For professional clients only, not suitable for retail clients.

Royal London Diversified Asset-Backed Securities Fund

Quarterly Investment Report

31 March 2025

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 March 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.

Contents

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
31 March 2025	331.57

Asset allocation

	Fund (%)
Conventional credit bonds	95.55
Index linked credit bonds	2.88
Conventional gilts	1.42
Conventional foreign sovereigns	0.14

Fund analytics

	Fund
Fund launch date	24 September 2012
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)
Duration (years)	0.91
Gross redemption yield (%)	6.18
Number of holdings	313
Number of issuers	206

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.11	1.10	1.00
1 Year	7.96	4.90	3.06
3 Years (p.a.)	6.97	4.02	2.95
5 Years (p.a.)	7.02	2.43	4.59
10 Years (p.a.)	4.37	1.51	2.87
Since inception (p.a.)	4.49	1.31	3.18

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 fund recorded a strong return in the quarter, significantly outperforming its benchmark. The fund's diversified nature was reflected in the diversity of performance drivers in the quarter and helped to effectively dampen risk despite volatile markets.

Overarching hedging of interest rate risk helped to protect returns even though yields rose over the period and allowed the fund's strong income generation to be the main driver of outperformance in the quarter. Secured bonds, including CMBS and social housing contributed strongly, along with certain bonds held within the banking sector. Despite spreads widening over the quarter, actively selected spread duration, particularly at the beginning of the period, contributed strongly to the outperformance. The spread performance of secured bonds was relatively robust, helped by their more protective characteristics.

Central to the fund's investment strategy is sourcing the best assets across both secured bonds and securitisations. Holdings in sectors that have previously exhibited volatility but are starting to stabilise, such as secured shopping centre debt from Intu, Westfield and Trafford and structured bonds from water companies including Southern Water and South East Water, performed well. Similarly, improved trading from select pub companies is starting to emerge, and secured bonds issued by pub operator Mitchells & Butlers benefited from spreads tightening in the quarter. Subordinated financial debt also contributed strongly to performance in the quarter. Bonds from Close Brothers, Legal & General, Esure and Athora all enjoyed a positive quarter. Continuing its strong performance from the fourth quarter, floating rate CMBS bond Euro 38, which is secured on Aldgate Tower in London, that we previously purchased at a price significantly below par, was further buoyed by the announcement of an expected early redemption of the bond at par.

Performance and activity

Top 10 holdings

	Weighting (%)
HWAYS_21-1X 4.4558 18 Dec 2031	1.66
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.58
DWR CYMRU (FINANCING) LTD. 4.377 31 Mar 2026	1.38
UK CONV GILT 3.5 22 Oct 2025	1.36
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	1.30
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.18
PROGRESS HEALTH 5.58 02 Oct 2042	1.13
WSTSTR_2 1.642 04 Aug 2026	1.10
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.06
MABLN_03 6.013 15 Dec 2028	1.01
Total	**12.77**

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.

As part of that approach, we were particularly focused on the impact of increased gilt volatility. Market pricing on many corporate bonds often focused on credit spread, failing to reflect the increasing difference in yields between low and higher coupon gilts of similar tenors. At times, this meant that bonds with similar credit spreads and maturities could have very different yields. During a period of tight credit spreads and higher volatility, this gave us opportunities to sell corporate bonds referenced to a low coupon gilt and buy high coupon gilts. In these cases, we were able to remove credit risk on our exposure for very little drop in yield.

Examples of these trades in the quarter included sales of bank bonds which had performed strongly, including National Australia Bank, but outside of financials, we made similar moves in bonds that had also performed strongly, including social housing bonds from Blend Funding.

Secured bonds remain a key exposure for the portfolio. With some other areas looking more expensive, we were happy to take advantage of both new issue and secondary market opportunities to add bonds that often offered more attractive spreads than similar unsecured bonds. One example during the quarter was the new issue purchase of the AAA RMBS tranche from specialist finance provider Together, while we also added a CMBS from Taurus, with underlying assets across industrial, retail and office sectors across the UK.

We remain active in secondary markets, searching out compelling, and often idiosyncratic, investment opportunities. In the first quarter, we added to favoured position in Telereal, giving the fund exposures to critical infrastructure as it secured on a pool of telephone exchanges operated by BT but the bonds trade wide versus BT bonds. Also, we added Unique Pub Finance bonds, a securitisation of a portfolio of Stonegate pubs, which have a very low loan-to-value and strong covenants. As a relatively small and inefficient piece of funding for Stonegate, this bond is a potential candidate for early redemption.

