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Royal London Diversified Asset-Backed Credit 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 Diversified Asset-Backed Credit Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

Contents

The fund

Fund performance objective and benchmark

The Fund aims to achieve a positive absolute return in excess of the Bank of England Sterling Overnight Interbank Average ("SONIA") by 2% per annum over rolling 3-year periods, before the deduction of charges. Notwithstanding that the Fund aims to deliver a positive absolute return over rolling 3-year periods, any capital invested is, in fact, at risk and there is no guarantee that a positive absolute return is generated over such specified period, or over any period. The target benchmark is the Bank of England Sterling Overnight Interbank Average ("SONIA") plus 2% (the "Index"). The Index has been selected as a target benchmark as it is consistent with how the Fund is managed in seeking to provide a "cash plus" performance outcome.

Fund value

	Total £m
31 March 2026	358.39

Asset allocation

	Fund (%)
Conventional credit bonds	95.48
Index linked credit bonds	3.14
Conventional gilts	1.24
Conventional foreign sovereigns	0.13

Fund analytics

	Fund
Fund launch date	24 September 2012
Fund base currency	GBP
Benchmark	Sterling Overnight Index Average (SONIA)
Duration (years)	1.49
Redemption yield (%)	6.00
Number of holdings	306
Number of issuers	199

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.44	0.91	0.54
1 Year	7.25	4.01	3.24
3 Years (p.a.)	8.80	4.62	4.18
5 Years (p.a.)	6.42	3.23	3.19
10 Years (p.a.)	5.41	1.85	3.56
Since inception (p.a.)	4.70	1.51	3.19

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 24 September 2012.

Please note that with effect from 12 December 2025 the fund name changed from RL Diversified Asset-Backed Securities Fund to RL Diversified Asset-Backed Credit Fund.

Performance commentary

The fund recorded a strong return in the quarter, significantly outperforming its benchmark and sterling investment grade credit markets. The fund's diversified nature was reflected in the diversity of performance drivers in the quarter and helped to dampen risk despite volatile markets.

The main driver of performance was the strong income generation from the secured bonds in the portfolio, offsetting the impact of general bond spread widening over the period.

We continue to see attractive risk-adjusted returns from this area, and key holdings such as Telereal (backed by BT telephone exchanges), ICSL (student loans), Canary Wharf Finance (prime London real estate), CPUK Finance (Center Parcs) and Metrocentre (prime UK shopping centre) all delivered positive returns in a quarter where the majority of bonds produced negative returns.

In broad terms, secured bonds had rallied less than other sectors in 2025, but more importantly, with the increase in uncertainty generally, the greater confidence around cashflows and payment of coupons and principal from these bonds becomes even more compelling.

During the quarter, the fund's duration position detracted from performance as it was slightly long duration and the UK gilt yield curve shifted higher over the quarter.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	2.01
ENTINN_02 6.464 30 Mar 2032	1.61
HWAYS 2021-1X A 3.7281 18 Dec 2031	1.59
AVIVA PLC 4 05 Jun 2032	1.28
BRITISH LAND CO PLC 5.264 24 Sep 2035	1.24
UK CONV GILT 1.5 22 Jul 2026	1.23
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.21
CO-OPERATIVE BANK FINANCE PLC 9.5 24 May 2028	1.18
DWR CYMRU FINANCING UK PLC 4.377 31 Mar 2026	1.14
PROGRESS HEALTH 5.58 02 Oct 2042	1.00
Total	**13.49**

Fund activity

New issue activity is typically high in the first quarter of the year, and this dynamic has continued, despite the pace of overall issuance falling sharply in March. We continued to find attractive opportunities across the market – both in established, larger sectors such as financials and areas that we have historically favoured such as secured bonds. There have also been opportunities to add to newer areas that aid portfolio diversification in terms of sector and underlying geography.

