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RLPPC UK Corporate Bond 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 RLPPC UK Corporate 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 aims to achieve +0.50% in excess of the benchmark net of fees per annum, on a rolling three year basis. The UK Corporate Bond Fund (UCF) invests predominantly in sterling credit bonds, including unrated bonds and sub-investment grade bonds. The fund may also invest in UK government bonds and non-sterling bonds. The iBoxx Sterling non-Gilt all maturities index is considered an appropriate benchmark for performance comparison.

Benchmark: iBoxx Sterling Non-Gilts - All Maturities

Fund value

	Total £m
31 March 2025	2,531.00

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	98.26	99.41
Conventional gilts	1.48	-
Index linked credit bonds	0.17	-
Conventional foreign sovereigns	0.09	0.59

Fund analytics

	Fund	Benchmark
Fund launch date	31 May 2000	
Fund base currency	GBP	
Benchmark	Markit iBoxx GBP Non-Gilts All Maturities	
Duration (years)	5.43	5.27
Gross redemption yield (%)	6.25	5.38
Number of holdings	457	1,240
Number of issuers	269	490

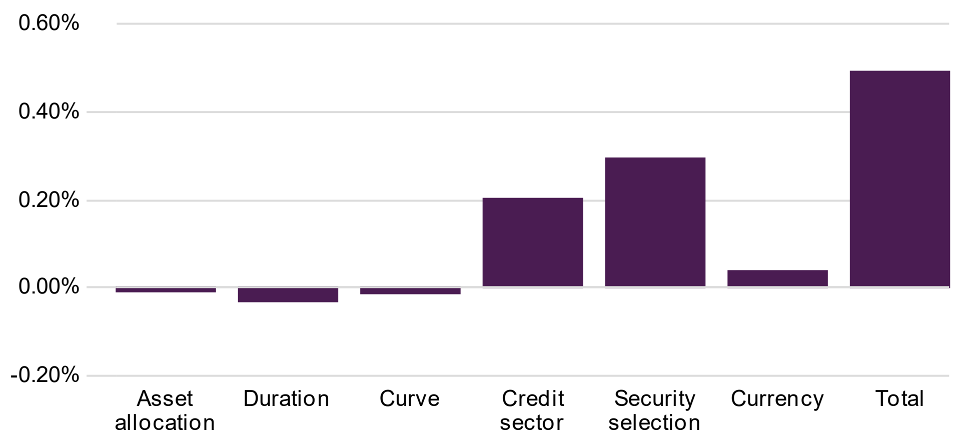
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.15	0.70	0.45
1 Year	4.32	2.36	1.96
3 Years (p.a.)	0.91	(0.82)	1.74
5 Years (p.a.)	1.95	(0.21)	2.16
10 Years (p.a.)	3.02	1.46	1.56
Since inception (p.a.)	5.90	4.50	1.40

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 A Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 31 May 2000.

Attribution over the quarter



Performance commentary

The first quarter was a strong one for our sterling credit strategies. 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.

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. However, credit spreads also remain susceptible to further weak macroeconomic news.

Looking at headline effects on performance, our stock selection had the largest impact. After a strong start to the year, we looked to reduce the risk in our portfolios, slightly reducing our overweight position in the bank sector, particularly subordinated debt, moving into a favoured sector, structured bonds, where spreads were wider. This general move added to performance: benefiting early on as spreads tightened and then taking risk off ahead of the modest widening we saw later.

Our stock selection was the main driver of outperformance. The story of quarter was our bank and insurance bonds seeing strong performance in the first two months of the year. Our strategies continue to see value in financials – particularly subordinated debt, which offers good value and increased buying opportunities. The sector is also seeing continued issuance, keeping bonds attractively priced. It must be noted that this has slowed slightly in recent months, however, and some widening in the sector has seen us seek opportunities elsewhere.

In the quarter, bonds from Close Brothers saw a strong recovery from the fourth quarter, when negative news headlines around car leasing fines had pushed prices lower. Elsewhere in banks, IG Group and subordinated bonds from Santander also contributed to performance. In insurance, ongoing liability management exercises continued to provide opportunities – Legal & General saw strong performance in bonds that were bought back by the issuer as these were not capital efficient.

Credit allocation was also positive in the quarter. For structured bonds, exposure to the sector was helpful as these bonds generally outperformed the market. Selection within the sector was mixed: our exposure to Thames Water was negative, as was the holding in student loans vehicle ICSL, 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.

Performance and activity

Top 10 holdings

	Weighting (%)
UK CONV GILT 4.5 07 Mar 2035	1.45
M&G PLC 6.34 19 Dec 2063	1.08
AVIVA PLC 6.875 20 May 2058	1.02
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	0.87
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	0.82
BBCWC_05 5.1202 17 Apr 2035	0.81
HSBC HOLDINGS PLC 8.201 16 Nov 2034	0.80
INVESTEC PLC 1.875 16 Jul 2028	0.77
TESCO PROPERTY FINANCE 5 PLC 5.6611 13 Oct 2041	0.73
BARCLAYS PLC 5.851 21 Mar 2035	0.73
Total	**9.08**

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 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, an example of this trade in the quarter being a sale of insurer Protective Life.

