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Royal London UK Government Bond 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 UK Government 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's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in UK government bonds, also known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Government (All Stocks) Total Return GBP Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of every UK government bond quoted on the London Stock Exchange. 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 UK Gilts sector is considered an appropriate benchmark for performance comparison.

Fund value

	Total £m
30 September 2025	1,274.10

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	96.88	100.00
Index linked gilts	1.71	-
Conventional foreign sovereigns	1.05	-
Conventional credit bonds	0.37	-

Fund analytics

	Fund	Benchmark
Fund launch date	8 February 1990	
Fund base currency	GBP	
Benchmark	FTSE Actuaries UK Conventional Gilts All Stocks Index (Total Return, GBP)	
Duration (years)	8.49	7.53
Gross redemption yield (%)	4.61	4.55
Number of holdings	27	66

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(0.95)	(0.62)	(0.33)
YTD	1.96	1.87	0.09
1 Year	(1.08)	(1.29)	0.21
3 Years (p.a.)	2.21	1.26	0.94
5 Years (p.a.)	(4.90)	(5.78)	0.88
10 Years (p.a.)	0.10	(0.50)	0.60
Since inception (p.a.)	2.02	1.83	0.19

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 Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 30 April 2010.

Performance commentary

The fund underperformed its benchmark over the third quarter, primarily due to the fund's strategic long duration position relative to the benchmark, which hurt performance as yields rose.

In terms of curve, the fund has held an overweight in shorter maturity bonds for some time, believing that the market has been under-pricing rate cuts. This has worked well as yields on less than five-year maturity gilts have fallen. The overweight in this part of the curve has broadly been maintained. However, as yields have been rising, particularly at the longer end of the curve, the fund has been adding to its overweight in 30-year maturity bonds versus 15-year.

The UK Debt Management Office (DMO) has drastically reduced the percentage of long-dated bonds its selling to the market as part of its ongoing financing operations given the changing demand dynamics, the steepness of the curve and the outright level of yields. As a result, issuance is being skewed shorter, and the fund has an underweight in the belly of the curve. The actions of the DMO have helped stabilise the longer end relative to the 10-to-15-year part of the curve, and we see 30-year maturity bonds as attractive to long-term investors.

Performance and activity

Fund activity

The fund started the quarter 0.8 of a year long relative to the benchmark. Markets remained volatile throughout the summer months, providing the fund with opportunities to tactically trade duration, with the fund being anywhere between 0.75 of a year long and 1.2 years long, before ending the period around 0.95 of a year long. While rising yields meant that the strategic long duration position was detrimental to performance over the quarter, the fund's tactical trading of market volatility helped to offset some of this underperformance.

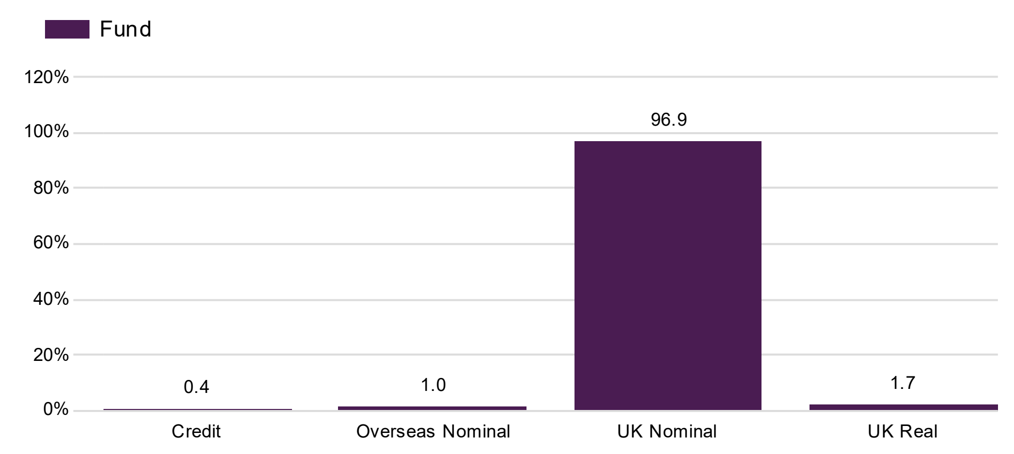
On a cross-market basis we held 30-year Japanese government bonds, 30-year real and nominal Australian government bonds and 30-year US TIPS. Given the outright level of yields in these markets, these were held outright, and the positions helped diversify the fund's overall exposure to fixed income markets.

