Royal London Short Duration Credit 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 Short Duration 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

ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund aims to provide a return greater than that of the ICE Bank of America Merrill Lynch 1-5 Year Sterling Non-Gilt Total Return Index over rolling 3-year periods, through a combination of capital growth and income, after the deduction of charges.

Fund value

	Total £m
30 September 2025	1,509.15

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	95.25	99.13
Conventional gilts	3.81	-
Index linked credit bonds	0.80	-
Conventional foreign sovereigns	-	0.87
Other	0.14	-

Fund analytics

	Fund	Benchmark
Fund launch date	7 November 2013	
Fund base currency	GBP	
Benchmark	ICE BofA 1–5 Year Sterling Non-Gilt Index (Total Return, GBP)	
Duration (years)	2.73	2.57
Gross redemption yield (%)	6.47	4.70
Number of holdings	332	563
Number of issuers	212	286

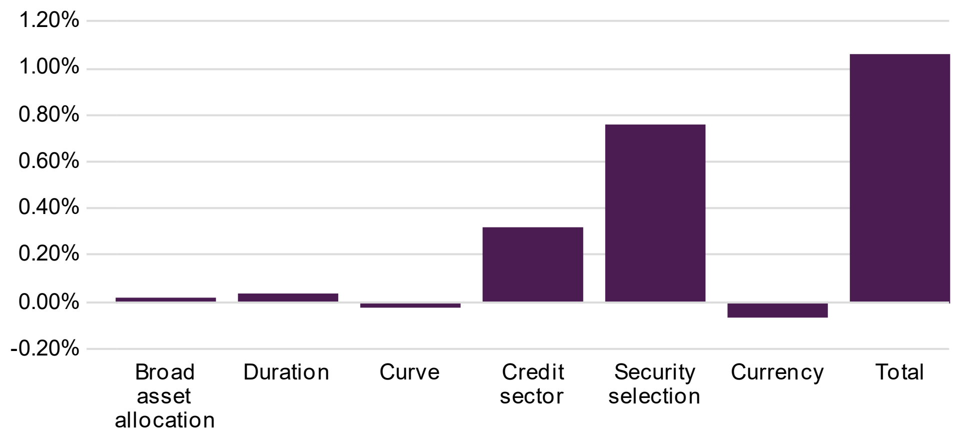
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	2.19	1.00	1.19
YTD	6.49	4.60	1.89
1 Year	8.37	5.17	3.20
3 Years (p.a.)	9.38	6.64	2.74
5 Years (p.a.)	4.06	1.57	2.49
10 Years (p.a.)	3.98	2.02	1.96
Since inception (p.a.)	3.85	2.08	1.77

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 Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 8 November 2013.

Attribution over the quarter



Performance commentary

The third quarter saw positive returns from sterling credit investment grade markets (iBoxx). Against this, the fund outperformed the index. Despite the volatile nature of news flow and government bond markets in 2025, performance remains comfortably ahead of the index year-to-date.

Duration and curve positioning were negative. Most of our sterling credit portfolios hold a modest long duration position and this hurt relative returns given the increase in yields over the quarter. However, this position does not reflect an overall view on bond yields, more that at the margin, and especially with recent steepening in the yield curve, we are finding attractive opportunities in mid-long dated bonds, pushing our duration higher. We remain focused on bottom-up credit selection, rather than taking positions based on overall market yield levels.

Sector positioning was positive. Our bias towards insurance bonds was helpful as the sector performed strongly, as was our exposure to the structured sector. Our longstanding underweight in supranational bonds also helped performance as the lower perceived risk of the supranational sector contributed to it again lagging the wider market.

Stock selection effects were positive during the quarter, particularly within the structured sector. Our holdings in shopping centres Meadowhall and Metrocentre were notable examples that performed well. Banks and insurance stock selection was also helpful. Subordinated bonds from Standard Chartered performed well, as did AT1 bonds from Toronto Dominion Bank. Similarly in insurance, subordinated bonds from CNP Assurances and Axa all performed well.