For instance, the growth in AI, and the rising need from technology companies for new financing has been a significant trend of note in the past few years. Much of the debt raising by US hyperscalers has been in the US dollar bond market, resulting in creeping concentrations in these markets, however, companies are now looking beyond the US dollar market to raise capital. Given the low portfolio allocations in this area, recent volatility has allowed us to add selectively at wider spread levels. Over the quarter, we added a new issue from Google parent company Alphabet at an attractive spread and also acquired bonds from Oracle.

The fund's exposure in this space remains primarily secured, and we purchased a bond collateralised by two new data centres in Slough and a lengthy rental agreement to a highly rated technology company and rated AA. Despite the clear correlation between the credit risk of this bond and the underlying tenant coupled with the enhancement from the high-quality security, the yield was materially in excess of unsecured technology bonds.

Secured bonds remain the most significant element of the portfolio. We believe that the market continues to undervalue security and other bond characteristics that give investors greater certainty over bond cashflows. During the quarter we added a AAA rated new issue from Sirius – backed by a portfolio of UK logistics assets at a material spread premium to the market and offering a floating rate coupon that helps dampen the fund's overall interest rate volatility. We also added a new issue from Telereal – backed by BT telephone exchange rental income. As well as earning an above market spread from the new bonds, the fund also benefited from existing, shorter maturity bonds being redeemed early at a premium to prevailing market pricing.

New positions were also taken in interesting new companies in the real estate sector, notably Akelius Residential and Hemso Fastighets. Akelius, ultimately owned by a charitable foundation, owns and manages metropolitan apartments in a number of European cities, while Hemso, is a largely publicly owned organisation that owns properties for public use – such as nursing homes, education and healthcare – in Sweden, Germany and Finland. We believe that the lower profile nature of these issuers results in additional bond yield despite very strong underlying fundamentals.

Performance and activity

Fund activity (continued)

In the UK social housing sector we added Blend, a housing association aggregator issuer that helps smaller housing associations access debt markets efficiently. The bonds were secured and offered an attractive spread over gilts, as well as strong social credentials.

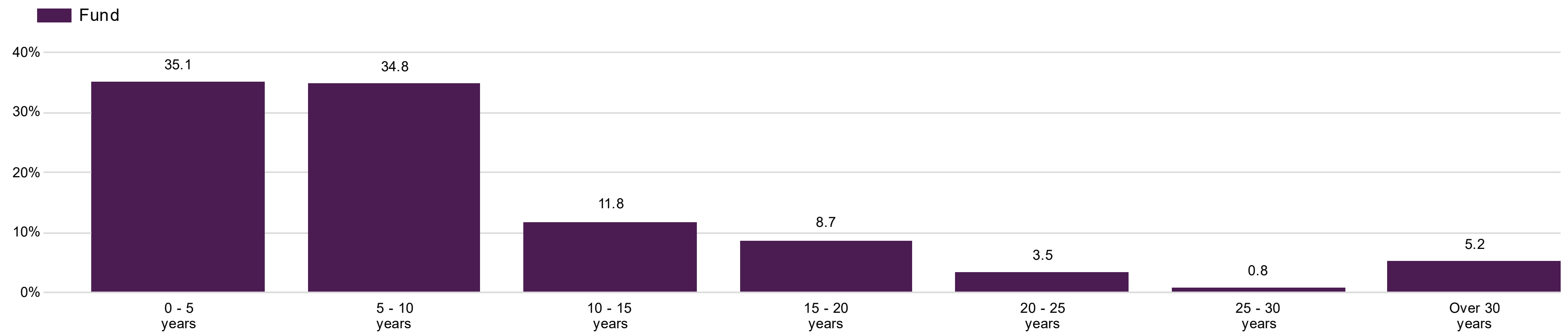
The team continues to scour bond markets for attractive secondary opportunities. Most notably during the quarter, the fund purchased a euro-denominated bond called Posillipo Finance which had been originally issued in 2007.

