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Royal London Short Duration Gilts Fund

Quarterly Investment Report

30 June 2026

Quarterly Report

The fund as at 30 June 2026

The purpose of this report is to provide an update on the Royal London Short Duration Gilts Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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ROYAL LONDON
ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund aims to provide a return greater than that of the FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index, over rolling 3-year periods, through a combination of capital growth and income, after the deduction of charges. The Index has been selected as a target benchmark because it is representative of the type of bonds in which the Fund invests, and it is therefore an appropriate measure for the Fund's performance. The performance comparator for the Fund is the IA UK Gilts sector (the "IA Sector").

Fund value

	Total £m
30 June 2026	1,855.80

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	97.45	100.00
Conventional credit bonds	1.96	-
Index linked gilts	0.59	-

Fund analytics

	Fund	Benchmark
Fund launch date	7 November 2013	
Fund base currency	GBP	
Benchmark	FTSE Actuaries UK Conventional Gilts up to 5 Years Index (Total Return, GBP)	
Duration (years)	2.84	2.15
Redemption yield (%)	4.19	4.08
Number of holdings	26	19

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.87	1.49	0.38
YTD	1.36	1.09	0.27
1 Year	3.58	3.09	0.49
3 Years (p.a.)	5.50	4.80	0.69
5 Years (p.a.)	2.13	1.43	0.70
10 Years (p.a.)	1.36	0.92	0.44
Since inception (p.a.)	1.39	1.20	0.18

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. The impact of fees reduces your investment. 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.

Performance commentary

The fund outperformed its benchmark in the second quarter.

Events in the Middle East once again dominated headlines, with the evolution of the conflict between Iran and the US and Israel leading to heightened volatility in oil prices, which in turn dictated the movement in government bond yields.

Oil prices hit their peak in early April, sitting well above $100 per barrel, with volatility continuing through the period. As expectations around a potential ceasefire grew, and with it the re-opening of the Strait of Hormuz, the oil price began to decline. That in turn saw a repricing of market inflation and interest rate expectations, and lower bond yields.

Government bond yields hit quarter-highs in mid-May and then fell into quarter-end, which mirrored the duration positioning of the fund, with our longest relative position coming when 10-year maturity gilt yields were above 5.1% in the period. Our duration position was the key driver of outperformance in the quarter.

On top of the geopolitical concerns, domestic government bond markets were also juggling developments around the ongoing Labour party leadership. Pressure began to mount on Prime Minister Keir Starmer's premiership ahead of the Makerfield by-election, which Andy Burnham subsequently won, ultimately leading to the resignation of Starmer as Prime Minister – with an expected coronation of Burnham to come at some point in the third quarter.

In gilt markets, the long-end of the curve came under the most pressure amid this political infighting, with markets unsure if a Burnham-led administration would stick to the 'fiscal rules' laid out by the current government. Burnham has publicly stated his intention to follow these 'rules,' which has added an element of calm to long-dated gilts.

The combination of these two factors – volatility at both home and abroad – led to the gilt yield curve steepening over the quarter. This effect was led by the front-end of the curve driving the rally in the second quarter, after markets began to readjust expectations for central banks hiking interest rates. The steepening of yield curves was a theme across global markets.

Performance and activity

Fund activity

Over the quarter, the fund reduced its long duration exposure, ending the period slightly shorter than it opened the quarter. This was not a linear shift, however, as the fund did increase its duration, to almost a year longer than the benchmark in mid-May as five-year maturity gilt yields moved above 4.6%.

As yields at the front end then began to fall, we reduced this position into quarter-end, ending the period with duration around three-quarters of a year long. Our duration positioning was the main driver of outperformance for the fund, with the front end of the curve leading the rally in the back half of the quarter.