Performance and activity

Top 10 holdings

	Weighting (%)
UK CONV GILT 3.5 22 Oct 2025	3.71
WSTSTR_2 1.642 04 Aug 2026	1.58
M&G PLC 5.625 20 Oct 2051	1.46
CO-OPERATIVE BANK FINANCE PLC 6 06 Apr 2027	1.19
CO-OPERATIVE GROUP HOLDINGS (2011) 7.5 08 Jul 2026	1.07
LLOYDS BANKING GROUP PLC 2.707 03 Dec 2035	1.05
ELECTRICITE DE FRANCE SA 7.375 31 Dec 2079	1.03
HSBC HOLDINGS PLC 8.201 16 Nov 2034	0.96
LOGICOR_19-1 UK PLC 1.875 17 Nov 2026	0.93
ASSICURAZIONI GENERALI SPA 6.269 31 Dec 2079	0.92
Total	**13.89**

Fund activity

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

We continue to find attractive opportunities in the water sector, a key area for infrastructure spending and a regulated industry. We bought into a new issue by Yorkshire Water at a significant yield premium to market pricing.

In the insurance sector, we added sterling-denominated bonds from Metropolitan Life Global Funding, a US insurer where the bonds rank alongside policyholders. Also within the insurance sector, we participated in a tender of Legal & General 2064 legacy debt, selling the bond back to the issuer at par, which reflected a negative credit spread at the time of sale, adding significant value over the time of ownership. Similarly within the sector, we took profits on a number of holdings where spreads had tightened considerably, including OSB and Close Brothers.

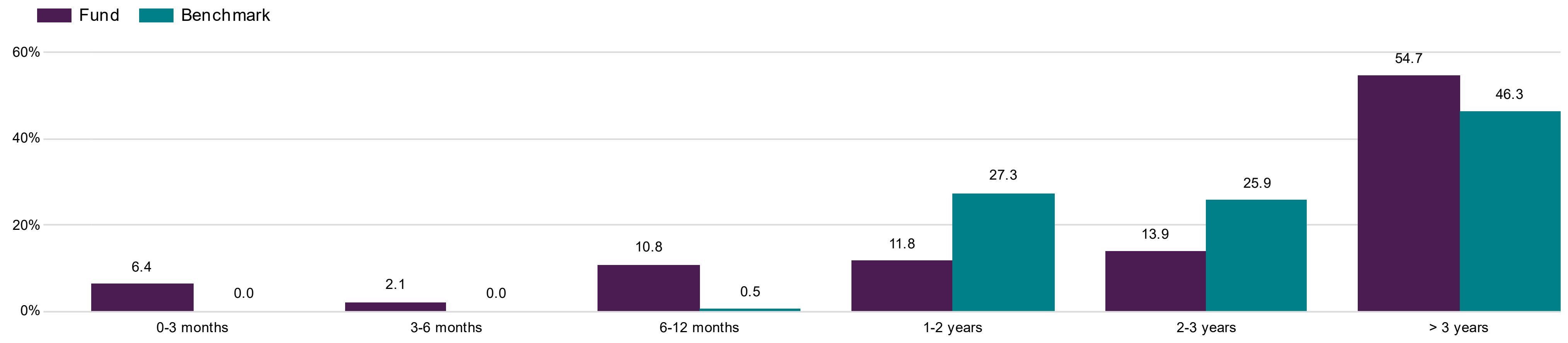
With overall market levels somewhat tighter, we have looked at areas that would usually be seen as offering lower value. An example is covered bonds, which are regulated by the Bank of England and secured on high quality underlying mortgages, and we added a new issue from Leeds Building Society over the period. We also added covered bonds from Korea Housing Finance Corporation, a government owned issuer providing mortgages to support low- to middle-income households in South Korea, which came at an attractive credit spread compared to UK covered bonds.

In other sectors, we added to our holding in Logicor, a logistics real estate company with a portfolio of warehouse spaces headquartered in London and Luxembourg.