The bond's cashflows, including rapid principal amortisation, are ultimately paid by the Campania region of Italy but the relative complexity and obscurity of the bond imply a yield materially in excess of the fundamental credit risk. In addition, the fund added to existing positions in legacy subordinated financial bonds, including Dresdner Funding (Commerzbank) and HSBC.

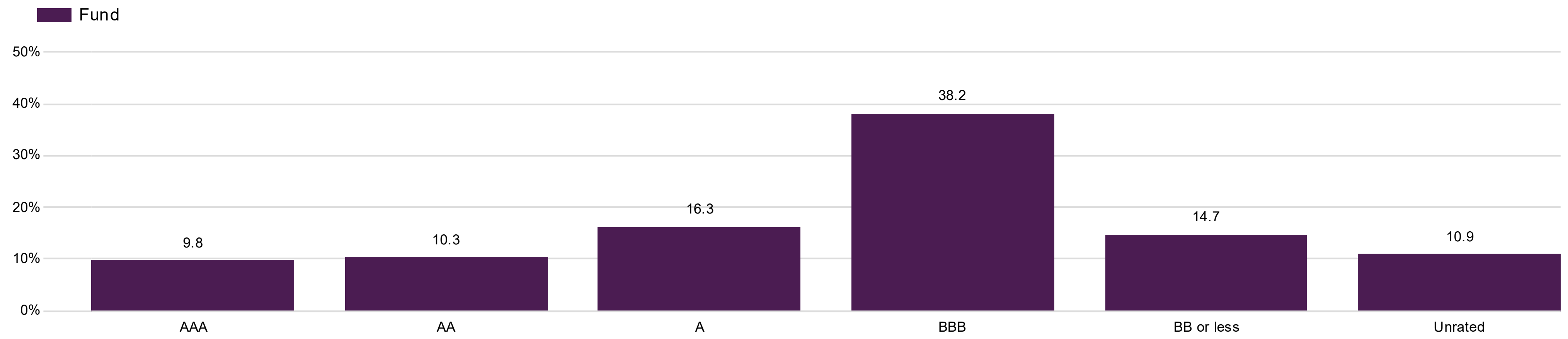
During the quarter, we took significant profits on Canadian dollar securities from RBC and Toronto Dominion, having bought them at deep discounts in the latter parts of 2024, reflecting market dislocations around the potential for the bonds to be called in 2026.

Fund breakdown

Maturity profile

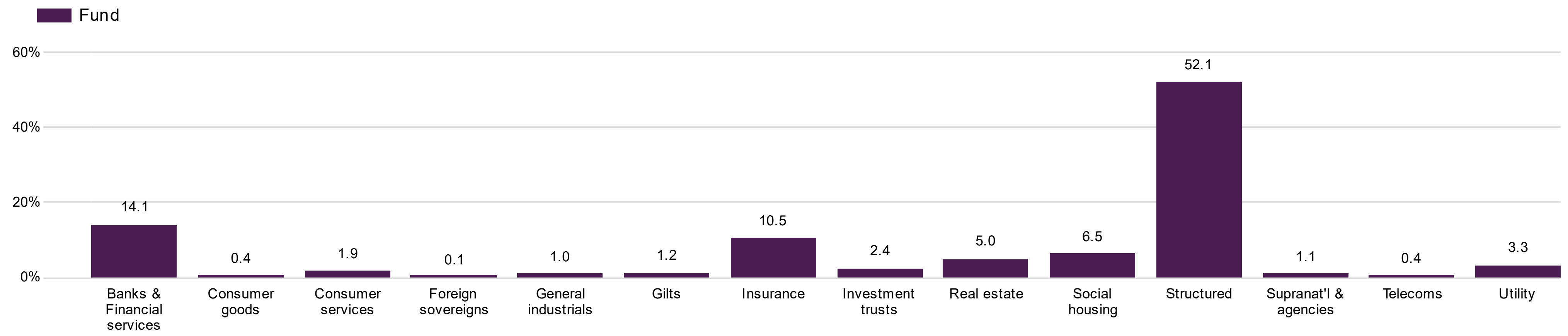


Credit ratings



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	12	27
Number of engagements	15	65

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

Climate	**6**
Climate - Transition Risk	6
Governance	**3**
Board	1
Corporate Governance	1
Strategy	1
Social & Financial Inclusion	**7**
Just transition	5
Labour & Human Rights	2
Technology, Innovation & Society	**2**
Cybersecurity	2

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

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.