We also bought Tesco Property Finance bonds in the secondary market – the latter available with a more attractive credit spread than that on a new unsecured issue we passed on from Sainsburys – demonstrating the value in this area.

Financials are a major part of wider credit markets. Earlier in the quarter we added new issues of senior bonds from Credit Agricole and Nationwide Building Society. We also bought new tier 2 bonds from Legal & General at a very attractive spread level. In the insurance sector, ongoing liability management exercises continued to provide opportunities – with Legal & General

Performance and activity

Fund activity (continued)

bonds being bought back by the issuer as these were not capital efficient. The fund also bought AT1 bonds from Lloyds and NatWest at very attractive yields.

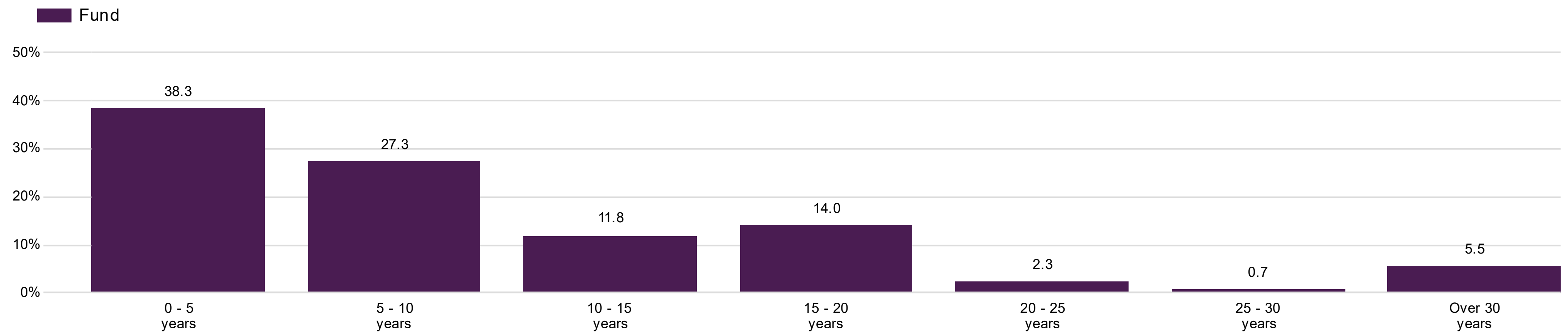
As the quarter progressed, with spreads having tightened over recent months, we looked for opportunities to trim risk – for example by selling Close Brothers 2026 bonds at a high cash price, buying Close 2030s at a lower cash price, reducing risk and enhancing spread.

Social housing also typically offers security over property, as well as fulfilling an important societal need. We added a new issue from Notting Hill Genesis, who own and manage more than 60,000 homes across London – the bonds providing a credit spread in excess of what is typical for the sector and rating. We also added bonds from Poplar Harca, a smaller housing association that we have lent to for many years at spreads that are more reflective of its lower profile than our perception of the issuer's credit risk.

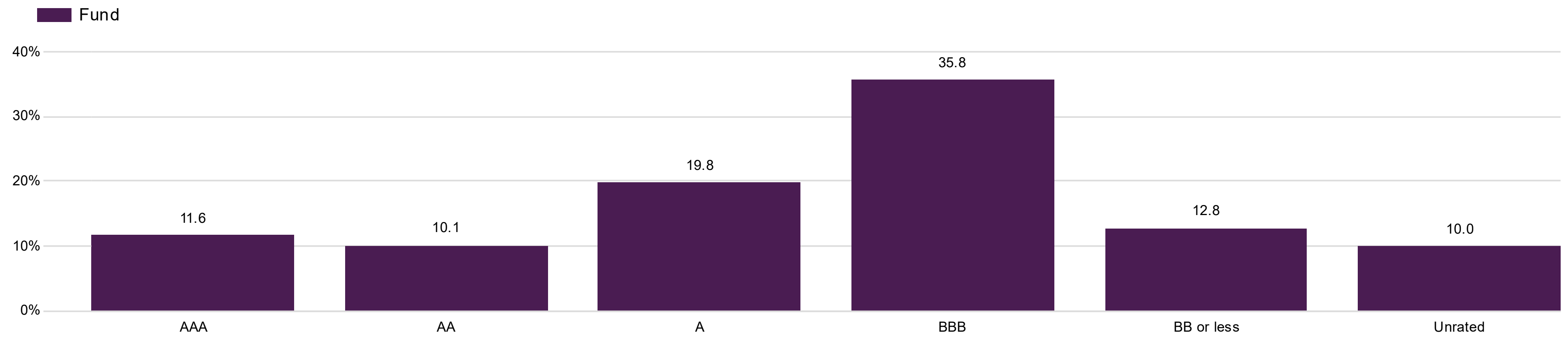
UK water is the part of the utilities sector that has been under greater scrutiny in recent years. We continue to see value in selected bonds and added to a new issue from Wessex Water, which were issued at an attractive premium to existing pricing.

