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Royal London International Government Bond Fund

Quarterly Investment Report

31 March 2025

Quarterly Report

The fund as at 31 March 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.

Fund value

	Total £m
31 March 2025	1,235.40

Asset allocation

	Fund (%)	Benchmark (%)
Conventional foreign sovereigns	96.68	100.00
Index linked foreign sovereigns	3.30	-
Conventional gilts	0.02	-

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)	6.80	6.53
Gross redemption yield (%)	3.15	3.32
Number of holdings	124	1,033

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.43	1.21	0.22
1 Year	3.96	3.14	0.83
3 Years (p.a.)	0.78	(0.27)	1.04
5 Years (p.a.)	(0.16)	(1.28)	1.12
10 Years (p.a.)	1.40	0.80	0.60
Since inception (p.a.)	2.05	1.80	0.24

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 fund outperformed its benchmark during the first quarter. Over the first quarter of 2025, global sovereign bond markets were dominated by one theme – the proposed policy actions of the new Trump Administration, specifically regarding a revised approach to foreign policy and the extent to which election pledges regarding tariffs would be implemented in practice. Through the volatile first three months of the year, duration positioning was initially a positive contributor to performance, but an unanticipated sell-off in Europe in March resulted in a negative impact on performance at the end of the quarter, but this was more than offset by our inflation and curve positioning, with cross market exposure broadly neutral.

January itself saw yields largely unchanged, as Trump's inauguration passed without incident and the Federal Reserve held rates steady at the end of the month, pointing towards the potential for increased uncertainty on economic variables such as growth and inflation arising from the policies of the new US administration. February saw a significant outperformance of US treasuries, as the market began to exhibit some concerns over US trade policies and their impact on the growth prospects for the US economy, with a full further rate cut for 2025 priced in.

While intra-country spreads remained remarkably stable, other European Government Bond (EGB) yields were dragged higher. Despite the marked change in policy, Germany remained the base for which other EGB yields were priced off. Despite a further 25bps cut in rates by the ECB towards the end of March, EGB yields only partially recovered (as part of a global rally in bonds) and remained 30 to 40 basis points higher than where they started the year, whereas US yields were 20 to 30 basis points lower. With the fund having run an overweight position in European bonds over the quarter (largely in Spanish debt), duration will have had a negative impact on performance, all of which will have arisen in March, with positive impact prior to the unanticipated sell-off in Europe.

Japanese yields also rose significantly over the quarter – by between 30 and 40 basis points – as the Bank of Japan adopted a more hawkish stance. Having reduced the fund's exposure to Japan to flat towards the end of 2024, these moves had limited impact on portfolio performance.

Performance and activity

Fund activity

We added to duration over the course of January, largely via US treasuries, and started the year just under half a year overweight versus the fund benchmark. In February, yields elsewhere finished largely unchanged over the course of the month, so we elected to reduce our overweight duration to the US and reduce the long overall portfolio duration stance to around 1/3 of a year.

The fund started the quarter with cross market exposure concentrated in Europe, running an underweight in France versus an overweight in Germany, coupled with an overweight in peripheral European markets, namely Spain. We felt that budgetary concerns and political instability was not being adequately reflected in the spread of France over bunds, some 10bps off the wides seen earlier in December.

However, with the changing geopolitical landscape and seemingly a willingness at the EU level to accept wider budget deficits facilitating increased defence spending, one of the key trade rationales was lost, so we exited this trade early in March. However, we maintained the overweight in Spain, where economic prospects, and consequent funding requirements, remain one of the brightest in Europe. They are also less likely to significantly increase defence spending and are possibly in line for an upgrade from the debt rating agencies.

One of the key debates over the tariff policies of the Trump administration is as to whether they will be inflationary or not; a short-term spike in prices may be offset in the longer term as growth slows and economies potentially slide towards recession. The fund started the quarter with a position in US 30-year and five-year breakevens, which benefitted from the kneejerk reaction to tariffs, and we exited this position in January. Later in the quarter, we opened a position in five-year German breakevens, as they dipped to around 1.8%, 20bps below the ECB's targeted level of 2%.

Against the backdrop of potential retaliatory tariffs, this seemed like an attractive level to buy. This trade performed very well in the nominal bond sell-off after the German policy shift announcement and we took profits. Similarly, we also tactically traded a position in three-year US break-evens during March, as they dipped to around 2.5%, and exited at a profit later in the month.

