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Royal London Diversified Asset-Backed Securities Fund

Quarterly Investment Report

30 September 2025

Quarterly Report

The fund as at 30 September 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.

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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
30 September 2025	351.61

Asset allocation

	Fund (%)
Conventional credit bonds	94.81
Index linked credit bonds	3.71
Conventional gilts	1.33
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)	0.82
Gross redemption yield (%)	6.24
Number of holdings	316
Number of issuers	208

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.66	1.01	1.65
YTD	5.90	3.21	2.69
1 Year	8.59	4.43	4.15
3 Years (p.a.)	9.01	4.52	4.49
5 Years (p.a.)	6.79	2.85	3.94
10 Years (p.a.)	4.96	1.69	3.28
Since inception (p.a.)	4.61	1.42	3.19

Past performance is not a guarantee or reliable indicator of future returns. 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. Year-to-date, the fund remains well ahead of its benchmark.

The fund's diversified nature was reflected in the diversity of performance drivers in the quarter and helped to dampen risk despite volatile markets.

The fund's strong income generation was the main driver of performance in the quarter – with strong contributions from secured holdings and financial bonds. Within our secured holdings, Southern Water bonds performed well, helped by a significant equity investment from the owners of the business. Asimi Funding, which is a securitisation of a portfolio of unsecured consumer loans from Plata Finance, was another strong performer in the fund, helped by structural features that result in a significant amount of cash flow being diverted to our senior bonds.

One of the characteristics of well-considered, long-term lending is the return opportunity from borrowers seeking to unwind their borrowing early. During the quarter, the fund benefited from the University of Sheffield's early redemption of an underlying loan in a bond called Unifund at a significant premium to market pricing. This bond now has only one remaining university borrower and will continue to generate income until final maturity in 2047, subject to any further early redemptions. We also participated in a tender of Legal & General 2064 / 2044 legacy debt, selling the bond back to the issuer at par, which reflected a lower yield than a gilt of similar maturity.

Although the fund is largely invested in secured bonds, our selective exposure to financial (bank and insurance) bonds was also helpful as the sector performed strongly. Subordinated bonds from United Trust Bank, Deutsche Bank, Athora and Esure all performed well, whilst Close Brothers' bonds rallied materially following a favourable Supreme Court judgement on motor finance redress.

Spreads remain at relatively tight levels, so the fund took the opportunity to reduce some credit risk and continued to focus on finding opportunities that deliver higher risk-adjusted returns.

Although overall performance was positive, the portfolio's holding in the pan-European transport operator, Mobico, weighted on performance. Mobico's equity and bonds have performed poorly following a large disposal at a price that was deemed disappointing by the market. We continue to monitor the position closely and take comfort from the company's significant liquidity, as well as the relatively strong underlying cash flow generation of the business.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.85
HWAYS 2021-1X A 3.9674 18 Dec 2031	1.62
DWR CYMRU FINANCING UK PLC 4.377 31 Mar 2026	1.47
UK CONV GILT 3.5 22 Oct 2025	1.28
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.27
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.24
CO-OPERATIVE BANK FINANCE PLC 9.5 24 May 2028	1.24
WSTSTR_2 1.642 04 Aug 2026	1.17
DIRECT LINE INSURANCE GROUP PLC 4 05 Jun 2032	1.11
PROGRESS HEALTH 5.58 02 Oct 2042	1.04
Total	**13.27**

Fund activity

New issue activity was lower than usual during the first two months of the quarter thanks to a summer lull, but activity picked up in September as issuers returned to primary markets. There continued to be reasonable liquidity in the secondary market, providing attractive opportunities to add value to portfolios.

We continue to find opportunities in the water sector, a key area for future infrastructure spending in the UK. We bought into new issues from Yorkshire Water and Welsh Water at useful yield premiums to the market. We were also active in managing existing positions, most notably switching from conventional into index-linked bonds from Artesian Finance. Artesian is backed by debt from a wide range of water companies, including Severn Trent, Portsmouth Water, South East Water and South West Water, with principal and coupons also benefiting from a guarantee from AA rated insurance company, Assured Guaranty. Moving from conventional to index linked has allowed us to improve the quality mix of underlying borrowers and capture an increase in credit spread.