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 a new issue RMBS 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 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.

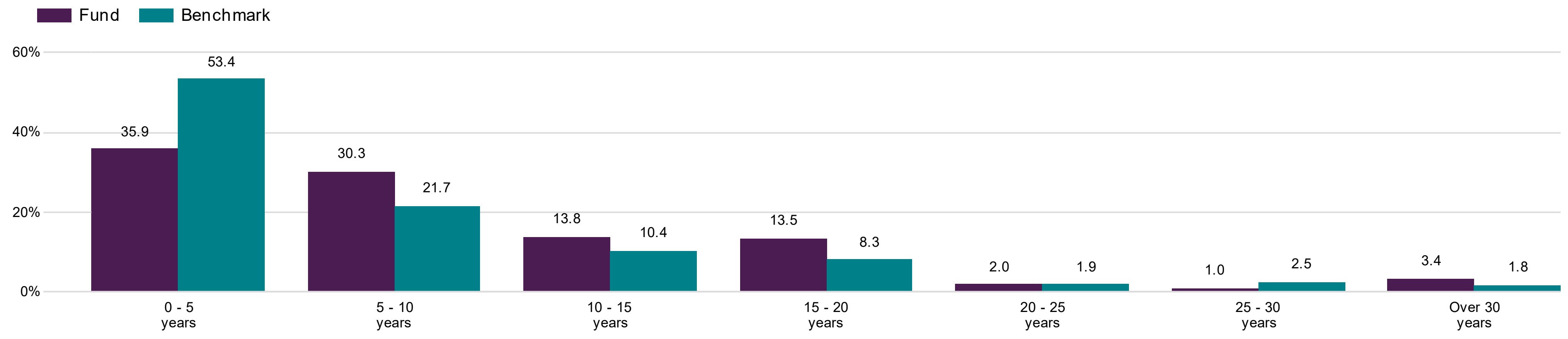
Social housing also offers a degree of security over unsecured bonds, as well as fulfilling an important societal need. We added a new issue from Notting Hill Genesis, who own and manage more than 60,000 homes across London – the bonds providing a credit spread in excess of market average.

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 global distribution and services group Bunzl business software provider Sage, and Motability. Motability is a scheme to provide recipients of the Disability Living Allowance (DLA) or Personal Independence Payment (PIP) with access to new vehicles on competitive lease terms. With funding provided directly from the UK government to Motability, we see these as high quality bonds with a credit spread in excess of the average in the sterling credit market.

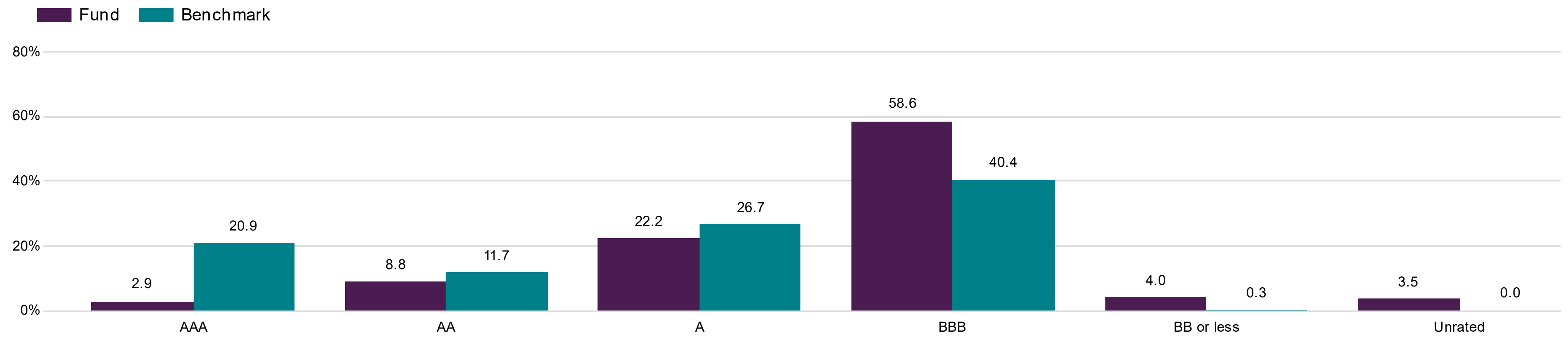
The water sector is part of the utilities sector that has been under greater scrutiny in recent years and in our regular reports and other updates. We continue to see value in selected bonds, adding a new issue from Yorkshire Water over the quarter at attractive levels, as well as Wessex Water, these bonds coming at an attractive premium to existing pricing, while trimming exposure to Northumbrian Water after strong performance, moving proceeds from the sale into Cadent, adding modestly to the gas network exposure we started in the later months of 2024.