Fund breakdown

Maturity profile

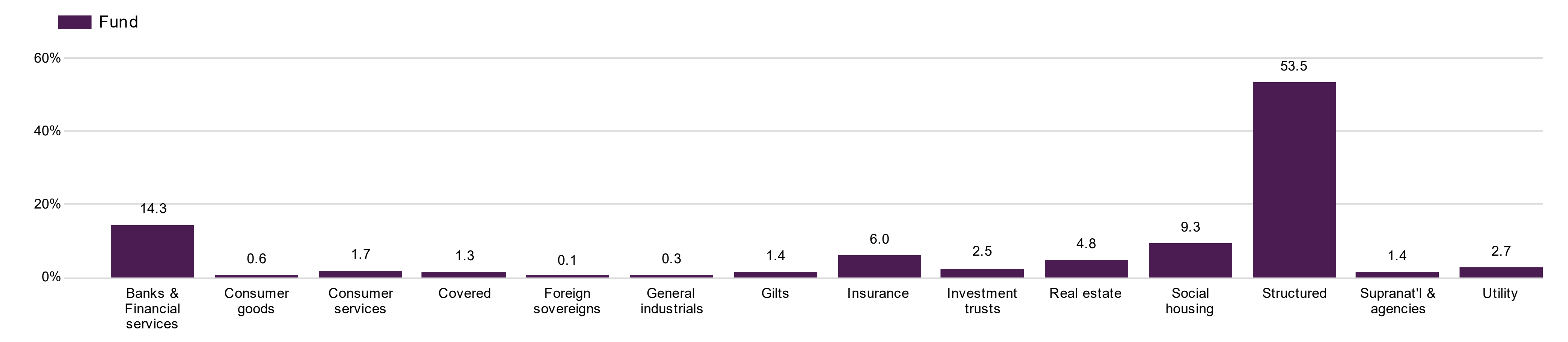


Credit ratings



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	10	30
Number of engagements	14	77

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.

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.

Total engagements by theme and topic

Biodiversity	**2**
Climate	**6**
Climate - Physical Risk	3
Climate - Transition Risk	3
Environment	**3**
Governance	**5**
Remuneration	3
Board	1
Corporate Governance	1
Health	**2**
Health - Community	2
Social & Financial Inclusion	**2**
Just transition	1
Social & Financial inclusion	1

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

Fund Engagement

Engagement outcomes

Wessex Water Ltd – Water project

Purpose:

Wessex Water responded to our request for a meeting following the release of its updated company scores which were derived from our scoring methodology based on public disclosures and company engagement in 2024. The meeting provided an opportunity to discuss areas for improvement, including pollution management, antimicrobial resistance (AMR), biodiversity, and climate-related physical risks.

Outcome:

The company highlighted its pollution control efforts, including the use of machine learning to detect sewer changes during rain and the importance of predictive analytics in preventing spills. Wessex Water also addressed antimicrobial resistance (AMR), emphasising its participation in the Chemicals Investigations Programme, a UK water industry initiative that investigates trace chemical substances in the water environment to comply with current and emerging legislation, and the need for green prescribing, which supports people to engage in nature-based interventions and activities to improve their mental and physical health.

Wessex Water discussed its approach to managing Sites of Special Scientific Interest (SSSIs) and the challenges posed by nutrient programmes. The company outlined the near-term opportunities and risks associated with its £850m total expenditure. The discussion also covered physical climate risks, particularly the importance of sustainable drainage to manage increased rainfall. Wessex Water plans to initiate the funding process for 2025-2030 and conduct a double materiality assessment, with updates to be provided in the next investor roadshow.

Market commentary

Market overview

The year kicked off with relative stability, following a turbulent fourth quarter of 2024, with the global economy seeing modest growth and central banks easing monetary policy as inflation remained well below the peak levels of recent years. As the quarter progressed, however, stability gave way to volatility, primarily due to elevated policy uncertainty in the US, with President Donald Trump pivoting away from Europe; the spectre of aggressive tit-for-tat tariffs; and Europe's fiscal regime change, led by Germany looking to alter decades of fiscal policy stability and ramp up spending, principally in relation to defence.

