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Royal London Absolute Return Government Bond Fund

Quarterly Investment Report

31 March 2026

Quarterly Report

The fund as at 31 March 2026

The purpose of this report is to provide an update on the Royal London Absolute Return 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.

Contents

The fund

Fund performance objective and benchmark

The Fund aims to provide absolute positive capital growth. The Fund seeks to achieve its investment objective by outperforming its benchmark, the Sterling Overnight Index (the "Benchmark") on an annual basis by +1.5 - 2.5% over rolling three year periods and aims to provide positive performance over 12 month periods. The Benchmark is an index which tracks overnight funding rates in the Sterling market. For non-Base Currency Classes, an appropriate rate is used as a substitute for the Benchmark for each relevant Class currency. Investors should note that the Benchmark is being used by the Fund for performance comparison purposes only and the Fund does not intend to track the Benchmark.

Fund value

	Total £m
31 March 2026	993.97

Asset allocation

	Fund (%)
Conventional credit bonds	44.49
Conventional gilts	19.39
Money Market Instruments	18.53
Index linked foreign sovereigns	10.45
Conventional foreign sovereigns	6.59
Index linked credit bonds	0.55
Index linked gilts	0.00

Fund analytics

	Fund
Fund launch date	17 November 2014
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.38	0.91	(0.53)
1 Year	4.80	4.01	0.79
3 Years (p.a.)	6.05	4.62	1.43
5 Years (p.a.)	4.55	3.23	1.32
10 Years (p.a.)	2.82	1.80	1.02
Since inception (p.a.)	2.63	1.64	0.99

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 Acc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 17 November 2014.

Performance commentary

Over the quarter, the fund delivered a positive return, although it underperformed the cash benchmark. The principal driver of overall returns remained the fund's holdings in cash instruments, which benefitted from further cuts to UK base rates. The fund's cash exposure is diversified across high quality covered bonds, offering dual recourse, and traditional money market instruments such as certificates of deposit and commercial paper. This positioning typically enables the portfolio to generate a yield premium over SONIA, and the fund's diversification reduced the impact of the Bank of England's 0.25% rate cut on overall yield.

During the quarter, the performance contribution from both money market exposure and covered bond holdings was less pronounced. The conflict in Iran led to a marginal widening of credit spreads and an increase in rates on cash instruments, as market expectations shifted from base rate cuts to potential rate hikes in response to surging energy prices.

Duration positioning detracted from performance throughout the quarter, with the fund maintaining a long duration primarily via short-dated UK bonds and Australian securities. The duration ranged from roughly half a year to two years. These positions added value until the end of February, but the sharp rise in yields in March triggered by the Middle East conflict negatively impacted performance. Nevertheless, the adverse effects were partially offset by tactical trading in response to increased market volatility.

Curve strategies were the biggest alpha contributors over the quarter. A flattening bias in the UK proved advantageous due to further reductions in long-term issuance by the UK's Debt Management Office, while European steepeners benefitted from pension fund reform in the Netherlands, resulting in a steeper curve. Conversely, the curve flattener strategy in Japan slightly detracted from overall performance.

Relative value positions added to returns, particularly through holdings of gilts compared to swaps, as swap spreads narrowed following the reduction in long-dated UK issuance. However, the swap position in Europe detracted marginally from performance.

Cross-market positions, notably long UK versus US, contributed positively to returns. However, widening spreads in non-core bonds and underperformance in Australia resulted in a negative impact on some positions over the quarter.

Inflation-linked positions marginally enhanced performance, especially the long position in US 5-year CPI. The short position in UK inflation also contributed, while a short position in long-dated RPI forwards detracted from results as breakeven rates rose in March.

Performance and activity

Return Contribution

	Quarter (bps)	1 year (bps)	Target return (of live trades) (bps)
Cash	62.17	346.28	425.00
Duration	(6.33)	(5.97)	37.00
Curve	4.81	22.11	11.00
Cross Market	(4.06)	47.08	18.00
Inflation	1.52	1.77	17.00
RV	1.17	21.50	2.00
FX Hedges	(15.77)	58.36	0.00
Total	**43.51**	**491.13**	**510.00**

Top Contributors

	Strategy	Q1 Contribution (bps)
Cash	Floating	42.21
Duration	US	25.57
Cash	Fixed	11.88
Cross Market	US	10.70
Duration	AUD	9.00

Bottom Contributors

	Strategy	Q1 Contribution (bps)
Duration	UK	(29.97)
Cross Market	US	(19.29)
Duration	EUR	(6.96)
Inflation	UK	(6.63)
Cross Market	AUD	(4.06)