Whilst yields rose across these geographies, the exposure to overseas markets was beneficial on a relative basis, particularly during August, as gilts underperformed other global sovereign debt markets. As 30-year gilt yields approached 5.6% in late August and early September, we sold the fund's holdings of US bonds back into gilts but maintained our exposure to Japan and Australia. Australian 30-year maturity bonds have been in a well-defined yield range for much of the last 12 months, and we were able to tactically trade the volatility to help add value

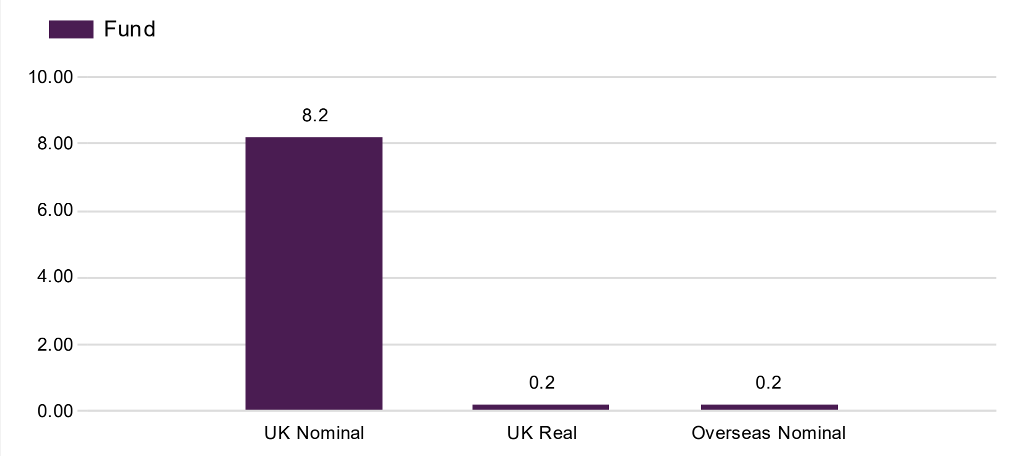
On an inflation basis, the fund holds longer maturity index linked bonds. Much like the overseas positions, these are owned on an outright real yield basis, which we think is an attractive option in an environment where inflation is proving stickier than expected. The fund tactically traded index linked bonds throughout the quarter, notably around supply events, where the real yield curve was particularly volatile. At various points the fund held index linked 2037 and index linked 2049 bonds, depending on the steepness of the curve. At the end of the quarter the fund retained a small exposure to the 2037s.