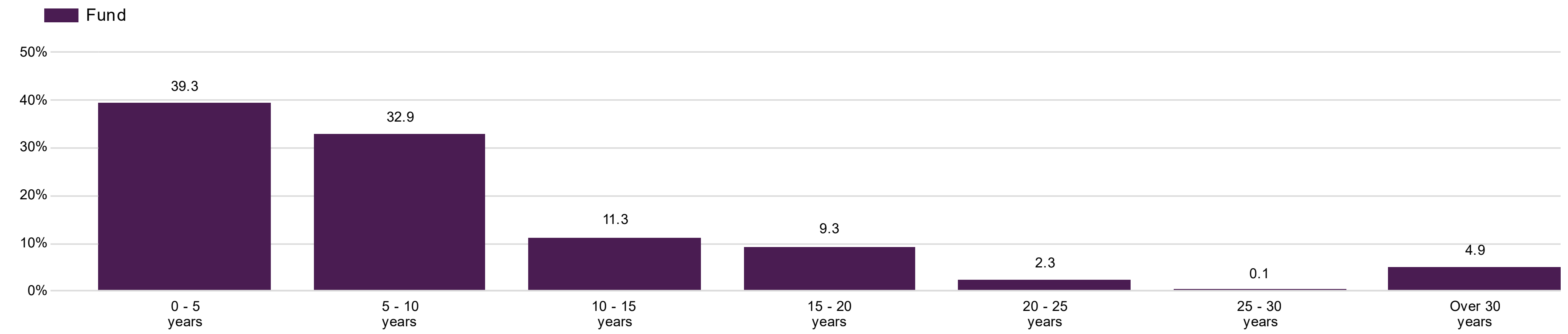
With overall market levels somewhat tighter in terms of credit spreads, we have taken advantage by purchasing higher rated credits at a cheaper level relative to lower rated bonds. For instance, we purchased Saltaire Finance, a bond issued by the entity that administers the UK's Affordable Homes Guarantee Scheme. The bonds were issued to help fund the development of affordable homes and offered a compelling credit spread to government bonds despite benefiting from a government guarantee. Similarly, we added a AAA covered bond from Korea Housing Finance Corporation, a government owned issuer providing mortgages to support low- to middle-income households in South Korea. As this was the issuer’s first foray into the sterling bond market, we were able to secure additional yield compared to more established covered bond programmes.

In the insurance sector, we added sterling-denominated bonds from Metropolitan Life Global Funding and MassMutual Life, two US insurers. These particular bonds rank alongside policyholders and therefore exhibit relatively high credit ratings for the sector. In order to try and capture further benefits from this prevailing dynamic, the fund bought a legacy bond issued by Axa, which also has the potential for an early call.

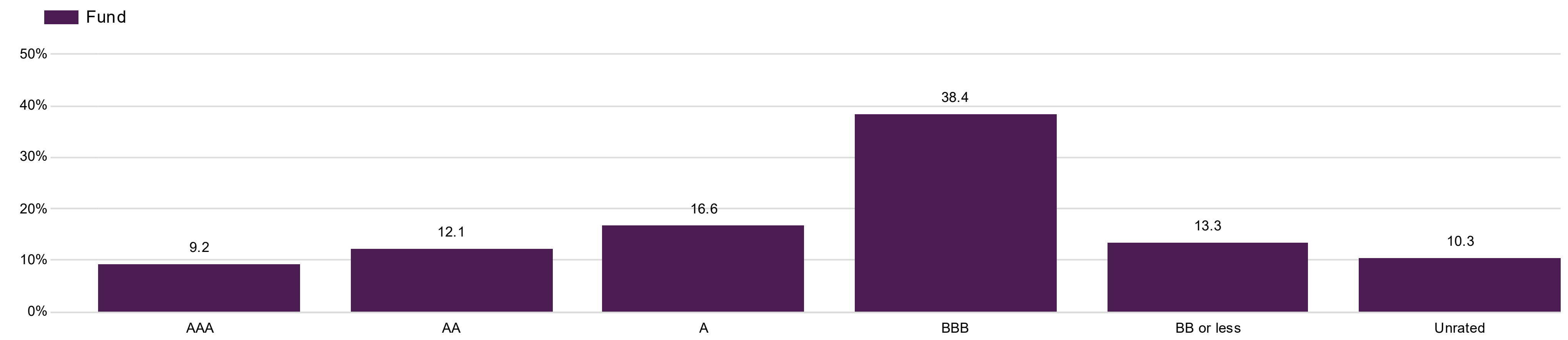
Volatility in government bond markets also creates opportunities for the fund and with underlying gilt yield curves particularly steep at present, we have been able to effect switches that have added yield for relatively small increases in duration.