Performance and activity

Portfolio Exposure

Trades	Position size (yrs)	Net duration exposure (yrs)	Market beta	Target return (bps)
Inflation				
Short Long RPI Fwds	0.20	0.00	0.01	6.00
Long 3yr US TIPS	0.10	0.10	0.03	2.00
Long 10yr US TIPS	0.10	0.10	0.03	1.00
Long 30yr US TIPS	0.20	0.20	0.07	5.00
Long 10yr Aussie Linkers	0.10	0.10	0.04	2.00
Long US 5yr IFS, Short UK 5yr IFS	0.10	0.00	0.05	1.00
Curve				
Japan 10/30 Flattener	0.25	0.00	0.03	8.00
Bund 10/30 Steepner	0.20	0.00	0.04	3.00
Cross Market				
Long UK 1y1y, Short US 1y1y	0.10	0.00	0.09	3.00
Long 10y Aus, Short 10y US	0.20	0.00	(0.02)	5.00
Long UK 5y, Short US 5y	0.20	0.00	0.12	5.00
Long 10y UK, Short 10y France	0.10	0.00	0.05	2.00
Long 10y Spain, Short 10y France	0.10	0.00	0.01	1.00
Long 30y UK, Short 30y Germany	0.10	0.00	0.06	2.00
Relative Value				
Short 10 year German Asset swap	0.20	0.00	(0.01)	2.00

Performance and activity

Portfolio Exposure

Trades	Position size (yrs)	Net duration exposure (yrs)	Market beta	Target return (bps)
Duration				
Long 30y Aussie	0.10	0.10	0.03	2.00
Long 5y UK	0.40	0.40	0.44	15.00
Long 7y UK	0.10	0.10	0.12	3.00
Long 30y UK	0.20	0.20	0.17	4.00
Long 1y1y UK	0.40	0.40	0.61	8.00
Short 1y1y US	0.10	(0.20)	0.13	1.00
Short 10yr US	0.10	(0.10)	0.34	1.00
Long 5y Spain	0.10	0.10	0.07	1.00
Long 30y Spain	0.10	0.10	0.05	1.00
Short 10yr France	0.10	(0.10)	0.56	1.00
Cash				
Cash	0.30	0.10	-	425.00
Overall Net Duration Position	**4.25**	**1.60**	**3.10**	**510.00**

Performance and activity

Asset allocation – duration

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.02	0.00	0.27	0.00	0.09	0.00	0.00	0.38
Canada	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.02
European Union	(0.01)	0.00	0.21	0.00	0.00	0.00	0.00	0.20
France	0.00	0.00	(0.26)	0.00	0.00	0.00	0.00	(0.26)
Germany	0.00	0.20	(0.29)	0.00	(0.30)	0.00	0.00	(0.39)
Ireland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Italy	0.00	0.00	0.09	0.00	0.00	0.00	0.00	0.09
Japan	0.02	0.00	(0.24)	0.00	0.23	0.00	0.00	0.01
Norway	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.10	0.09	0.00	0.09	0.00	0.00	0.27
Sweden	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.59	0.62	(0.30)	0.04	0.24	0.00	0.00	1.19
United States	(0.16)	(0.35)	0.10	0.00	0.20	0.00	0.00	(0.21)
Total								1.33

Performance and activity

Asset allocation - inflation

	0 -2 yrs	2 -7 yrs	7 - 12 yrs	12 - 17 yrs	17 -22 yrs	22 -27 yrs	>27 yrs	Total
Australia	0.00	0.00	0.09	0.00	0.00	0.00	0.00	0.09
Canada	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
European Union	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Germany	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ireland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Italy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.03
Norway	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	(0.58)	0.00	0.00	0.00	0.00	0.00	0.00	(0.58)
United States	0.13	0.10	0.10	0.00	0.21	0.00	0.00	0.53
Total								0.08

Performance and activity

Stand alone risk contribution

	Quarterly Vol (%)	Annual Vol (%)
Inflation	0.03	0.07
Curve	0.01	0.02
Duration	0.47	0.95
Relative Value	(0.00)	(0.01)
Cross Market	0.11	0.21
FX Hedges	0.01	0.01
IOTA	0.00	0.00
Cash	0.07	0.14
Futures	0.00	0.01
Overall Volatility	**0.70**	**1.40**

Risk Model Factor Risk Breakdown

	Standalone Risk Portfolio (bp)	Risk Contribution Portfolio (bp)	% of overall risk
Rates	131.21	127.78	91.54
Inflation	22.82	5.15	3.69
Spreads	24.91	6.88	4.93
Foreign Exchange	2.36	(0.22)	(0.16)
Time	0.00	-	-
Other	0.00	-	-
Total	**181.30**	**139.59**	**100.00**
Diversification across Risk Factors (%)			**(23)**