Fund Engagement

Engagement outcomes

Barclays PLC – Just Transition

Purpose:

We engaged with Barclays PLC, a UK-listed bank, to gain clarity on how social dimensions, such as workforce impact and community vitality are being reflected in its climate transition planning.

Outcome:

Barclays now recognises the importance of just transition and has begun embedding social factors into its internal frameworks and sector strategies. While specific tools are still emerging, the bank has shared early examples of social considerations being incorporated into new product frameworks and just transition is a component of its Transition Finance Framework, e.g., targeted support to ensure that impacted communities benefit from the low-carbon energy transition. Barclays acknowledged that more consistent, measurable application of these principles is required across its business.

HSBC Holdings PLC – Just Transition

Purpose:

We engaged HSBC Holdings PLC, a UK-listed bank, to understand how it integrates social considerations into its climate transition strategy, including impacts on workers, communities, and regional economies.

Outcome:

HSBC now formally acknowledges the importance of a just transition and has taken initial steps to embed it into its strategy, such as updating internal governance and including social factors in its sector and regional engagement frameworks. While no single 'best-in-class' mechanism has emerged, the bank's development of inclusive product design and regional support for small and medium sized businesses demonstrates clear progress. Further work is needed to ensure these commitments are consistently applied across its financing activities.

John Lewis PLC – Human Rights

Purpose:

We engaged John Lewis Partnership PLC, a UK retailer, to discuss how it identifies and manages human rights risks in its food and agricultural supply chains, how these risks inform business decision-making, and how the effectiveness of due-diligence processes is monitored over time. The discussion focused in particular on remediation practices, grievance mechanisms, audit effectiveness, land rights, including Free and Prior Informed Consent (FPIC), and supply-chain health and safety.

Outcome:

John Lewis shared updates on its approach to human rights due diligence, including how it refreshes its assessment of key risks and uses a combination of internal reporting, supplier information and external sources to guide its engagement. The company emphasised a remediation-first approach, working with suppliers to address issues rather than defaulting to contract termination. The company outlined its processes for tracking worker concerns, reviewing audit findings, and engaging suppliers to implement corrective actions over time. The company highlighted ongoing programmes aimed at improving worker livelihoods and addressing salient risks in sectors such as agriculture and fisheries. John Lewis acknowledged that investor-facing reporting on health and safety metrics and grievance outcomes, and the effectiveness of its programmes could be clearer. The company indicated it would consider how reporting could be strengthened and we agreed to continue engagement to monitor progress and encourage greater transparency over time.

Fund Engagement

Engagement outcomes

Lloyds Banking Group PLC – Just Transition

Purpose:

Lloyds Banking Group PLC, a UK-listed bank, was engaged to explore how it is considering social risks, such as community resilience and customer inclusivity, as it transitions to a low-carbon economy.

Outcome:

Lloyds has begun integrating just transition principles into its climate strategy, highlighted through early implementation of region- and sector-focused lending criteria that reflect social and customer considerations. Through its lending to Community Development Financial Institutions, Lloyds demonstrates core just transition principles, fairness, inclusion and place-based support, within its community lending activity. Through our engagement, Lloyds has demonstrated meaningful improvements in product design and regional support initiatives. It acknowledges the need to further align these efforts across all financing activities.

Tesco PLC – Human Rights

Purpose:

Tesco PLC, a UK food retailer, was engaged to discuss how it identifies and manages human rights risks in its food and agricultural supply chains. The discussion focused on how the company assesses risk across different products and geographies, oversees suppliers, and addresses issues related to migrant workers, land rights and higher-risk supply chains.

Outcome:

Tesco described how it assesses and prioritises human rights risks across its supply chain using multiple lenses, including geography, product risk and workforce vulnerability, focusing action on higher-risk products where leverage is greatest. Recent progress includes strengthened supplier oversight, initiatives to improve worker transport safety, and supplier capability-building to support more effective prevention and remediation of human rights risks.
It also acknowledged ongoing challenges, particularly in relation to migrant workers and the need for collaboration across industry and with policymakers to address structural risks. Tesco indicated it will consider enhancing its public disclosures, including on land-use risks, and we agreed to continue engagement to monitor progress and encourage further improvements.

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 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.

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 any or all of higher inflation, lower growth and even potentially larger government borrowing. UK 10-year gilt yields shot up to 4.92%, up from 4.48% at the end of December and surpassing their highest levels seen last year (4.89% in January 2025).

The sterling investment grade credit market (iBoxx non-gilt index) returned -1.62% over the period under review. Spreads ended the quarter at 0.85% (iBoxx), compared to 0.77% (iBoxx) at the end of 2025. Sector returns were negative across the board, with more defensive areas such as covered bonds and supranationals less affected than areas with longer duration such as consumer services, telecoms and utilities.

Outlook

The ongoing global macro environment remained unsettled in the first quarter. Geopolitical risks, fiscal uncertainty and divergence in global monetary policy drove volatility in both nominal and real yields. More specifically the recent escalation in tensions around Iran, add an additional layer of uncertainty to the inflation and growth outlook. While the immediate market focus tends to be on energy prices and near-term inflation risks, history suggests that prolonged geopolitical shocks are ultimately negative for global growth as higher input costs, tighter financial conditions and weaker confidence begin to bite. In this scenario, inflation may prove stickier than central banks would like, even as growth momentum fades. The combination likely points to falling real yields over time, reinforcing the case for duration. Looking at our sterling credit strategy, this is a bias towards a long duration stance, rather than a meaningful use of risk budget.

Sterling credit markets modestly outperformed gilts during the first quarter, helped by shorter duration and the higher income. Spreads remain relatively tight compared to the past two decades, but as we pointed out at the start of the year, when looking at a company level, defaults are low, company balance sheets are generally healthy, and investors continue to look for yield. At a fundamental level, we still believe that credit spreads over-compensate investors for default risk, and that 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.

We remain confident that we can further achieve an attractive yield premium in our sterling credit portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers, exchange traded funds and passive funds that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that the more credit is treated as a commoditised asset class, the greater the level of inefficiencies that an active manager can exploit.

Further Information

Please click on the links below for further information:

Stewardship and Responsible Investment at RLAM

Royal London Credit & ESG Activity Report

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

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Issued in April 2026 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Bond Funds 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.

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.

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.

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.

Leverage risk

The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

Performance to 31 March 2026

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.44	3.41	7.25	28.84	36.51
Fund (net)	1.34	3.20	6.80	27.21	33.64

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	8.80	6.42
Fund (net)	8.34	5.97

Please note that with effect from 12 December 2025 the fund name changed from RL Diversified Asset-Backed Securities Fund to RL Diversified Asset-Backed Credit Fund.

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)	7.25	7.96	11.27	1.91	3.97
Fund (net)	6.80	7.50	10.80	1.48	3.52

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 Diversified Asset-Backed Credit 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.

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.

Number of holdings
Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers
Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance
The Fund price is taken at mid-day using swing prices where applicable, while the index performance is priced at close of business. Significant intra-day market movements at the start or end of the day may therefore distort comparisons.

Positive absolute return
The gain in an asset's value in absolute terms, rather than in relative terms.

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.

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.