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RLPPC Enhanced Buy and Maintain Credit 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 RLPPC Enhanced Buy and Maintain 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

The fund

Fund performance objective and benchmark

The Fund will aim to provide excess income (relative to equivalent UK Government Bonds) over the life of the Fund. It will target a spread at inception, relative to gilts, of +1.3%-1.6% (with allowance for +/- 0.1% tolerance at inception). This spread target may move over time, reflecting any change in market conditions.

Reference index: There is no benchmark for this fund. The iBoxx Sterling Non-Gilt All Maturities index has been used in this report for reference purposes only.

Fund value

	Total £m
31 March 2025	130.11

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	99.38	99.41
Conventional gilts	0.62	-
Conventional foreign sovereigns	-	0.59

Fund analytics

	Fund	Benchmark
Fund launch date	16 January 2017	
Fund base currency	GBP	
Duration (years)	6.23	5.27
Gross redemption yield (%)	6.33	5.38
Credit spread (%)	1.40	1.13
Number of holdings	225	1,240
Number of issuers	166	490

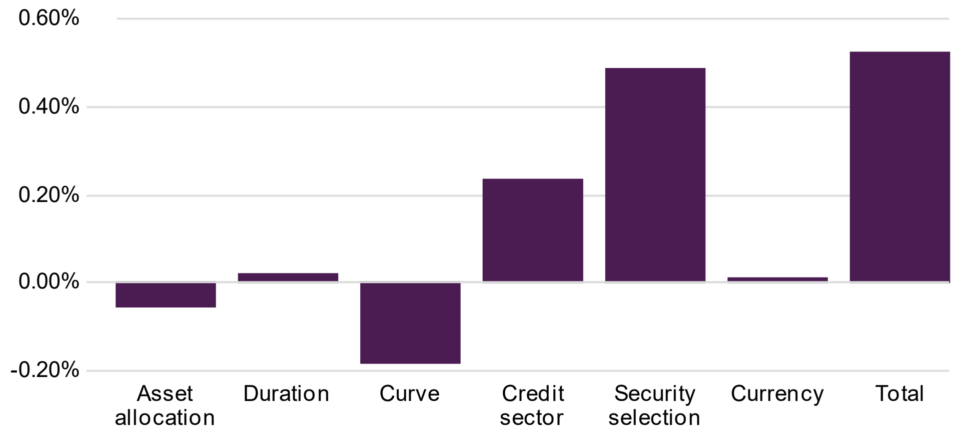
Performance and activity

Performance

	Fund (%)	Reference index (%)	Relative (%)
Quarter	1.23	0.70	0.52
1 Year	3.61	2.36	1.25
3 Years (p.a.)	(0.48)	(0.82)	0.34
5 Years (p.a.)	0.28	(0.21)	0.49
Since inception (p.a.)	1.63	0.92	0.71

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 I Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 16 January 2017.

Attribution over the quarter



Performance commentary

The first quarter was a strong one for our buy & maintain strategy. We saw spreads begin to widen towards the end of the quarter, after two years of near-constant tightening, but it was a relatively calm three months for sterling debt investors. The sterling corporate debt market found a path between the larger US and euro markets – which have seen greater volatility in the period.

Increased geopolitical tensions and heightened macroeconomic uncertainty will always lead to reassessed investment assumptions and market volatility. Looking at the current situation, the consensus expectation is that tariffs will likely hurt the consumer through price inflation and hamper GDP growth. Government bond yields and credit spreads have consequently moved to reflect this changing outlook.

Amidst this wider volatility, sterling credit markets have held up well so far, with the main attraction being the all-in yield this asset class continues to offer. While sterling investment grade all-in yields are attractive, their make-up has changed; a larger component of the yield is from government bond yields. The volatility we are seeing in fixed income markets is coming from government bond yields.

The portfolio saw a positive return during the quarter, despite a small move higher in gilt yields and the widening in credit spreads. Gilt yields ended slightly higher on concerns over UK public finances, while the credit spreads were wider on a mixture of concerns over the global economy as well as some profit-taking follow a sustained period of tightening spreads. Looking at performance in the context of wider sterling credit markets, using the iBoxx Sterling Non-Gilt index as a reference, the portfolio outperformed. The portfolio has a duration position that is longer than the wider market as part of its objective, and with the bias to longer-dated bonds, the combination of duration and curve positioning were negative for returns relative to the market.