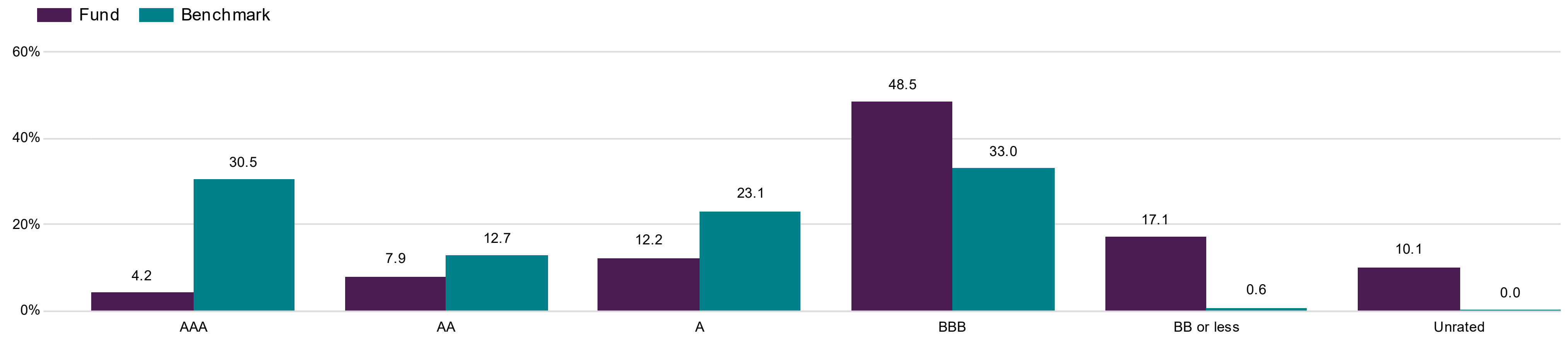
We will always look to switches to enhance spread or reduce risk. With underlying gilt yield curves step at present, we looked for opportunities to effect switches that also marginally extended maturity, thereby adding yield through both the underlying gilt as well as credit spread. An example during the quarter was IG Group, where we sold 2028 bonds into 2030 equivalents.

Fund breakdown

Maturity profile

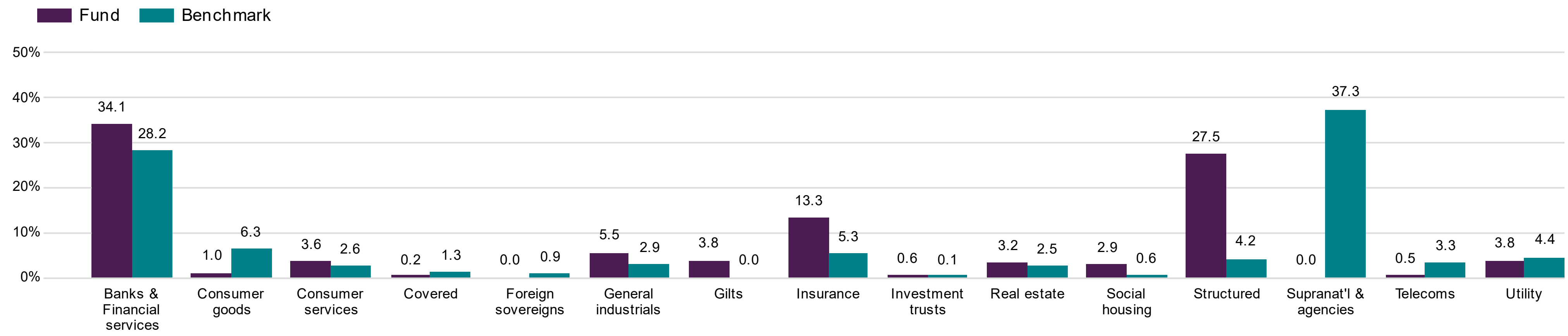


Credit ratings



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	19	35
Number of engagements	25	82

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	1
Climate	5
Climate - Transition Risk	3
Climate - Physical Risk	2
Diversity	1
Gender Diversity	1
Environment	3
Governance	13
Corporate Governance	10
Strategy	2
Board	1
Social & Financial Inclusion	11
Just transition	8
Labour & Human Rights	2
Social & Financial inclusion	1
Technology, Innovation & Society	4
Cybersecurity	3
Technology & Society	1

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

Fund Engagement

Engagement outcomes

BP Plc - Multi-thematic

Purpose:

This meeting was our first interaction with BP PLC, a global energy company, under the strategic engagement programme, covering various material issues beyond climate concerns. The meeting aimed to understand how BP is balancing traditional energy and renewables, embedding anti-corruption frameworks, improving safety culture, and managing pollution prevention and community engagement.