Fund breakdown

Maturity profile

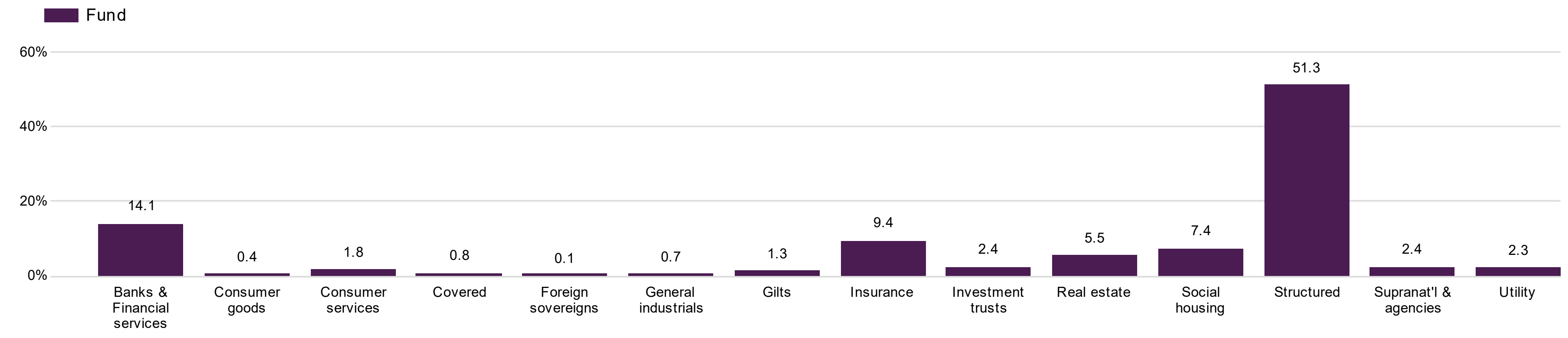


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

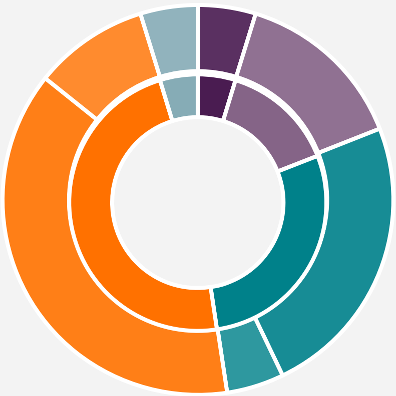
Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	13	27
Number of engagements	15	58

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic



Climate	**1**
Climate - Transition Risk	1
Environment	**3**
Governance	**6**
Corporate Governance	5
Board	1
Social & Financial Inclusion	**10**
Just transition	8
Social & Financial inclusion	2
Technology, Innovation & Society	**1**
Cybersecurity	1

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

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

Centrica Plc - Net zero

Purpose:

The purpose of the engagement meeting with Centrica, a UK energy company, was to provide feedback on the improvements seen in its new climate transition report and to ask further questions to gain clarity on lobbying, physical climate risk, and the company's biodiversity practices.

Outcome:

Centrica has made significant progress following our engagements. The company's latest climate transition report demonstrates improved transparency on emissions offsetting, remuneration, and decarbonisation strategies, directly addressing areas we previously raised. Centrica clarified its lobbying position, confirming the company had exited from a controversial trade body in 2023 and committing to greater disclosure through a new trade association report. It now assesses trade associations for alignment with the Paris Agreement and just transition principles and has committed to a twelve-month engagement plan for those institutions not aligned.

On physical climate risk, Centrica provided disclosures consistent with the Task Force on Climate related Financial Disclosures (TCFD). The company highlighted its low exposure due to asset location and lifecycle, while proactively managing risks such as extreme weather and sea level rise; although current disclosures remain primarily linked to climate impacts. Biodiversity was acknowledged as an emerging priority, with existing action plans and strategies in place to meet the policy requirement that development projects deliver a measurable net gain - typically at least 10% - in biodiversity as a condition of planning approval. While net gain strategies are being developed, current disclosures remain largely focused on climate-related impacts. A follow-up climate letter will be issued to maintain engagement and encourage further progress on integrating biodiversity considerations into corporate reporting and strategy.

Market commentary

Market overview

Following a turbulent second quarter shaped by the initial shock of US trade tariff announcements, markets stabilised during the third quarter. Globally, attention shifted towards fiscal policy and government debt sustainability. With central banks circumspect about the prospects for further rate cuts, uncertainty around potential rate cuts influenced bond yields and investor confidence.

Risk assets generally performed well over the period. US markets navigated mixed signals. While second-quarter earnings generally exceeded subdued expectations, and business surveys reflected a sense of optimism, signs of a cooling labour market and renewed concerns over the Federal Reserve's independence added a layer of uncertainty during the period. The US dollar softened slightly, while equities—especially in the tech sector—remained buoyant, driven by ongoing enthusiasm for artificial intelligence despite growing concerns over near-term revenue potential.

A shadow was cast over the UK's economic outlook during the summer quarter. Inflation proved more persistent than expected, prompting the Bank of England to strike a more cautious tone—even as it proceeded with a rate cut in August. Expectations for further easing were dampened and resulted in upward pressure on gilt yields. There were mounting concerns over the government's fiscal health, leading to speculation about potential tax increases or further gilt issuance in the forthcoming autumn budget.