Credit sector positioning and stock selection both added to performance. For structured bonds, exposure to the sector was helpful in a quarter where these generally outperformed the market. Selection within the sector was also postive: our exposure to Thames Water was negative, while holdings in secured shopping centre debt from Intu and Trafford performed well – helped by not being interest rate sensitive and the uptick in consumer sentiment. Bank exposure was also helpful, with bonds from Close Brothers seeing a strong recovery from the fourth quarter, when negative news headlines around car leasing fines had pushed prices lower, while IG Group also contributed to performance.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK PLC 5.375 04 Nov 2030	1.75
AVIVA PLC 6.875 20 May 2058	1.47
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	1.41
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.23
CLOSE BROTHERS FINANCE PLC 1.625 03 Dec 2030	1.20
ENEL FINANCE INTERNATIONAL SA 5.75 14 Sep 2040	1.10
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.08
SOCIETY OF LLOYDS 4.875 07 Feb 2047	1.05
MEADF_06 4.986 12 Jan 2032	1.04
TRAFFORD CENTRE FINANCE LTD A3 4.4558 28 Jul 2038	0.97
Total	**12.31**

Fund activity

Gilt activity was higher than normal during the quarter, due to a growing inefficiency. Market pricing on many corporate bonds often remained focused on credit spread, failing to reflect the 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 different yields. During a period of tight credit spreads and higher volatility, this gave us opportunities to sell a corporate bond referenced to a low coupon gilt, and buy a high coupon gilt. In these cases, we were able to remove credit risk on our exposure for very little drop in yield. In addition, we continued to find switches or trades to enhance returns, reduce risk, or a combination of the two. Examples during the quarter included a switch from Northumbrian Water into Southern Water – where we feel that the latter is a higher quality credit and yet were able to achieve a modest improvement in spread.

Financials are a major part of credit indices. 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. As the quarter progressed, with spreads having tightened over recent months, we looked for opportunities to trim risk – for example by selling HSBC tier 2 bonds into HSBC senior bonds with similar tenor and only a small decrease in spread.

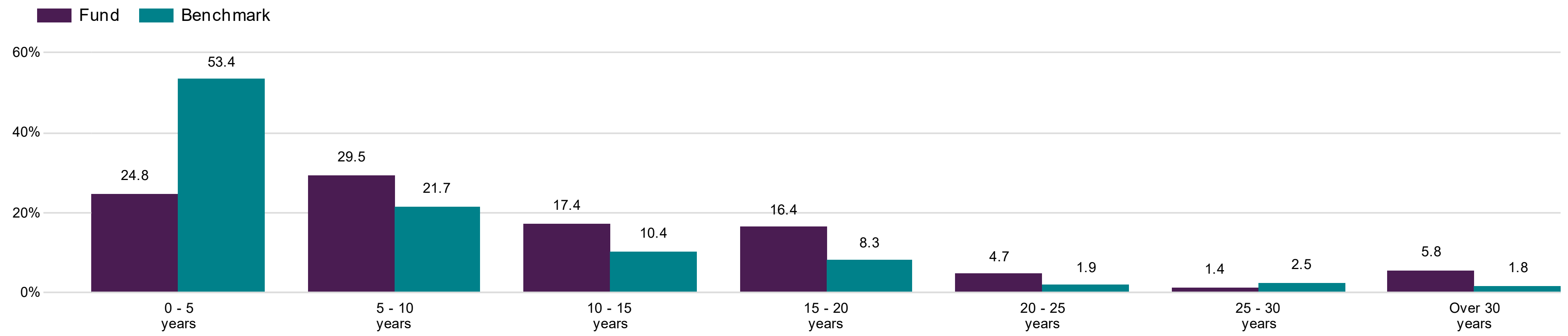
Structured bonds remain a key exposure for the portfolio. With some other areas looking more expensive, we were happy to take advantage of both new issue and secondary market opportunities to add secured bonds that often offered more attractive spreads than similar unsecured bonds. One example during the quarter was the AAA tranche of an RMBS from specialist finance provider Together, a pool of second-charge mortgages enabling people to access equity in their homes for a number of reasons, including debt consolidation at a lower interest cost and financing home renovations.

Social housing also offers a degree of security over unsecured bonds, 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 market average. We also added bonds from LiveWest Treasury in the secondary market, a South-West based housing association with looking after 40,000 homes, this being a relatively small issue and therefore offering an above-market spread.

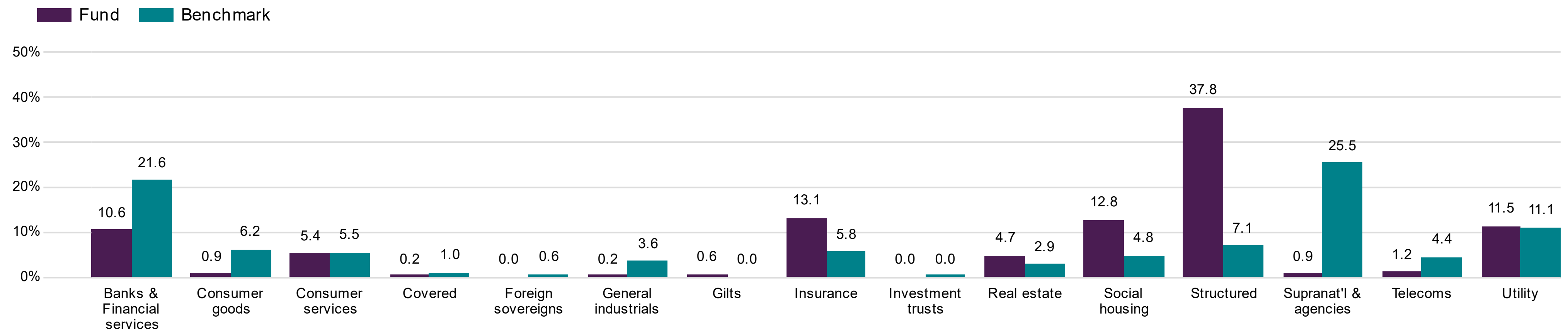
While the portfolio has a bias to bonds in areas such as secured corporate, securitised assets, financials and social housing, we continue to look for ways to add to overall diversification. During the quarter we added global distribution and services group Bunzl and business software provider Sage.