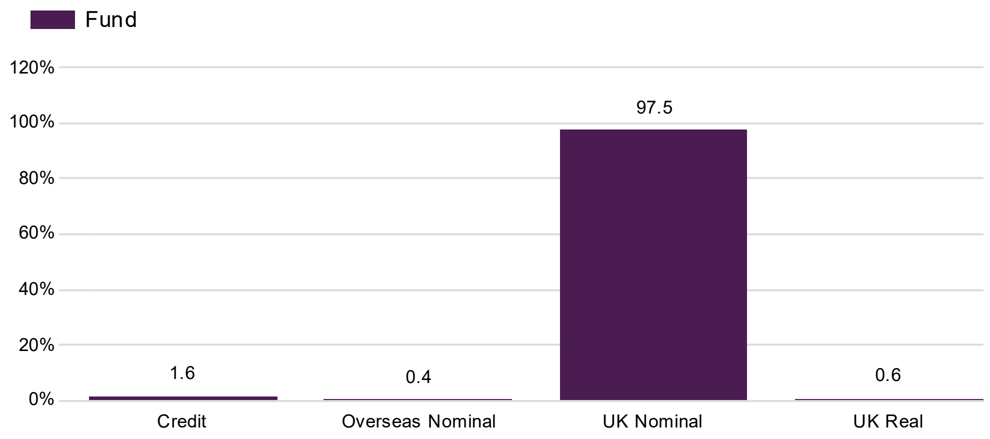
With yields rising, we increased our exposure to the front end of the curve, adding two-to-three-year gilts, however we still retain a small underweight in that portion of the curve. As yields fell, and the funds relative duration was reduced, we primarily reduced our overweight exposure to seven-year gilts.

We also invested some existing cash into short-dated 2027 maturity UK index linked bonds, rather than nominal bonds after real yields sold off on the move lower in the oil price, in order to provide some protection should hostilities between the US and Iran restart.

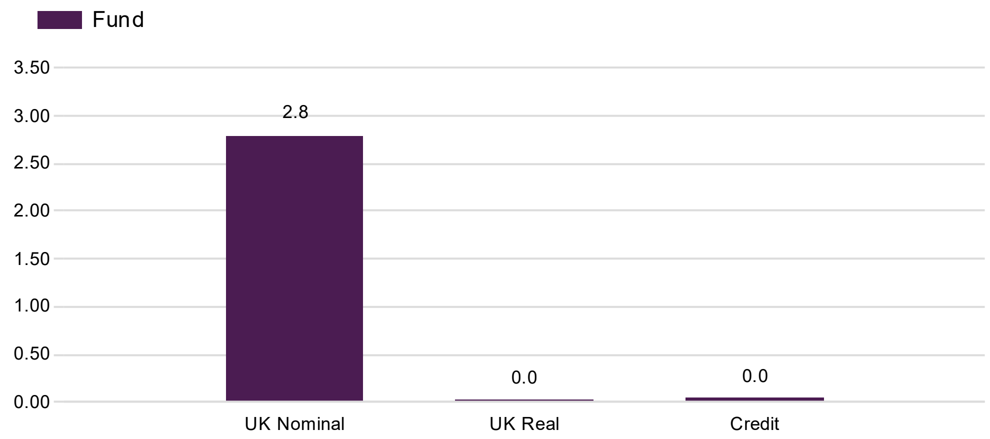
In April, the fund tactically traded five-year Australian government bonds amongst market volatility, which contributed positively to performance. By the end of the quarter, the fund had no cross-market exposure.