The increasingly uncertain US policy backdrop and related disruptions to global trade seem likely to weigh on growth in the US and beyond. Fiscal stimulus may provide something of a shield in economies like the euro area and China. We anticipate that a few more gradual and careful rate cuts are likely in major economies (except in Japan), but the US inflation outlook is uncertain enough that US rate hikes can't be ruled out either.

Policy uncertainty resulted in significant weakness in global equity indices. US tech stocks had already experienced a dramatic sell-off following news of an apparently low-cost development of advanced AI by a Chinese competitor, DeepSeek. European and UK stocks fared much better, posting positive total returns for the three months as investors also pivoted away from overweight positions in US equities, in part because of the change in German fiscal policy.

In March, as expected, the Bank of England's Monetary Policy Committee voted to keep rates on hold at 4.50%, with an 8-1 vote in favour of keeping rates steady. The Bank continues to see a "gradual and careful approach to the further withdrawal of monetary policy restraint" as appropriate. The BoE has noted that not much in the domestic picture has changed for them. On inflation, although this has been a touch stronger than expected, they see domestic and wage pressures as moderating (but remaining elevated) and they still expect inflation to fall back after an expected rise in CPI in coming months.

In the US, at its final meeting of the quarter, the Federal Reserve, as expected, kept rates on hold with the Fed Funds target range at 4.25-4.50%. With them seeing the US economy as "strong overall", the Fed feels they are in a good place. Chair Powell noted that they are at a position, where the bank can cut and they can hold (perhaps notably not mentioning a possible hike). Participant forecasts still have two rate cuts in them for 2025.

At its final meeting in the quarter, the European Central Bank cut rates 25bps, to 2.50% on the deposit rate, which was very much as expected. The ECB continues to describe the disinflation process as well on track and continues to "follow a data-dependent and meeting-by-meeting approach" without pre-committing to a particular path. They still see the skew of risks to growth as to the downside.

Government bond markets also saw heightened volatility over the quarter, amid ongoing political noise across Europe and the US. In the US, 10-year treasury yields fell to 4.21% from 4.57%, while German 10-year bunds yields rose to 2.70% from 2.36%. Benchmark 10-year gilt yields increased to 4.68% from 4.57%.

The sterling investment grade credit market (iBoxx non-gilt index) returned 0.70% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) widening over the period from 0.85% to 0.95% (iBoxx). Most sectors saw positive returns, with the exceptions of utilities, consumer services and social housing. These exceptions were driven more by the greater exposure to long-dated bonds than issues with the sectors themselves.

Outlook

Amidst global geopolitical and macroeconomic uncertainties affecting global government bond markets, sterling credit still offers attractive sources of value for those prepared to look carefully. In a diversified portfolio, we believe that we can generate good levels of income by taking appropriate levels of risk but ensuring, where possible, mitigation of those risks.

At the margin, we have taken advantage of further spread tightening to reduce risk, primarily through selling financials into structured bonds. We remain overweight in the financials, particularly subordinated bonds, but with a smaller overweight than we had at the start of 2025. We will continue to take a pragmatic view – trimming exposure if spreads reach levels where we feel we can add yield or reduce risk by switching into other bonds – but avoiding a widespread move to reduce exposure to any given sector.

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 be 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 towards secured and collateralised debt to help mitigate default risk, and on income, will support returns in the medium term and through the present environment of volatile yields and potentially wider spreads.

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.

This is a financial promotion and is not investment advice.

Telephone calls and written communications may be recorded and monitored. For further information please see the Privacy Policy at www.rlam.com.

Issued in April 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.

The "SONIA" mark is used under licence from the Bank of England (the benchmark administrator of SONIA), and the use of such mark does not imply or express any approval or endorsement by the Bank of England. "Bank of England" and "SONIA" are registered trademarks of the Bank of England.

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 31 March 2025

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.11	4.70	7.96	22.42	40.43	6.97	7.02
Fund (net)	2.00	4.48	7.50	20.87	37.34	6.52	6.55

Year on year performance (%)

	31/03/2024 - 31/03/2025	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022	31/03/2020 - 31/03/2021
Fund (gross)	7.96	11.27	1.91	3.97	10.33
Fund (net)	7.50	10.80	1.48	3.52	9.76

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 31 March 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, net 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.

Yield to worst

Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting.