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Royal London Short Duration Gilts 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 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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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
31 March 2026	1,467.65

Asset allocation

	Fund (%)	Benchmark (%)
Conventional gilts	95.08	100.00
Conventional credit bonds	2.62	-
Conventional foreign sovereigns	2.31	-

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)	3.13	2.33
Redemption yield (%)	4.43	4.29
Number of holdings	27	19

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(0.50)	(0.39)	(0.11)
1 Year	3.68	3.30	0.38
3 Years (p.a.)	4.11	3.52	0.59
5 Years (p.a.)	1.78	1.15	0.63
10 Years (p.a.)	1.25	0.88	0.37
Since inception (p.a.)	1.26	1.11	0.15

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 underperformed its benchmark over the quarter. The main driver of this was the fund's strategic long duration positioning, which was detrimental as yields rose aggressively throughout March.

At the start of the year, gilts performed well on both an outright and relative basis. Markets continued to price in multiple interest rate cuts from the Bank of England, supported by softer growth data and confidence that inflation would trend back towards target later in the year. In addition, the UK Debt Management Office (DMO) continued to starve the gilt market of long-end supply, with little to no long-end supply until April 2026 at the earliest. These factors contributed to falling gilt yields through January and February, reinforced by a more dovish-than-expected Bank of England meeting in February, where policymakers highlighted a cooling labour market and projected inflation at or below target for much of the forecast period.

Conditions changed materially in March following the escalation of conflict in the Middle East and the surge in oil & gas prices. Concerns around energy supply disruptions raised renewed inflation risks, prompting markets to reassess the expected pace and extent of monetary easing globally and driving bond yields higher.

Gilt markets, at their peak, moved to price in as many as four interest rate hikes from the BoE. While these expectations later tempered, the focus remains on how central banks would balance near-term inflation pressures against weakening growth and labour market conditions.

Performance and activity

Fund activity

The fund maintained a net long duration position relative to the benchmark throughout the quarter. It began the period at a third of a year long, initially dropping to 0.15 years long as the fund tactically took profits, before incrementally adding duration to just under 0.5yr long ahead of the February Bank of England meeting. During the March sell-off, duration was increased further, ending the quarter around 0.8 years long, having briefly peaking at 0.9 years long relative to the benchmark.

During the quarter, the fund was active in tactically trading outright six- and seven-year year gilts and strategically adjusting curve positioning. We took off some of the flattening bias, reducing exposure in five to seven-year gilts as that part of the curve outperformed, and adding back in two to four-year gilts which underperformed as yields rose. This allowed the fund to buy into the portion of the curve that had seen the most drastic yield moves following the shift in sentiment of interest rate expectations, with the belief that the shift in interest rate expectations was overdone.

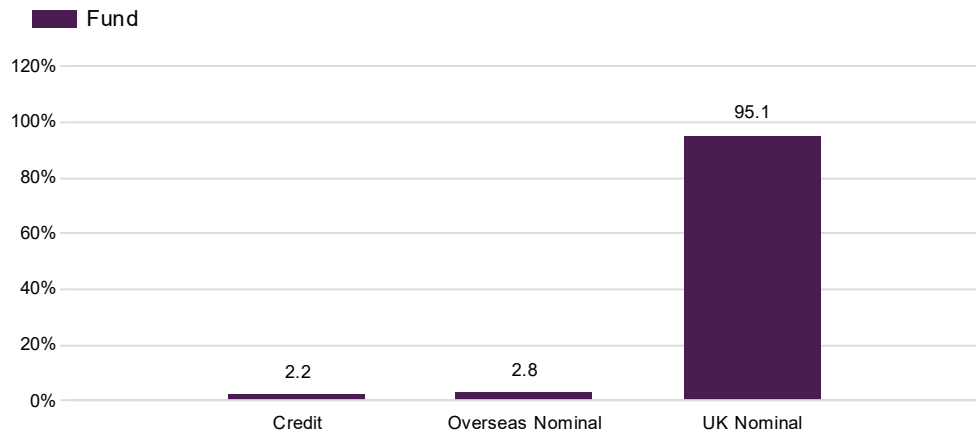
On a cross-market basis, the fund tactically traded the market volatility in short duration Australian government bonds, taking profits in five-year bonds earlier in the quarter, and ended the period with a small outright position.

The fund does not hold any inflation exposure, as we see shorter maturity index-linked bonds as expensive in this environment relative to shorter maturity nominal bonds.