Fund breakdown

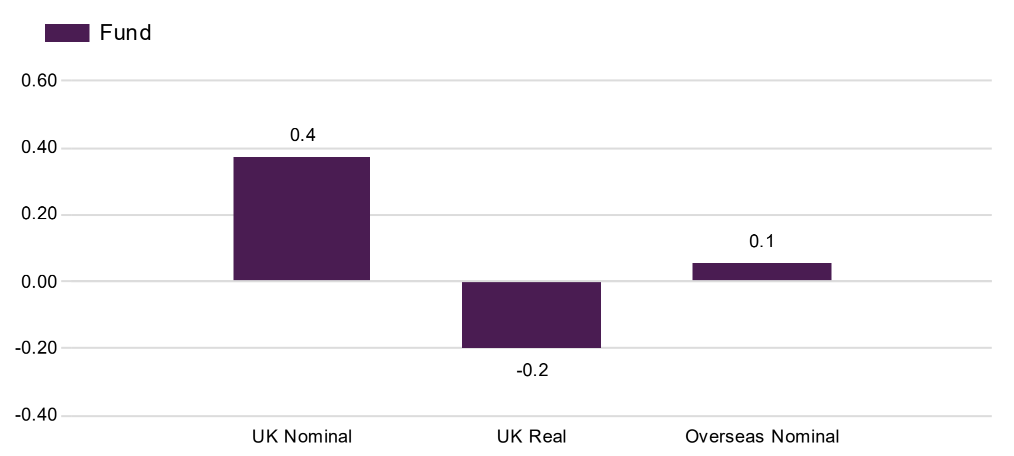
Asset split by percentage



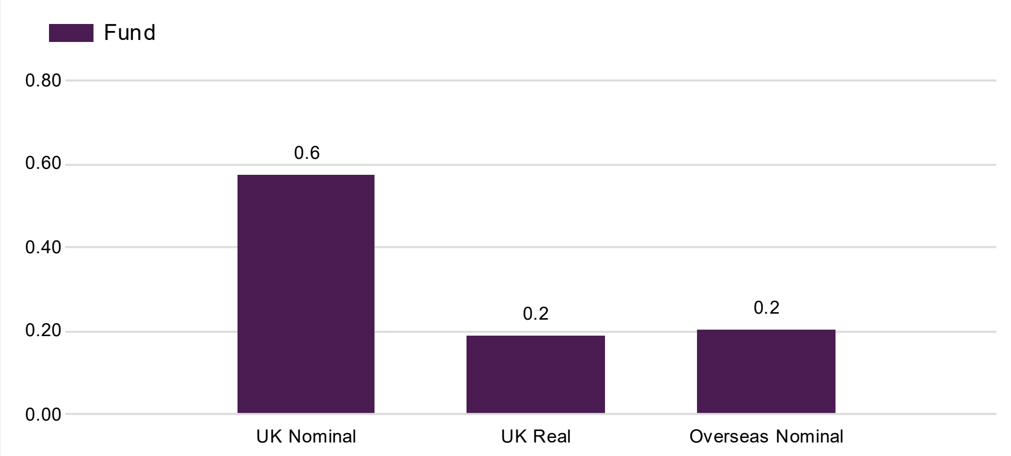
Asset split by duration



Asset split by duration change on quarter

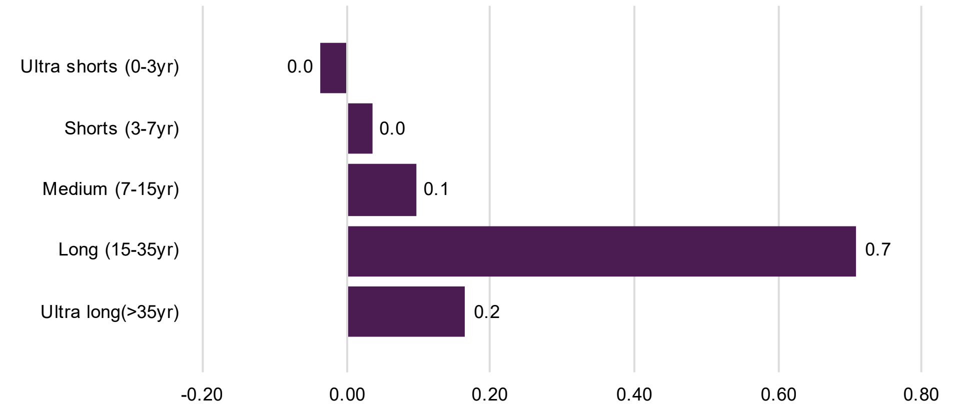


Asset allocation relative to benchmark (duration)



Fund breakdown

Maturity profile relative to benchmark



Market commentary

Market overview

Following a turbulent start to the year shaped by the initial shock of US trade tariff announcements and a shift in German fiscal policy, bond markets stabilised during the third quarter. There were however pockets of instability as attention shifted towards fiscal policy and the impact it might have on government debt sustainability, most notably in the UK and France. Divergence amongst the major central banks with regards to monetary policy also impacted bond market performance globally.

A shadow was cast over the UK's economic and political outlook during the summer quarter. Growth remained relatively anaemic, the labour market continued to show signs of weakness, whilst elevated inflation proved more persistent than expected, prompting the Bank of England to strike a more balanced tone—even as it proceeded with a rate cut in August. Expectations for further easing were dampened, with the market all but pricing out a further cut to Bank of England base rates during 2025. Added to this were mounting concerns over the UK's fiscal health, with speculation around the Chancellor's position and mounting pressure on the Labour government weighing on market confidence.

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.

Economic overview

Business surveys look consistent with most major global economies seeing growth in the third quarter, displaying a degree of resilience in the face of global trade tensions and higher US tariff rates. August saw President Trump implement an updated set of country tariffs after the previous reciprocal tariff pauses expired. Tariffs ended the quarter at their highest levels since the 1930s (bar those seen briefly in April when trade tensions escalated with China). US labour market data became a focus of attention over the quarter with low payroll readings and large downward back revisions that suggested the jobs market was in worse shape than previously thought. Despite inflation remaining above target, the Federal Reserve resumed rate cuts and the Bank of England cut rates further.

The Bank of England cut rates by 25bps in August, but with four of the nine MPC members voting for an 'on hold' decision. The more balanced tone struck by the MPC at the August meeting saw markets all put price out the probability of additional cuts in 2025, so it was little surprise that base rates were maintained at 4% at the September meeting. Despite inflation being revised up over the next few months, the BoE retained its rate cutting bias, with 'a gradual and careful approach to the further withdrawal of monetary policy restraint' being deemed appropriate. At their annual quantitative tightening decision, they announced that it was their intention to reduce the stock of government bonds held by the Bank of England by £70bn over the next 12 months. This reduced pace of sales, down from 100bn the prior year, was fully expected by the market. In addition, and the Bank also skewed the planned sales away from long maturity bonds.

The other key driver of markets during the quarter was a renewed focus on the UK's fiscal position. The government's decision to water down flagship welfare reforms, in order to avoid a parliamentary defeat, intensified concerns around the UK's fiscal trajectory with those welfare reforms originally expected to cut several billion pounds of government spending. There were also press reports that the OBR intended to revise down its productivity growth forecasts with potentially sizeable implications for the fiscal projections. Expectations firmed that more (and relatively sizeable) tax hikes were likely at the Autumn Budget.

Over the quarter, in the US, the picture painted by the labour market data, specifically non-farm payrolls, deteriorated significantly. That reflected both lower monthly payroll prints as well as substantial downward back revisions. The last release during the quarter showed only a 22K gain in payrolls in August and after 79K in July, significantly weaker than expected (consensus: 75K). Inflation, however, remained above target. The August headline PCE deflator came in at 2.7% year-on-year and CPI rose 0.4% month-on-month, slightly higher than consensus and with year-on-year inflation rising to 2.9% after 2.7%. Searching for evidence of tariff effects, evidence

Market commentary

remained somewhat patchy. However, with import data suggesting that during the quarter firms tried to get ahead of August tariff increases (import growth jumped in July then fell off in August), these impacts may continue to take time to be fully felt.

As expected, having been on hold throughout this year, the US Federal Reserve cut rates at its September meeting. The driver of the decision to cut rates 25bps to a 4-4.25% range was a weaker labour market assessment. From describing the labour market as “solid” in its July statement, at its September meeting the Fed noted “that downside risks to employment have risen.” Meanwhile, during his press conference, Chair Powell said that, since April, the risks of higher more persistent inflation have become a little less. The median FOMC participant forecast pencilled in two more rate cuts this year and one more in each of 2027 and 2028, only slightly more ‘bearish’ than the previous forecast from June. However, the participant forecasts also painted a picture of a relatively divided Committee with a wide range of interest rate profiles pencilled in for the near-term. Worries about Federal Reserve independence rose over the quarter after President Trump tried to fire Board member Lisa Cook.

The European Central Bank kept rates steady at both of its meetings in the third quarter, with the July meeting the first meeting of the year where it did not cut rates. The ECB continued to take a “data-dependent”, “meeting-by-meeting” approach and continued to send a message that they are not pre-committed to a particular path. At the September meeting, President Christine Lagarde noted that the Bank is “in a good place.” Lagarde gave little away directionally, but that makes sense given inflation is roughly at target, their inflation forecasts aren’t far from target, where Lagarde also described the domestic economy too as “showing resilience” and the ECB see the risks to growth as having become more balanced. On the latter, earlier in the quarter, the EU and US were able to agree a trade deal, putting to rest some of the uncertainty around future tariff rates. The agreement set a 15% tariff on EU exports to the US, which would apply to various sectors, including autos, pharmaceuticals and semiconductors. The agreed rate was much smaller than the previously threated 30% tariff. The composite PMI business survey measure rose gently over the quarter, signalling modest positive private sector output growth. The unemployment rate remained at low levels in data releases over the quarter. Headline inflation in the euro area held firm at 2% in June and July, rising to 2.1% in August and 2.2% in September. Core inflation was stable at 2.3% year-on-year.

Outlook

We expect the UK economic picture to deteriorate into the November budget. Having said that, inflation remains sticky, and with the budget due late in November, the market has all but priced out a further cut from the Bank of England during 2025. December remains a possibility, but much will depend on the evolution of economic data, and the fiscal policies in the budget.

Economic growth in the UK should remain anaemic and spot inflation should fall considerably during the second quarter of 2026. This should open up the possibility of further rate cuts from the Bank of England.

The bond market has already shown that it will not tolerate more government borrowing. So, with fiscal rules to meet, and tax hikes looking like the Chancellor’s only real option, the economic outlook remains challenged. In our view, we think this makes gilts attractive on a risk / reward basis, particularly in shorter maturities.

Further Information

Please click on the links below for further information:

Stewardship and Responsible Investment at RLAM

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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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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FTSE makes no claim, prediction, warranty or representation either as to the results to be obtained from the Fund or the suitability of the Index for the purpose to which it is being put by Royal London Asset Management.

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.

Concentration risk

The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

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.

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.

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
Fund (gross)	(0.95)	1.08	(1.08)	6.77	(22.24)
Fund (net)	(1.01)	0.96	(1.33)	5.97	(23.32)

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
2.21	(4.90)
1.95	(5.17)

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)	(1.08)	9.17	(1.13)	(22.22)	(6.37)
Fund (net)	(1.33)	8.90	(1.38)	(22.45)	(6.70)

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 UK Government Bond Fund Z Inc 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.

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.

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.

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.