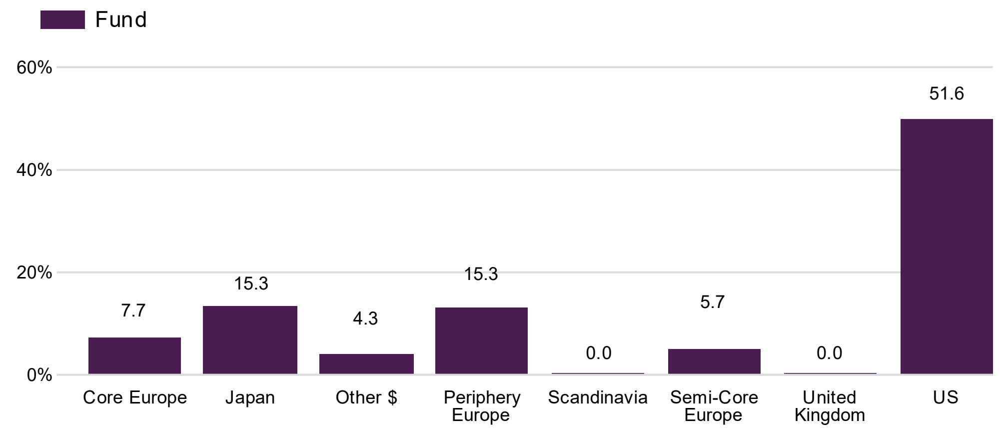
Key yield curve positions held over the quarter were steepeners in the US, Europe and Canada and 15s30s flatteners in Japan. The steepening trades worked very well, particularly towards the end of the quarter as the market began to appraise the impact of US trade and foreign policy, pricing in more rate cuts and a return of term premia, causing shorter term bonds to significantly outperform their longer dated equivalents.

This was particularly evident in the US, where the 5s30s curve steepened from around 40bps at the end of 2024 to around 65bps by the end of March. We took profits on the Canadian curve position but remain positioned for steeper curves in the US and Europe.

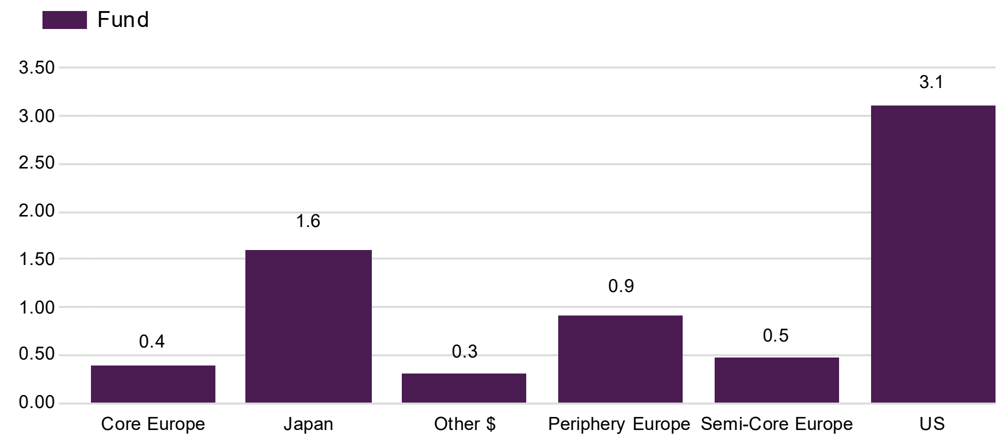
Despite initially flattening during the first half of the quarter, the Japanese yield curve got dragged steeper as worldwide concern over US policy caused all markets to re-appraise future monetary policy and economic prospects. Even with the negative contribution from the Japan curve positioning, the yield curve strategy overall for the fund was a positive contributor to performance over the first quarter of 2025.

Fund breakdown

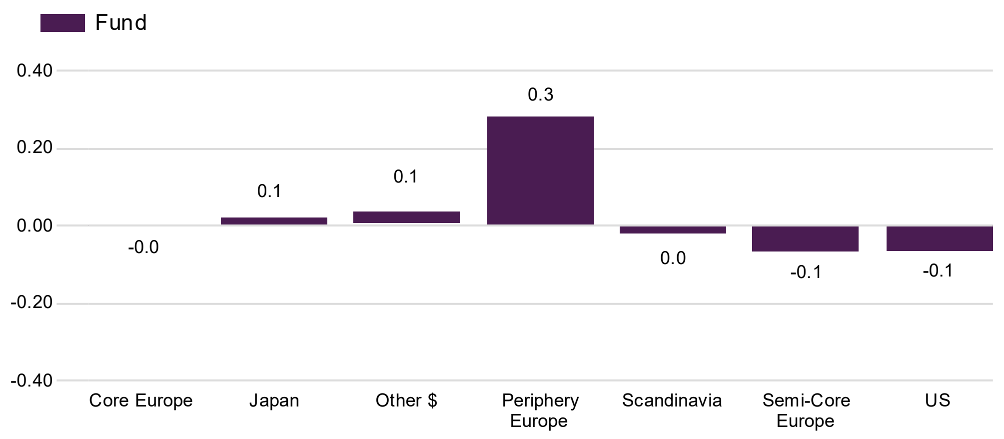
Geographic split by % weight



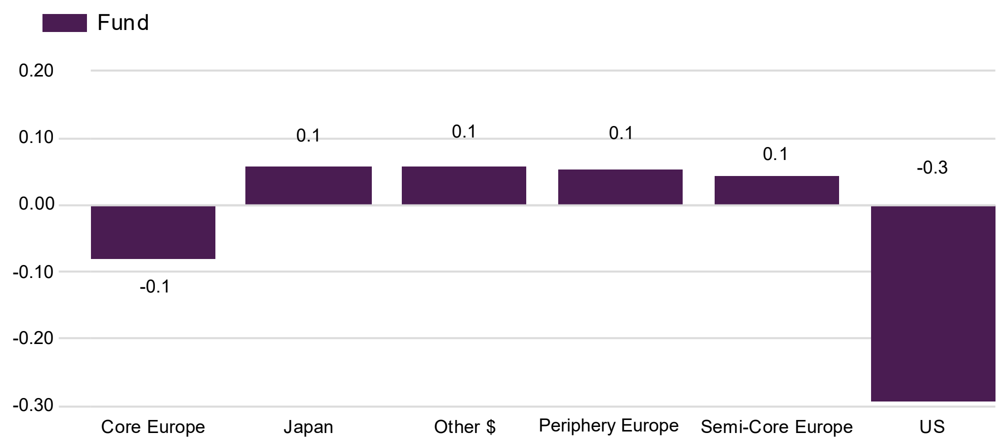
Geographic split by duration



Duration position relative to benchmark

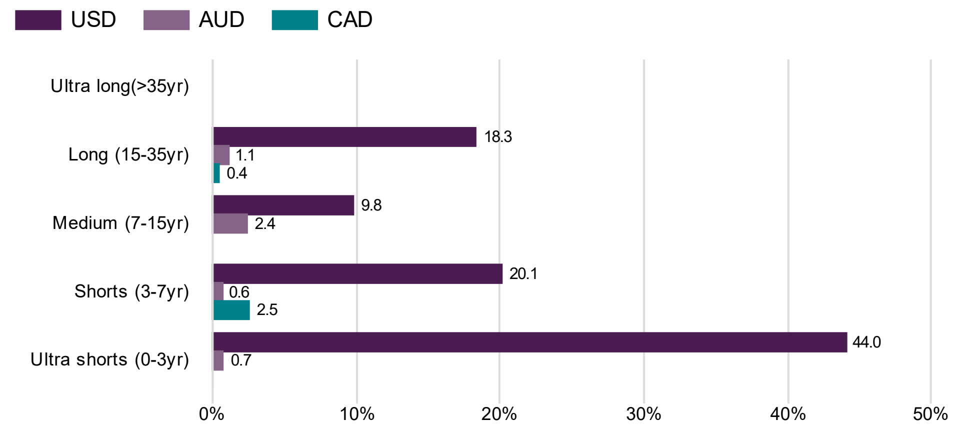


Relative duration quarter on quarter

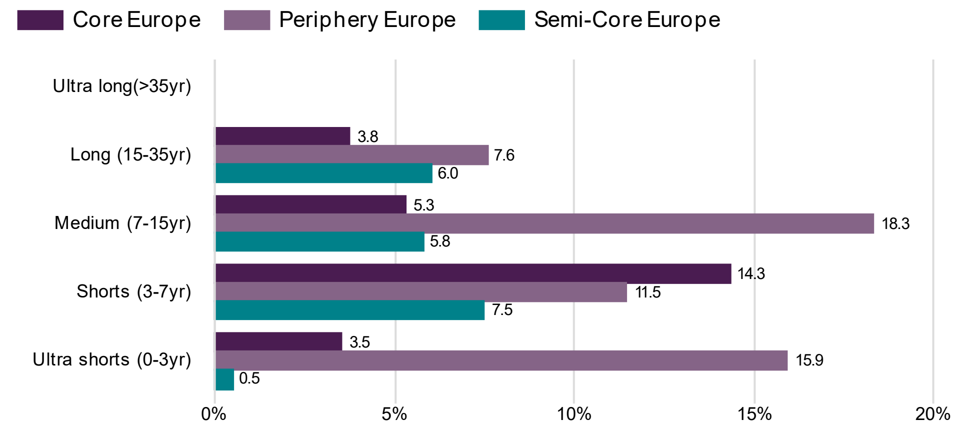


Fund breakdown

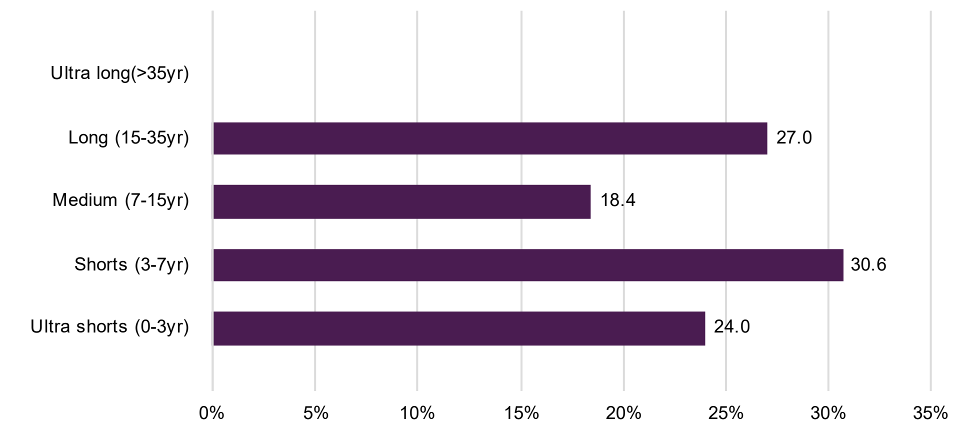
Dollar bloc



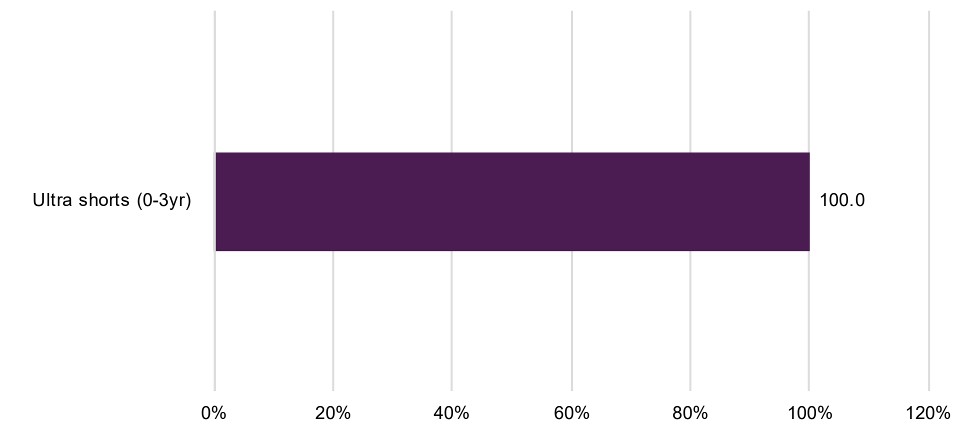
Euro bloc



Japan

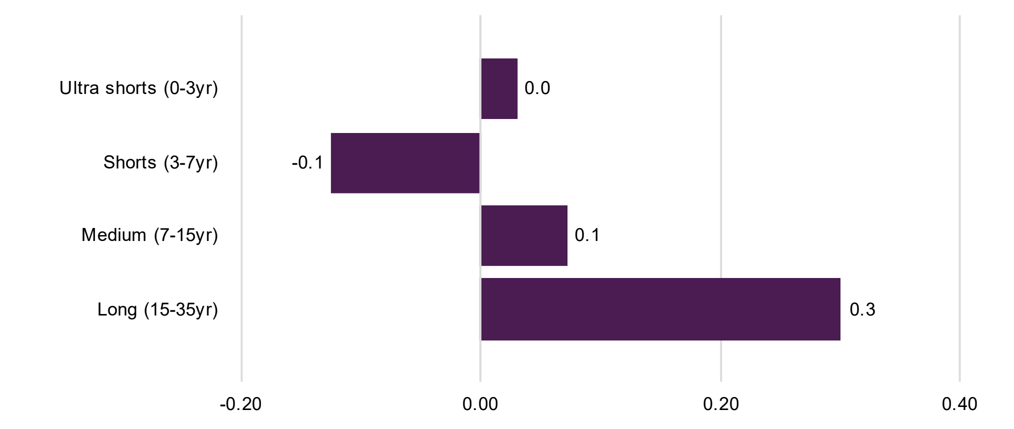


UK

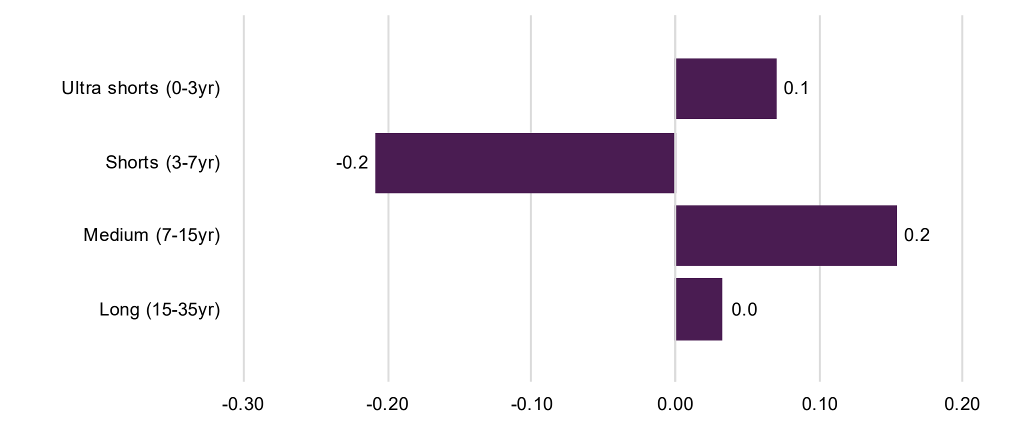


Fund breakdown

Maturity profile relative to benchmark



Maturity profile change on quarter



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.

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 bund yields rose to 2.70% from 2.36%. Benchmark 10-year gilt yields increased to 4.68% from 4.57%.

The largest moves in yields over the quarter were seen in March. The market was surprised by the announcement that the incoming German government was to embark on a significant fiscal expansion program to tackle its ailing economy and bolster defence spending, following the withdrawal of military support for the Ukraine from the US. This involved the announcement of a €500bn infrastructure program and a relaxing of its self-imposed “debt brake” (a measure to limit the structural deficit to 0.35% of GDP) to allow a potentially unlimited increase on defence spending.

While the market had expected a degree of fiscal expansion, the measures announced were far in excess of these expectations, marking something of a sea-change in the approach to fiscal discipline previously associated with Germany. This saw German yields rise dramatically, with the 10-year point increasing by around 40bps over the course of a week. At this stage, the new infrastructure and defence policies were just proposals, but the market assumed that they would get passed as law, prior to the new administration being in place, as indeed they did.

Outlook

The first three months of 2025 was an undeniably volatile period for the fund. Geopolitics, particularly the policies of the new US administration, changed the landscape for global financial markets. The surprise shift in fiscal stance from Germany was the driver of the poor performance from the fund’s duration strategy, but positive contributions from curve and inflation strategies served to more than offset this.

As we head into the second quarter, the outlook is, if anything, even less certain and we are keeping positioning light in order to be in a position to take advantage of the elevated volatility and outsized market reactions to data and policy announcements.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

Disclaimers

Important information

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The Fund is a sub-fund of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797.

The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

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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 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.43	(0.11)	3.96	2.35	(0.80)
Fund (net)	1.36	(0.26)	3.65	1.43	(2.28)

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
0.78	(0.16)
0.47	(0.46)

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)	3.96	2.74	(4.18)	(2.23)	(0.87)
Fund (net)	3.65	2.44	(4.47)	(2.52)	(1.17)

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 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.