Fund breakdown

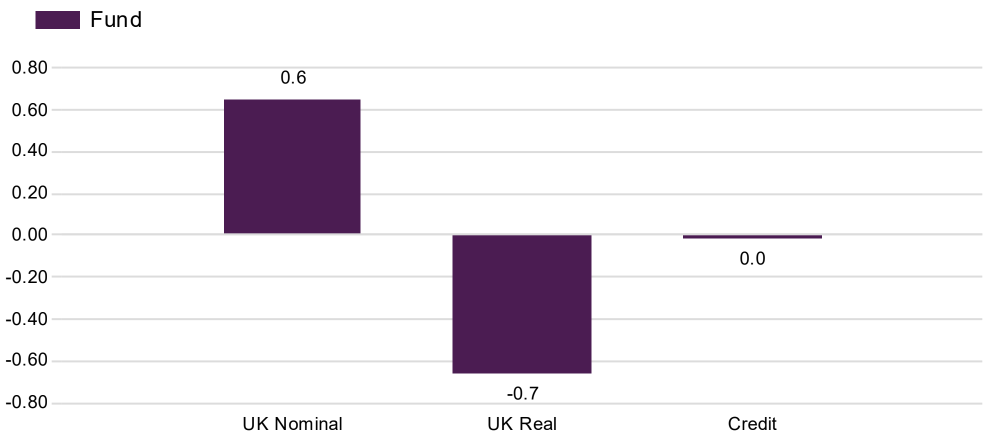
Asset split by percentage



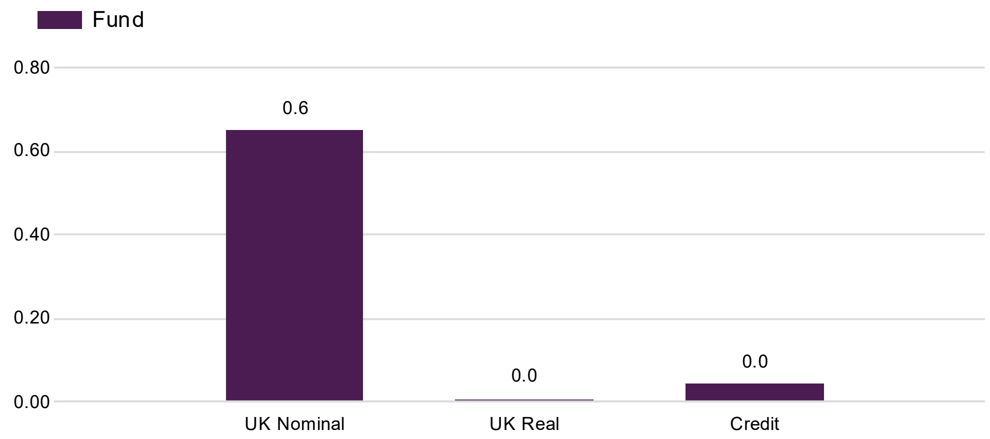
Asset split by duration



Asset split by duration change on quarter

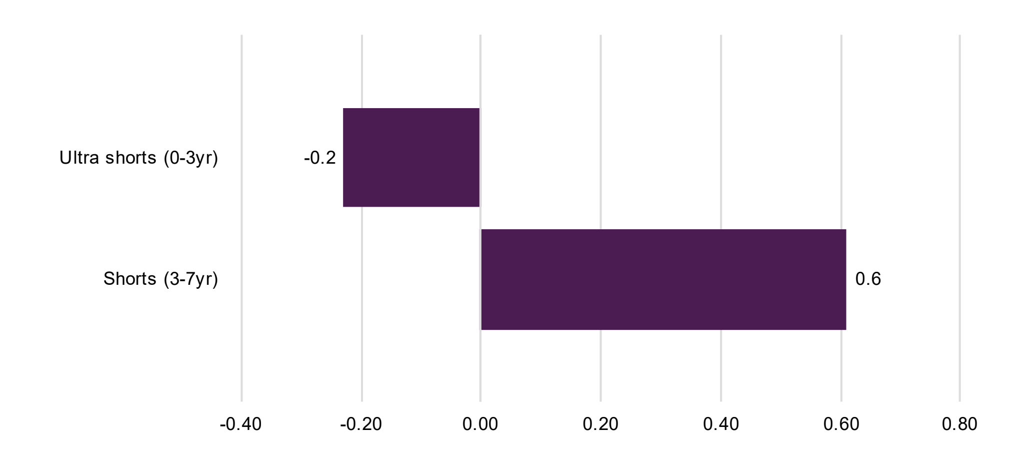


Asset allocation relative to benchmark (duration)



Fund breakdown

Maturity profile relative to benchmark



Market commentary

Market overview

Headlines and markets were dominated by the US and Iran during the past quarter. The disruption to oil supply via the Strait of Hormuz pushed oil prices to levels last seen following the Russian invasion of Ukraine in 2022. Although a ceasefire was announced towards the end of the period, causing prices to ease, these remain above pre-crisis levels.

