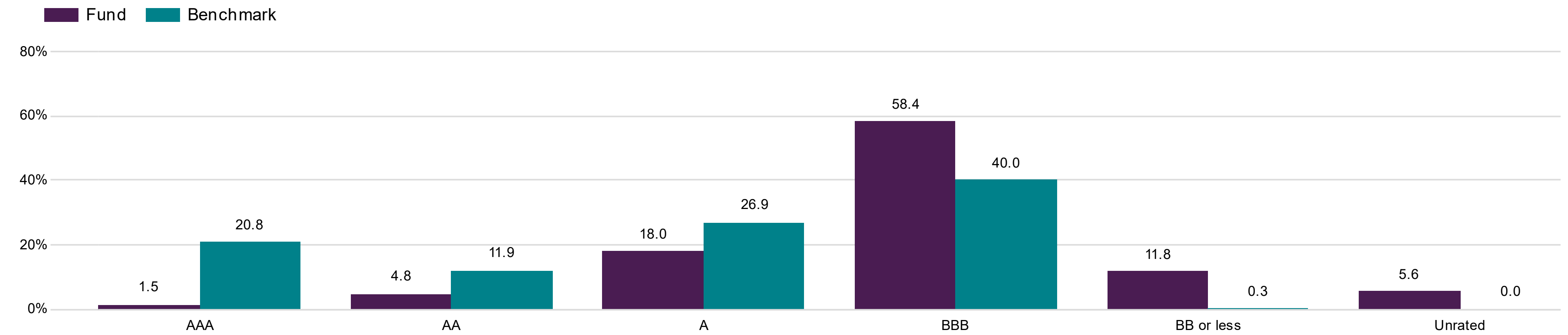
While the portfolio has a bias to bonds in areas such as financials, structured and social housing, we continue to look for ways to add to overall diversification. During the quarter we added a new issue from Vodafone. These bonds came at an attractive level as the mobile phone operator used proceeds to fund a tender at a premium to market prices.

Fund breakdown

Maturity profile

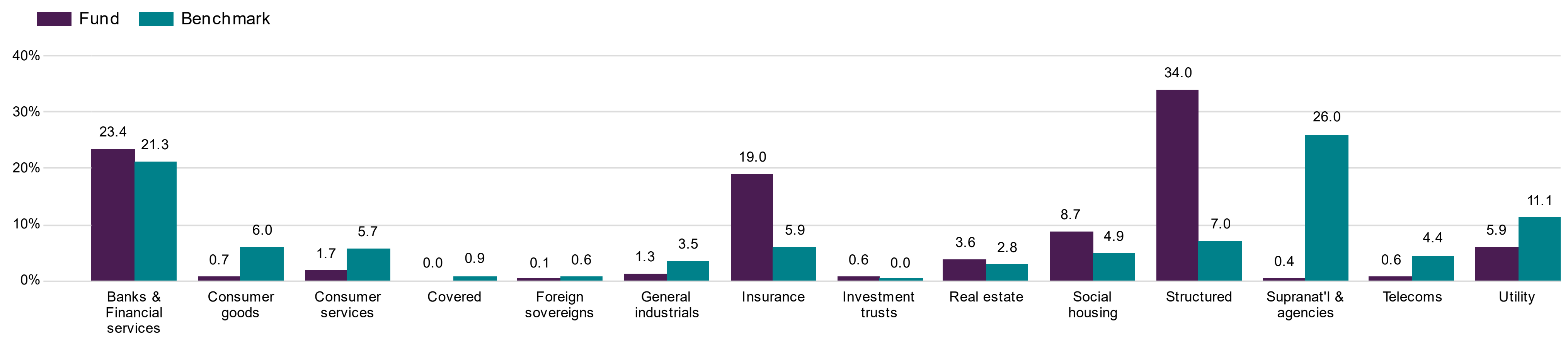


Credit ratings



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	15	40
Number of engagements	17	102

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	9
Climate - Transition Risk	9
Environment	1
Governance	12
Corporate Governance	9
Remuneration	2
Strategy	1
Social & Financial Inclusion	4
Just transition	2
Labour & Human Rights	2

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

E.ON SE - Net zero

Purpose:

As co-lead of the Climate Action 100+ investor group, the engagement focused on reviewing recent developments in the sustainability strategy of E.ON, a leading European utility company. The discussion focused on climate transition planning, emissions targets, and regulatory challenges.

Outcome:

E.ON is making steady progress on its climate transition, with a product mix that supports decarbonisation and a sharpened 2030 Scope 1 & 2 emissions target of 50% reduction. Scope 3 emissions fell 8% year-on-year, aided by a warmer winter and customer shifts to heat pumps. However, emissions rose in Scope 1 & 2 due to regulatory-mandated replacement of grid losses with grey electricity in Germany. The company is not expanding gas infrastructure and considers emissions in merger and acquisition decisions, though its approach lacks the clarity and ambition of leading peers. Hydrogen trials remain small-scale, with the company sharing that large-scale residential uptake is less likely than previously thought of. E.ON will provide further responses in a follow-up meeting or in writing. We will continue to monitor the company's progress against the CA100+ benchmark and support improvements where possible.

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

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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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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): https://ihsmarkit.com/Legal/disclaimers.html and/or in the prospectus for the Fund.

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.

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.

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 (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.96	4.76	8.44	18.31	10.84	5.76	2.08
Fund (net)	2.87	4.58	8.06	17.08	8.92	5.39	1.72

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)	8.44	12.97	(3.42)	(12.28)	6.81
Fund (net)	8.06	12.57	(3.76)	(12.59)	6.44

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 Sterling Credit Fund Z Inc GBP share class.

Glossary

Asset allocation

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

Attribution

Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

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.