Outcome:

BP outlined its evolving strategy in response to global events, with a renewed focus on capital allocation and performance across oil, gas and renewables. Recent leadership changes, including a new Chair and CEO, are shaping strategic direction, supported by ongoing portfolio and cost reviews.

The company continues to strengthen ethical business practices through mandatory training, whistleblower protections, and anti-corruption policies. In 2024, 251 employee separations were linked to non-compliance with its Code of Conduct. Safety remains a top priority, with lessons from incidents like the Husky Toledo refinery fire driving improvements in emergency response and safety culture.

Environmental risk management is supported by digital platforms such as LENS, which track incidents and share learnings. BP is focused on designing out pollution risks and engaging with communities through liaison officers. Future engagement will monitor progress on strategic delivery, ethical conduct, safety performance, and environmental stewardship.

Tesco Plc - Workplace culture

Purpose:

The purpose of this engagement with Tesco PLC, a multinational retailer, was to follow up on RLAM's workplace culture-related concerns, specifically around the transparency of misconduct reporting. The meeting aimed to understand the company's current approach, recent policy developments, and future plans for data collection and reporting, particularly in light of upcoming regulatory obligations.

Outcome:

Tesco acknowledged our concerns and confirmed that improving data collection systems is now a strategic priority. The company has introduced new policies and operational protocols covering bullying, harassment and third-party conduct, including customers and contractors. Legal changes around employer responsibility to prevent sexual harassment have prompted Tesco to strengthen its controls and training programmes. While there is no defined timeline for improved disclosures, the company is actively developing mechanisms to support effective reporting and expects greater clarity on timelines later this year.

Tesco confirmed that it will be subject to Corporate Sustainability Reporting Directive (CSRD) obligations by 2027 or 2028 and aims to have a comprehensive dataset in place by then. Current disclosures lack sufficient detail on reported cases of harassment, bullying, racism and other misconduct. The workplace relations team, responsible for policies, redundancies, store closures and union relations, has shaped the company's response to sexual harassment. New policies now cover third party conduct and customer interactions, with a 2024 anti-harassment training refresher planned. Tesco has developed a group wide sexual harassment blueprint and continues to run annual awareness campaigns. Risk assessments are under way to identify higher risk roles, and specialist support is being provided for line managers. The Protector Line whistleblowing service has seen more consistent reporting, attributed to increased awareness. RLAM reiterated its request for improved disclosures and offered to share best practice examples. Further engagement is planned to explore collaborative improvements in workplace culture transparency.

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 continue 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

For professional clients only, not suitable for retail clients.

This is a financial promotion and is not investment advice.

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

Issued in 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 II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128.

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.

ICE indexes and data are the intellectual property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its Third-Party Suppliers and has been licensed for use by Royal London Asset Management. ICE Data and its Third-Party Suppliers accept no liability in connection with its use. See https://www.theice.com/market-data/disclaimer for a full copy of the Disclaimer.

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.

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.

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 30 September 2025

Cumulative (%) / Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	2.19	4.45	8.37	30.91	22.03	9.38	4.06
Fund (net)	2.11	4.29	8.04	29.70	20.15	9.05	3.74

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)	8.37	11.79	8.05	(10.47)	4.12
Fund (net)	8.04	11.45	7.72	(10.75)	3.80

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 Short Duration Credit Fund Z Inc 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.

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.

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.

Rolling 5-Year Period
A rolling 5-year period is any period of five years, no matter which day you start on.

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.

Total return
A total return is a combination of capital growth and income. Capital growth is defined as the rise in an investment's value over time and income as the payment an investment generates, such as dividends or bond coupons.