Fund breakdown

Maturity profile

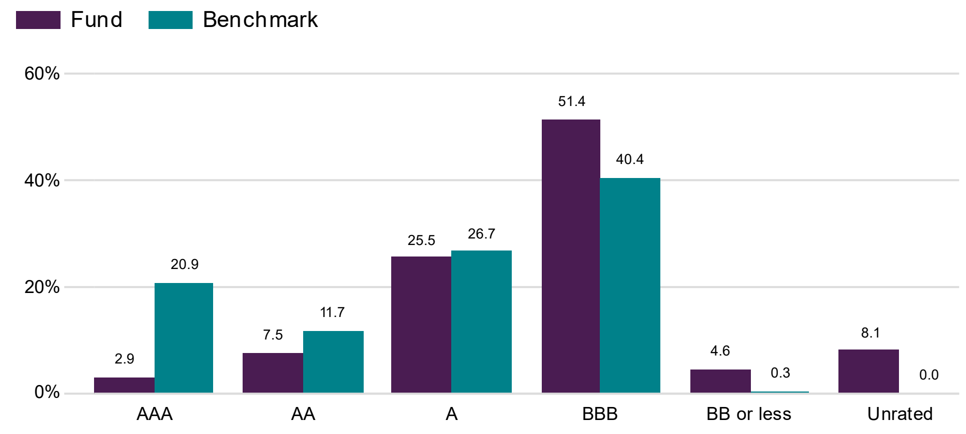


Sector breakdown



Credit ratings

Credit ratings



Downgrades

The table below details directly held credit bonds downgraded to sub-investment grade by at least one agency during the quarter.

Asset description	Current Rating	Previous Rating
No downgrades this quarter		

Upgrades

The table below details directly held credit bonds upgraded from sub-investment grade by at least one agency during the quarter.

Asset description	Current Rating	Previous Rating
No upgrades this quarter		

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	8	24
Number of engagements	10	65

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

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

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.

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.

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.

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.

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 underweight banks with targeted exposure to subordinated bonds. We will continue to take a pragmatic view – trimming exposure if spreads reach levels where we feel they offer no reasonable risk-adjusted return, whilst also switching gilts back into selective opportunities when they present themselves.

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, 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.

We remain confident that we can further achieve an attractive credit spread premium in our buy & maintain portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers, Exchange Traded Funds and passive funds that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that the more credit is treated as a commoditised asset class, the greater the level of inefficiencies that an active manager can exploit.

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.

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Risks and Warnings

General risks

The degree of investment risk depends on the fund you choose.

The prices of units can go down as well as up.

The return from your investment is not guaranteed; therefore, you may get back less or more than shown in the illustrations.

You may not get back the amount that you originally invested.

Past performance is not a guide to future return.

Inflation may, over time, reduce the value of your investments in real terms.

There may be a variation in performance between funds with similar objectives owing to the different assets selected.

Funds aiming for relatively high performance can incur greater risk than those adopting a more standard investment approach.

The use of derivatives in pursuit of a fund's objective may cause its risk profile to change and this may be material.

Fixed interest security 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.Key determinants include economic growth prospects, inflation, the government's fiscal position, short-term interest rates and international market comparisons. The returns from bonds are fixed as at the time of purchase. Therefore the fixed coupon payable and the final redemption proceeds are known at the outset. This means that if a bond is held until its redemption date, the total return that could be expected is unaltered from its purchase date, subject to counterparty default (see 'Credit risk' below). However, over the life of a bond, the yield priced by the market (as opposed to actual fixed coupons payable) at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase price and a profit or loss may be incurred.

Credit risk

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. This fund may invest a percentage of it's assets in sub-investment grade bonds. Such bonds have characteristics which may result in higher probability of default than investment grade bonds and therefore higher risk.

Overseas markets risk

Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates.

Derivatives risk for efficient portfolio management

Derivatives may be used by this Fund for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

Derivatives risk for investment purposes

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.23	1.12	3.61	(1.42)	1.40
Fund (net)	1.17	1.01	3.38	(2.07)	0.29

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
(0.48)	0.28
(0.69)	0.06

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)	3.61	7.81	(11.74)	(3.65)	6.76
Fund (net)	3.38	7.57	(11.94)	(3.86)	6.52

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 RLPPC Enhanced Buy and Maintain Credit Fund I Inc 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.

Credit spread
Credit spread is the difference in yield between two debt securities of the same maturity but different credit quality.

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.

Rating changes - downgrades
Directly held credit bonds downgraded from investment grade to sub-investment grade based on the RLAM composite rating during the quarter.

Rating changes - upgrades
Directly held credit bonds upgraded from sub-investment grade to investment grade based on the RLAM composite rating during the quarter.

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.