Fund breakdown

Maturity profile

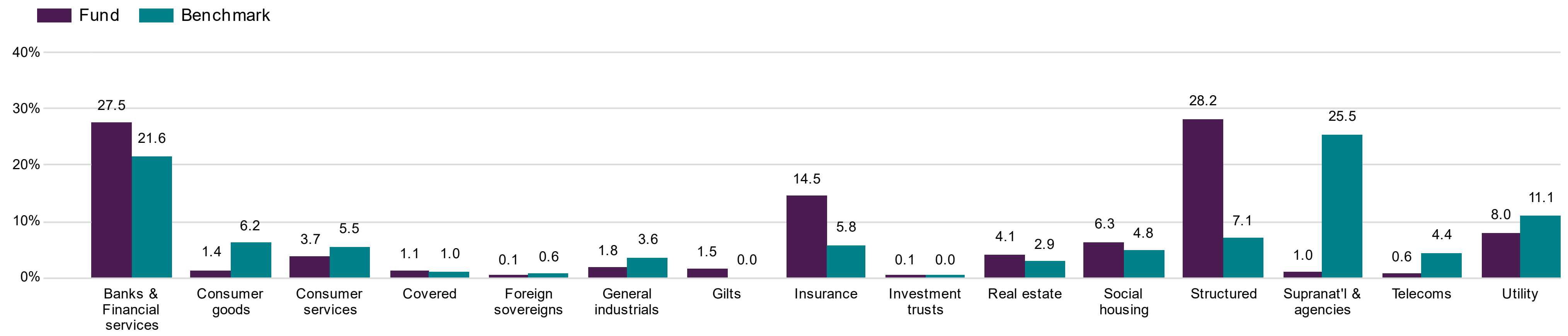


Credit ratings



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	18	55
Number of engagements	23	127

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	**8**
Climate - Transition Risk	5
Climate - Physical Risk	3
Environment	**3**
Governance	**11**
Remuneration	5
Corporate Governance	4
Board	1
Strategy	1
Health	**2**
Health - Community	2
Social & Financial Inclusion	**2**
Just transition	1
Social & Financial inclusion	1
Technology, Innovation & Society	**1**
Cybersecurity	1

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

Fund Engagement

Engagement outcomes

AT&T Inc - Cybersecurity

Purpose:

We attended an ESG investor event hosted by AT&T, an American telecommunications company, to gain insights into its updated business strategy. During the event, we posed questions to better understand the company's approach to managing cybersecurity risks.

Outcome:

The company shows a strong commitment to cybersecurity, collaborating with federal agencies in the USA and securing $650 million in cyber insurance. Governance is overseen by the AT&T Board's Audit Committee, which regularly discusses cybersecurity risks and measures with the Chief Information Security Officer and Chief Technology Officer. AT&T's security policies align with various standards and frameworks and privacy laws like the California Consumer Privacy Act. The company also completes annual third-party audits to ensure compliance with global ISO/IEC 27001 certifications. We were satisfied with AT&T's approach to cybersecurity and will continue to monitor the company's activity.

Intercontinental Hotels Group Plc - Remuneration

Purpose:

We engaged with the Intercontinental Hotels Group (IHG) Remuneration Committee to discuss and review the company's remuneration policies and practices. The meeting aimed to address key issues related to employee retention, market competitiveness, and proposed changes to executive pay structures. This engagement was crucial for ensuring that IHG's remuneration strategies align with market standards and effectively support the retention and motivation of top talent.

Outcome:

We gained a comprehensive understanding of the challenges IHG faces in retaining senior talent and maintaining competitive remuneration packages. The discussions highlighted the need for IHG to enhance its pay structures to match market medians and address pay compression issues. As a result, proposed changes to the CEO and CFO remuneration packages were discussed, including increases in salary, bonus caps, and the introduction of Restricted Stock Units (RSUs). These changes aim to align executive pay with market standards and ensure long-term value creation for shareholders.

However, concerns remain regarding the reasoning behind the additional restricted share plan, which is only subject to discretionary performance. This aspect requires further scrutiny to ensure it aligns with the company's long-term strategic goals.

Fund Engagement

Engagement outcomes

Unite Group Plc – Remuneration

Purpose:

The purpose of the shareholder consultation letter from Unite Group, the UK's largest provider of student accommodation, was to inform shareholders about the proposed changes to the executive remuneration policy and to invite their feedback. The consultation aimed to gather shareholder input to inform the Remuneration Committee's decision-making process.

Outcome:

The outcome of the consultation was positive, with broad support from shareholders for the proposed changes. The Remuneration Committee received feedback from 12 shareholders representing approximately 45% of the issued share capital, as well as from key proxy advisors. The Committee discussed the feedback in detail and finalised the proposals, which will be submitted for approval at the 2025 AGM. The key changes include increasing the maximum annual bonus opportunity and removing the annual bonus deferral requirement for directors who meet their shareholding guidelines. We view the changes as moderate and reasonable.

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.

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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.

ROYAL LONDON ASSET MANAGEMENT

Performance to 31 March 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.15	1.41	4.32	2.77	10.14
Fund (net)	1.07	1.25	3.98	1.76	8.34

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
0.91	1.95
0.58	1.61

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)	4.32	9.00	(9.63)	(2.67)	10.11
Fund (net)	3.98	8.64	(9.92)	(2.99)	9.75

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 UK Corporate Bond Fund A Acc 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, 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.