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Royal London Sterling 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 Sterling 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.

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The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over the medium term, which should be considered as a period of 3-5 years, by investing predominantly in sterling-denominated corporate bonds. The Fund's performance target is to outperform, after the deduction of charges, the Markit iBoxx Sterling Non-Gilts Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is regarded as a good measure of the performance of investment grade corporate bonds denominated in sterling. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA Sterling Corporate Bond sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 September 2025	2,329.87

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	97.60	99.40
Index linked credit bonds	1.79	-
Conventional gilts	0.18	-
Conventional foreign sovereigns	0.15	0.60
Other	0.28	-

Fund analytics

	Fund	Benchmark
Fund launch date	1 September 2008	
Fund base currency	GBP	
Benchmark	iBoxx £ Non-Gilts (Total Return, GBP)	
Duration (years)	6.41	5.27
Gross redemption yield (%)	6.46	5.16
Number of holdings	344	1,211
Number of issuers	223	477

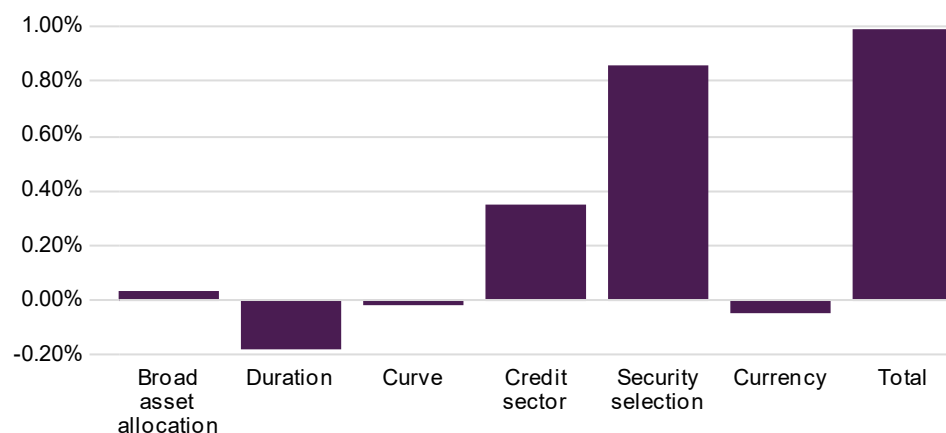
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.75	0.69	1.06
YTD	6.59	4.21	2.38
1 Year	6.94	3.70	3.24
3 Years (p.a.)	10.20	6.76	3.44
5 Years (p.a.)	2.02	(1.10)	3.11
10 Years (p.a.)	4.02	2.12	1.91
Since inception (p.a.)	5.85	4.02	1.83

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 1 September 2008.

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 exposure to Unifund was a notable example. These are secured bonds financing loans to two universities. The University of Sheffield repaid its loan at a significant premium to market pricing the quarter, resulting in strong performance from the bonds. Our holding in shopping centre Metrocentre also performed well. Banks and insurance stock selection was also helpful. Subordinated bonds from Standard Chartered, Santander and Close Brothers all performed well, as did AT1 bonds from Toronto Dominion Bank. Similarly in insurance, subordinated bonds from CNP Assurances, Axa and global reinsurer SCOR all performed well.

Performance and activity

Top 10 holdings

	Weighting (%)
AVIVA PLC 6.875 20 May 2058	1.35
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	1.28
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.21
M&G PLC 6.34 19 Dec 2063	1.20
ELECTRICITE DE FRANCE SA 6 23 Jan 2114	1.14
STANDARD CHARTERED PLC 6.08157 31 Dec 2079	1.08
ABBEY NATIONAL PLC 10.0625 31 Dec 2079	1.04
HSBC HOLDINGS PLC 8.201 16 Nov 2034	1.00
NATIONWIDE BUILDING SOCIETY 7.875 31 Dec 2079	0.82
SANTANDER UK % NON CUM PREF PLC	0.78
Total	10.91

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 new issues by Yorkshire Water and Welsh Water, each at a significant yield premium to market pricing. We were also active in managing existing positions, notably a switch from Freshwater Finance into index-linked bonds from Artesian. Artesian is an issuer of index-linked bonds on behalf of water companies, including names like Severn Trent, Portsmouth Water, South East Water and South West Water, with principal and coupons backed by guarantee

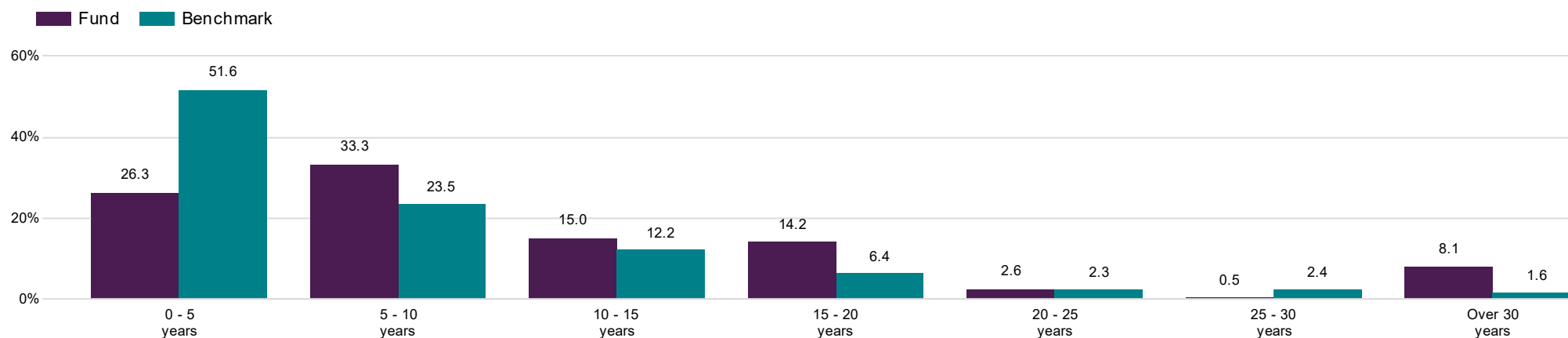
In the insurance sector, we added sterling-denominated bonds from Metropolitan Life Global Funding and Massachusetts Mutual Life Insurance Company, two US insurers where the bonds rank alongside policyholders. Also within the insurance sector, we participated in a tender of Legal & General 2064 legacy 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 in the government guaranteed area was Saltaire Finance, a special purpose vehicle, which was established in connection with the management and delivery of the UK's Affordable Homes Guarantee Scheme. The bonds were issued to help fund the development of affordable homes. The bonds came to market at an attractive level given market levels and very low credit risk given the UK Government guarantee. Another area was covered bonds. These are regulated by the Bank of England and secured on high quality underlying mortgages, and we added a new issue 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.