From a macroeconomic perspective, growth forecasts remain subdued, and inflation remains above central bank target levels. The major change over the quarter was central bank rate expectations. At the start of the period, markets were pricing in multiple hikes in the US, euro zone and UK, but these expectations were tempered as the period progressed – with the changing outlook for inflation, driven by commodity prices, the key driver of markets over the quarter.

In the wake of the conflict in the Middle East, business surveys pointed to slower growth in Q2. The UK and euro area composite PMI business survey data indicated a modest contraction in private sector output. The US composite PMI held up better, above 50 and rising over most of Q2. Manufacturing was supported by firms bringing forward activity ahead of expected price rises and potential shortages. However, as tensions in the Middle East calmed and the oil price fell, the June survey data pointed to some unwind of that support.

Higher oil and gas prices pushed up headline inflation across most economies, primarily via fuel and energy-related components. Business surveys also pointed to a squeeze on input costs and a deterioration in delivery times, reflecting supply chain disruptions. By June, however, there were signs of easing supply chain disruptions following increased shipping flows through the Strait of Hormuz.

Political uncertainty rose in the UK, where poor local election results were ultimately followed by the resignation of UK Prime Minister Keir Starmer. By the end of the quarter, former Greater Manchester Mayor Andy Burnham was widely expected to succeed him.

Government bond markets remained volatile during the second quarter as markets balanced persistent inflation pressures, shifting central bank rate expectations and ongoing geopolitical uncertainty. However, markets moved away from the sharp repricing seen in the first quarter, with some support returning to duration by quarter end as energy prices retreated, and fears of a prolonged oil and gas supply shock eased. Yield movements were driven less by expectations of imminent rate cuts and more by reappraisal of the need to hike rates to combat rising inflation. Short-dated bonds experienced the largest swings in yields as markets reassessed monetary policy paths, while volatility in longer-dated yields also reflected concerns around potential changes to fiscal policy in the UK.

In the UK, 10-year gilt yields rose above 5% during May before retracing some of those gains, ending June at 4.76%. US Treasury yields also moved lower over the quarter, with the 10-year treasury yield ending June at 4.44%. Across Europe, government bond markets experienced similar volatility as markets adjusted expectations for the pace of future policy easing. The German 10-year bund yield was 2.87% at the end of the second quarter, down from 2.98% three months prior.

The sterling investment grade credit market (iBoxx non-gilt index) returned 2.64% over the period under review. Spreads ended the second quarter at 0.76% (iBoxx), compared to 0.85% (iBoxx) at the end of March.

Economic overview

The US Federal Reserve kept rates on hold in both April and June. The June participant projections, however, showed nine out of 18 participants pencilling in a 2026 rate hike alongside upward revisions to the median inflation forecast, although the projections would not have fully reflected the fall in the oil price seen later in the quarter. Kevin Warsh replaced Jerome Powell as chairman of the US Federal Reserve and in June held his first press conference. He avoided giving guidance on the path for interest rates but struck a more hawkish tone than many anticipated.

US tariff refunds under the IEEPA framework began, but the US announced a new 10-12.5% tariff on a large number of trading partners relating to forced labour in supply chains. US Q1 GDP (released in Q2) grew a respectable 2.1% quarter-on-quarter annualised, after 0.5 % in Q4 (which was affected by the government shutdown). Business surveys continued to signal solid growth in Q2.

The European Central Bank (ECB) raised rates by 25bps in June as the inflation impact of higher energy prices showed signs of broadening. Euro area GDP fell 0.2% quarter-on-quarter in Q1, although the fall was exaggerated by GDP volatility in Ireland.