Performance and activity

Fund activity

Following the traditional year-end lull at the end of the previous quarter, money market activity picked up in the new year. Our activity focused on CDs from preferred issuers that score well on our credit and ESG factors, adding selectively to longer paper where this looked attractive relative to our models, with examples including one-year paper from Goldman Sachs and National Bank of Canada. After March, with higher yields on offer for longer-dated paper, we looked for prudent ways to take advantage of these but without taking excessive risk. While we felt it was clear that inflation will be higher than previously thought, there were points when the market was pricing in several rate hikes in 2026 – a view that we think is overly pessimistic. We were therefore happy to add modestly to longer duration paper – such as six-month CDs from Australia and New Zealand Banking.

Markets experienced sustained volatility, particularly in the UK. In line with fair value models and our in-house Economist's outlook for further rate cuts in the UK and US, the fund maintained a long duration stance throughout the quarter, with primary exposure in the UK and Australia, occasionally balanced by short positions in Germany and the US. March saw heightened volatility due to surging energy prices, prompting a shift from strategic to more tactical trading approaches.

European supply increased, and the fund participated in syndications across France, Spain, Portugal, and Italy. The principal cross-market activity involved building a long position in short-dated UK swaps relative to the US, with this position expanded in March as up to four rate hikes were priced into the UK market. Additional long positions in the UK relative to France and Germany were established, reflecting expectations that UK rates would remain stable. The fund also maintained positions in Spain relative to core Europe.

The fund was active in UK asset swaps, purchasing cash gilts and selling swaps in response to the ongoing shortage of long-dated supply. This position was traded actively and closed towards the end of the quarter.

Throughout the quarter, additional positions were taken in UK curve flatteners and European steepeners. The curve strategy in Japan was maintained, with tactical trading in 10-year futures, buying when yields spiked. By the end of the quarter, all UK curve positions had been closed.

Inflation activity in January and February was subdued, but at the onset of the conflict, the fund purchased five-year US inflation securities and TIPS across the curve. UK breakevens rose sharply as natural gas prices surged, prompting the sale of five-year swaps into this strength.

Market commentary

Market overview

The first quarter of 2026 was dominated by a sudden regime shift as geopolitics moved to the centre of the macro picture. Escalating tensions in the Gulf region came to a head in late February with the US-Israel offensive against Iran. The escalation added an additional layer of uncertainty and triggered concerns over oil and gas supplies, energy prices and near-term inflation risks. Brent crude hit more than 105 US dollars per barrel at the end of March as supply through the Strait of Hormuz was restricted and gas prices also surged, leading to a quickly deteriorating risk sentiment.

In the US, the spike in oil prices was a headwind, but the economy's energy sensitivity proved lower than in past shocks and the US benefits from being a major producer, helping US equities show relative resilience even as the quarter ended weakly. Investors also had to digest policy uncertainty after legal constraints changed the scope for tariffs announced in April 2025 and new tariff proposals reintroduced volatility, complicating the outlook for inflation and limiting the Federal Reserve's room to cut rates. Markets weighed the risk of a prolonged energy shock elevating recession likelihood later in 2026, even if the base case remained for a modest growth hit and higher near-term inflation.

As a net importer and more exposed to gas prices, the eurozone faced a tougher growth–inflation trade-off, even as incoming data still pointed to modest expansion and easing headline inflation. The ECB kept its policy unchanged with the deposit rate at 2%, but the broader oil and gas price shock pushed markets to reassess the path of European rates. In the UK, the macro backdrop was similarly shaped by the energy price shock, but equities proved comparatively more defensive than some global peers, echoing patterns seen in prior commodity-driven events.

Government bond markets bore the brunt of the repricing. Front end yields jumped, and curves reset higher as investors moved from expecting rate cuts to pricing fewer cuts, or even hikes, with higher energy costs seen as an inflationary impulse that central banks could not ignore. Moves in short-dated yields were especially pronounced as markets tried to map the oil shock into policy reaction functions, while longer dated yields also swung as markets attempted to price the risks of higher inflation, lower growth and even potentially larger government borrowing.

Index linked bonds recorded positive absolute returns for the quarter. This strong performance was largely driven by the relative outperformance of index link bonds compared to conventional gilts particularly at the shorter end of the market. The heightened inflation concerns following conflict in the Middle East contributed to this trend, with significant increases in energy prices observed throughout the period. UK real yields fell at the short end, the 10-year rallying from the 1.61% at the end of 2025 to end March at 1.37%, while the 30-year real yield ended unchanged at 2.10% - having been as low as 1.86% at the end of February, before the Iran conflict pushed yields higher through March. US and German real yields saw similar moves – with 30-year yields falling through January and February before selling off through March.

Outlook

Markets initially interpreted the escalation of the Middle East conflict primarily through an inflationary lens, with higher energy prices leading to additional rate hikes being priced into most developed markets. As the month progressed and the conflict persisted, attention began to shift toward the potential longer-term consequences for growth. This transition in focus saw risk assets start to underperform and some of the rate hikes previously priced in being gradually removed from market expectations.

Our central view is that, while the conflict creates near-term inflationary pressure, the overall impact is ultimately disinflationary as higher energy prices weigh on demand and global growth. In this context, any 'insurance' rate hikes now appear less likely following the ceasefire announcement, and we expect central banks to resume cutting rates later in the year. After a potential summer spike, inflation pressures should begin to ease as the growth backdrop softens.

The fund is positioned with a net long duration bias, primarily concentrated at the front end of markets, with exposure largely within the sub seven-year part of the curve. We believe this positioning should benefit as rate hike expectations continue to be priced out. The fund currently yields in excess of 4%, and this strong underlying yield provides an attractive base return. When combined with active alpha strategies, we believe that this positive carry should support solid absolute performance as the year progresses.

From an inflation perspective, the fund is broadly neutral overall, underweight UK inflation — where breakeven rates have risen the most — and long US inflation, reflecting differences in pricing, market dynamics and policy frameworks.

Cross market positioning continues to favour the UK and Australia, where markets still price a greater degree of policy tightening relative to fundamentals, while we remain underweight the US, where rate cuts are already partially priced. This relative positioning reflects our assessment of valuation, growth sensitivity and the asymmetric risks across regions.

Overall, the fund has continued to act as an effective diversifier relative to other fixed income assets, experiencing only a modest drawdown during March. With yields now materially higher and volatility elevated, we believe that the portfolio is well positioned to benefit from both the carry on its money market base and a more favourable environment for active positioning.

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.

Disclaimers

Important information

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Notice for UK Investors

The Fund is recognised in the UK under the Overseas Fund Regime (OFR) but is not a UK authorised fund and is not authorised by the Financial Conduct Authority (FCA). It is therefore not subject to the same regulatory oversight as UK authorised Funds and is not required to adhere to the UK sustainable investment labelling disclosure requirements. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available. Investors are strongly encouraged to seek independent financial advice before making any investment decisions.

The Fund is a sub-fund of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds.

Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000.

The Management Company is FundRock Management Company SA, Registered office: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

The Investment Manager is Royal London Asset Management Limited.

The Prospectus and Key Investor Information Document (KIID) are available in English via the relevant Fund Information page on www.rlam.com. A summary of investor rights is also available in English, and can be accessed at www.rlam.com/uk/policies-and-regulatory

RLAM may terminate the arrangements made for marketing of the fund pursuant to Article 93a of Directive 2009/65/EC.

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

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Risks and Warnings

Investment risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

EPM techniques risk

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange rate risk

Investing in assets denominated in a currency other than the base currency of the Fund means the value of the investment can be affected by changes in exchange rates.

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.

Performance to 31 March 2026

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	0.38	1.86	4.80	19.30	24.93
Fund (net)	0.30	1.70	4.49	18.23	22.88

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
6.05	4.55
5.73	4.20

Year on year performance (%)

	31/03/2025 - 31/03/2026	31/03/2024 - 31/03/2025	31/03/2023 - 31/03/2024	31/03/2022 - 31/03/2023	31/03/2021 - 31/03/2022
Fund (gross)	4.80	6.56	6.82	4.45	0.26
Fund (net)	4.49	6.24	6.50	4.10	(0.16)

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 31 March 2026. All figures are mid-price to mid-price for the Royal London Absolute Return Government Bond Fund Z Acc GBP share class.

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

Bonds

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

Currency hedged share classes

Currency Hedged Share Classes aim to provide investors with a return highly correlated to the return of the base currency share class by minimising the impact of exchange rate fluctuations between the base currency of the Fund and the investor's chosen currency. Derivatives are typically used to hedge the relevant share classes.

Derivatives

A financial instrument whose price is dependent upon or derived from one or more underlying asset.

Efficient Portfolio Management (EPM) techniques

The Fund may engage in EPM techniques including holdings of derivative instruments. The use of these instruments may expose the Fund to volatile investment returns and increase the volatility of the net asset value of the Fund. EPM techniques may involve the Fund entering into transactions with counterparties where there may be a risk of counterparty default. The Fund's ability to use EPM strategies may be limited by market conditions, regulatory limits and tax considerations.

Performance

Both the Fund and Index performance are based on close of business prices.

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.