The eurozone also faced a mixed quarter. While robust activity data and strong earnings in select sectors offered encouragement, political uncertainty sparked volatility and weighed on market performance. This was perhaps most visible in France, where the resignation of Prime Minister Bayrou, after losing a confidence vote over plans to address debt levels, added to pressure on President Macron.

Government bond markets proved volatile over the summer. Benchmark 10-year gilt yields rose from 4.48% to end at 4.70%, but with sharp rallies in both early August and September. Meanwhile at 5.75%, UK 30-year gilt yields hit their highest levels in almost 30 years. In the US, 10-year treasury yields stood at 4.13% at the end of September, slightly lower than levels seen at the start of July but with considerable volatility in the interim. In the eurozone, the spread between 10-year bonds in France and Germany expanded to the widest level in more than a year as French bond yields climbed higher amid the country's debt crisis. The German 10-year bund yield was 2.67% at the end of the third quarter, broadly in line with previous months.

The sterling investment grade credit market (iBoxx non-gilt index) returned 0.69% over the period under review, outperforming gilts, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightening over the period. Spreads narrowed from 0.87% to 0.77% (iBoxx) over the third quarter, continuing the narrowing of spreads seen during the second quarter which had more or less reversed the widening seen in the first quarter. Sector returns were generally positive, led by banks, insurance and structured bonds, while supranationals, utilities and consumer sectors lagged.

Outlook

There is no let-up in market uncertainty. Geopolitics are perhaps a bigger factor than at any time this century given the ongoing situation in Ukraine, wider Russian belligerence in Europe, the conflict in Gaza and the potential for spillover effects. At the same time, policy uncertainty has also not eased, with tariffs still very much on the US agenda, the current administration still announcing policies without details appearing to be complete and doing nothing to erase concerns about political interference in monetary policy. On top of these, budget concerns are also a significant factor in both the US and UK. Monetary policy settings are generally seen as supportive of fixed income markets, but even here, there is uncertainty around the timing and quantum of rate cuts as inflation is still not fully subdued. These factors help explain why government bond yields have been relatively volatile in 2025, and there seems little prospect of a material change in this in the next few months.

Yet risk markets generally, including sterling credit, have continued to produce attractive returns. With sterling investment grade credit spreads having compressed in recent months, it is natural to look at absolute levels to determine whether the market still offers 'value'. With default rates low, and new issuance active, we continue to believe the all-in yield on sterling credit remains attractive. Furthermore, we continue to find attractive investment opportunities, partly through the new issue market but also by focusing on exploiting market inefficiencies. By focusing on bottom-up analysis, we continue to build overall portfolios that we believe offer attractive risk / return profiles with above-market yields.

While near-term absolute performance is likely to be heavily influenced by movements in the yields of underlying government bond markets, we expect relative performance to continue to be meaningfully influenced by the comparative exposure to supranational bonds and to more economically sensitive or cyclical industrial and consumer sectors. However, we believe that continued emphasis on diversification and our bias towards secured and collateralised debt to help mitigate default risk, as well as our focus on income, will continue to support returns as has been the case through the present environment of volatile yields.

Further Information

Please click on the links below for further information:

Stewardship and Responsible Investment at RLAM

Royal London Sterling Credit ESG analysis

TCFD climate report

Find out more

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

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

Disclaimers

Important information

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Issued in October 2025 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

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

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

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

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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 30 September 2025

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	2.66	3.71	8.59	29.57	38.92
Fund (net)	2.55	3.49	8.13	27.93	35.96

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
9.01	6.79
8.55	6.33

Year on year performance (%)

	30/09/2024 - 30/09/2025	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021
Fund (gross)	8.59	10.15	8.33	(1.07)	8.38
Fund (net)	8.13	9.68	7.87	(1.49)	7.88

Past performance is not a guarantee or reliable indicator of future returns. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 30 September 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.

Bonds

Securities that represent an obligation to repay a debt, with interest. Investment grade bonds are high quality bonds that are viewed as being highly likely to make all scheduled payments of interest and principal. Low quality bonds carry higher risk but also typically pay higher rates of interest. Corporate bonds are those issued by companies to raise finance.

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.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, gross of relevant fund management costs and gross of tax.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers

Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance

The Fund price is taken at mid-day using swing prices where applicable, while the index performance is priced at close of business. Significant intra-day market movements at the start or end of the day may therefore distort comparisons.

Positive absolute return

The gain in an asset's value in absolute terms, rather than in relative terms.

Pricing

The Fund's price may swing to bid or offer to protect existing investors from the costs associated with buying or selling the fund's underlying assets when other investors are entering or leaving the fund. Performance is based on this pricing.

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.