The Bank of England (BoE) kept rates on hold with two members voting for a rate hike. By the end of the quarter, given lower oil prices, markets had lowered expectations of future rate hikes from both the ECB and BoE from levels seen earlier in the quarter. UK GDP growth was strong in Q1 by UK standards, increasing by 0.6% quarter-on-quarter (non-annualised) after 0.1% quarter-on-quarter in Q4. However, business surveys pointed to a significant slowing in Q2.

Market commentary

Labour market trends have diverged somewhat. In the US, employment growth saw signs of increased momentum after a year of subdued employment growth. The euro area unemployment rate remained near historically low levels. However, the UK labour market remained soft. The number of payrolled employees fell on average over April and May, though the unemployment rate was relatively stable. Vacancies have fallen and the PMI employment indicator remained weak compared to other countries.

Headline inflation jumped in most economies, reflecting higher energy costs. In the US, CPI inflation jumped up from 2.4% year-on-year in February to 4.2% year-on-year by May. UK inflation has been bumpy over the quarter but is widely expected to rise after household energy bills reflect higher wholesale prices in July (when the Ofgem price cap updates). In the euro area, higher energy prices pushed inflation from near the 2% target to 3.2% by May.

Outlook

The ongoing global macro environment remains unsettled. Geopolitical risks, ongoing fiscal uncertainty and divergence in global monetary policy drove volatility in both nominal and real yields. More specifically the continued tensions around Iran add an additional layer of uncertainty to the inflation and growth outlook. While markets initially focused on the impact of energy prices and near-term inflation risks, history suggests that prolonged geopolitical shocks tend to act as a drag on global growth, as higher input costs, tighter financial conditions and weaker confidence feed through into demand.

Domestic growth conditions in the UK continue to look subdued. Higher borrowing costs, waning consumer momentum and tighter financial conditions are weighing on activity, and there is limited evidence to suggest a material reacceleration in growth in the near term. As a result, the risk balance increasingly points towards weaker demand rather than persistently overheating economic conditions.

While we have already seen much of the repricing of interest rate expectations play out, we still believe markets are pricing in too much tightening; by quarter end the markets were pricing in around one and a half hikes from the BOE by year end. Having said that, markets are still trying to ascertain when and at what level inflation will peak, and we think it is unlikely that markets can reprice much further until there is clear visibility that inflation has peaked, and what the economic outlook will be for the UK into 2027.

While we remain nimble in trading around this volatility, our central view is that the Bank of England will be on hold through 2026, keeping interest rates unchanged at their current level of 3.75%, before restarting rate cuts in 2027.

As investors move further out along the yield curve, concerns around UK fiscal policy, and debt sustainability continue to be a key driver for both the outright level of yields and the shape of the curve. Supply dynamics remain favourable with little long-dated supply expected for the remainder of the year.

In relative terms, we believe that gilts offer compelling value versus other developed market government bonds, but have started to see value emerge in overseas markets such as the US, particularly through US TIPS.

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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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.

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.

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 June 2026

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.87	1.36	3.58	17.43	11.14
Fund (net)	1.82	1.25	3.35	16.66	9.93

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
5.50	2.13
5.27	1.91

Year on year performance (%)

	30/06/2025 - 30/06/2026	30/06/2024 - 30/06/2025	30/06/2023 - 30/06/2024	30/06/2022 - 30/06/2023	30/06/2021 - 30/06/2022
Fund (gross)	3.58	5.73	7.23	(2.95)	(2.48)
Fund (net)	3.35	5.49	7.00	(3.16)	(2.70)

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. The impact of fees reduces your investment.

Source: RLAM as at 30 June 2026. All figures are mid-price to mid-price for the Royal London Short Duration Gilts 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.

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.

Redemption yield

The weighted average rate of discount at which the future obligations of interest and capital payments of each of the fund's holdings equates to its current price, gross of relevant fund management costs and gross of tax.

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.