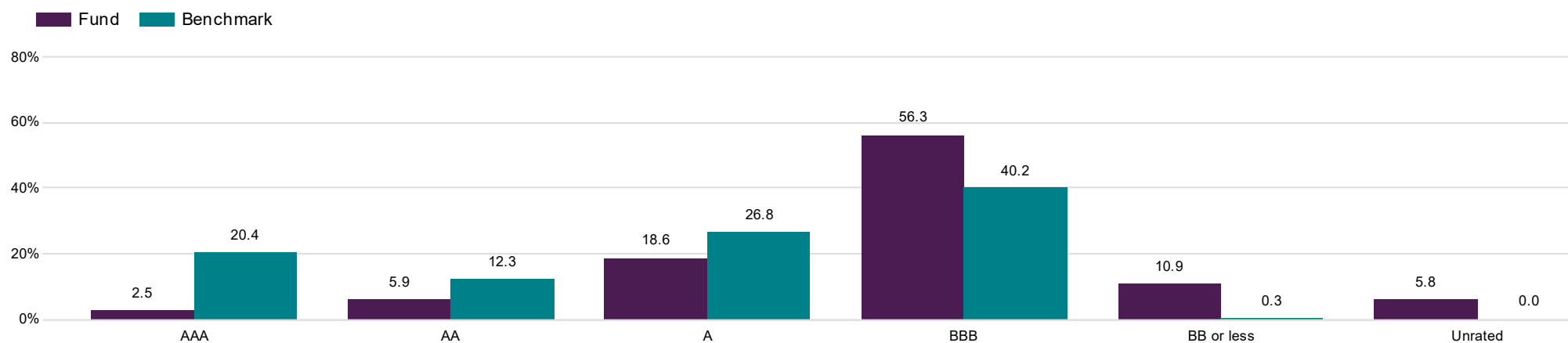
We will always look to switches to enhance spread or reduce risk. With underlying gilt yield curves step at present, we looked for opportunities to effect switches that also marginally extended maturity, thereby adding yield through both the underlying gilt as well as credit spread. An example during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

Fund breakdown

Maturity profile

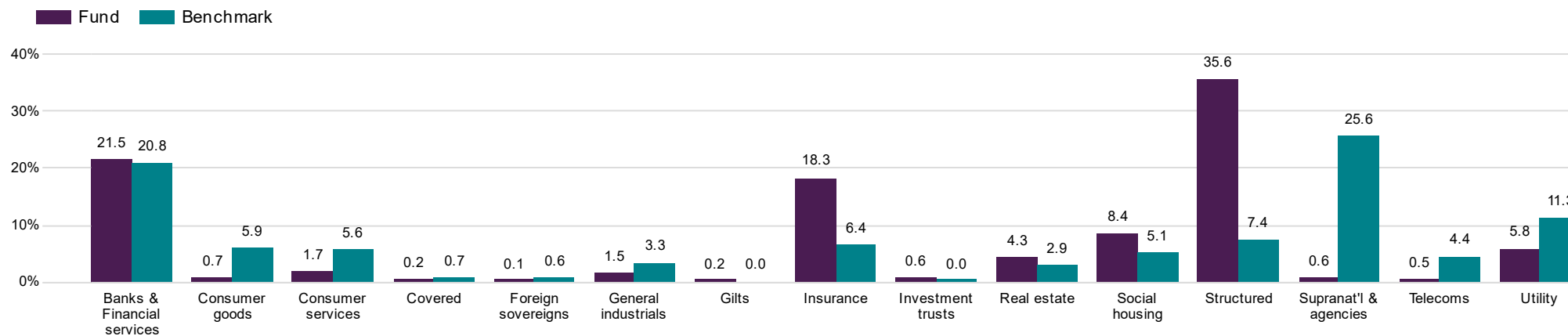


Credit ratings



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	18	38
Number of engagements	23	84

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	1
Circular Economy	1
Climate	2
Climate - Transition Risk	2
Diversity	1
Gender Diversity	1
Environment	4
Governance	11
Corporate Governance	8
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

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

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.

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:



Find out more

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

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

Disclaimers

Important information

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

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

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

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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): <https://ihsmarkit.com/Legal/disclaimers.html> and/or in the prospectus for the Fund.

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 (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	1.75	4.76	6.94	33.87	10.50	10.20	2.02
Fund (net)	1.66	4.57	6.57	32.47	8.59	9.82	1.66

Annualised (%)

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)	6.94	13.97	9.84	(21.20)	4.74
Fund (net)	6.57	13.57	9.45	(21.47)	4.38

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 Sterling 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.

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.