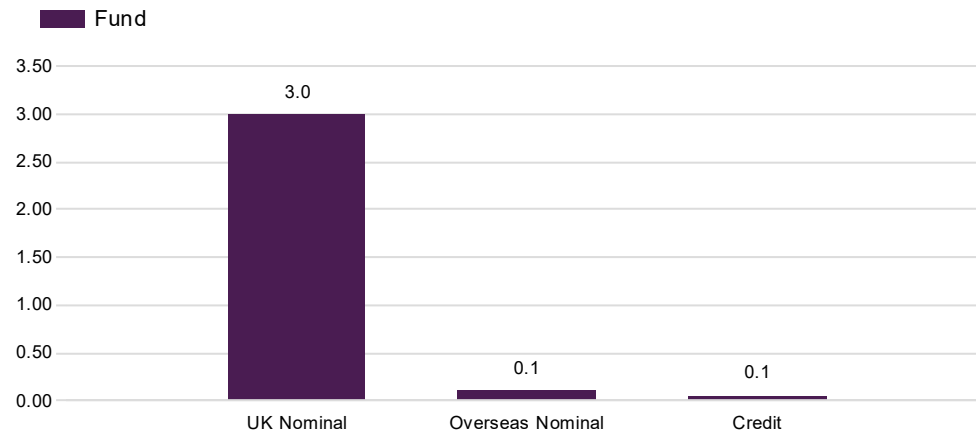
Finally, exposure to corporate bond floating rate notes was reduced to help fund activity in fixed rate gilts.

Fund breakdown

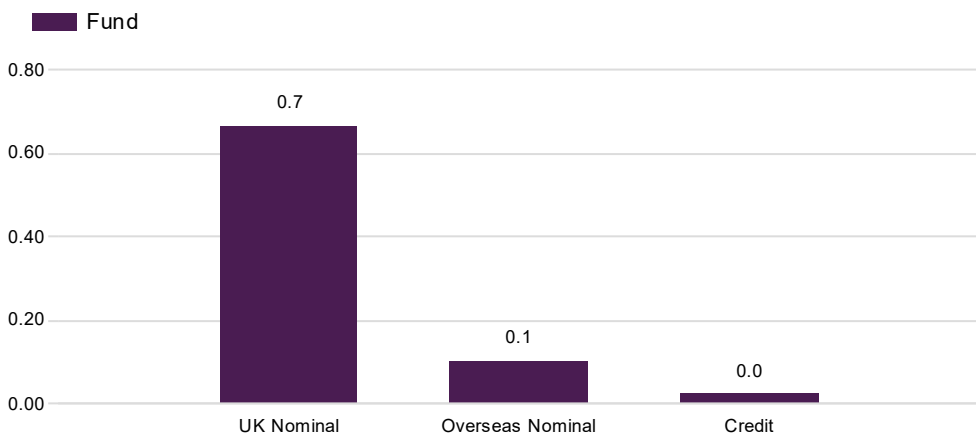
Asset split by percentage



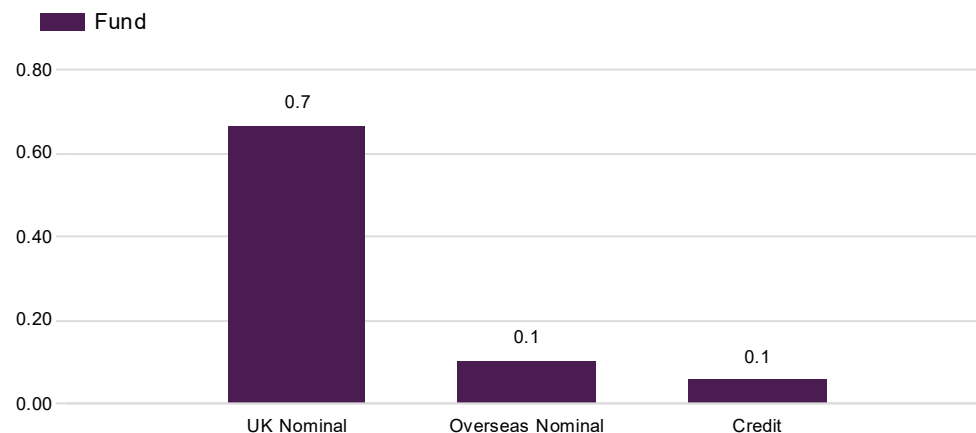
Asset split by duration



Asset split by duration change on quarter

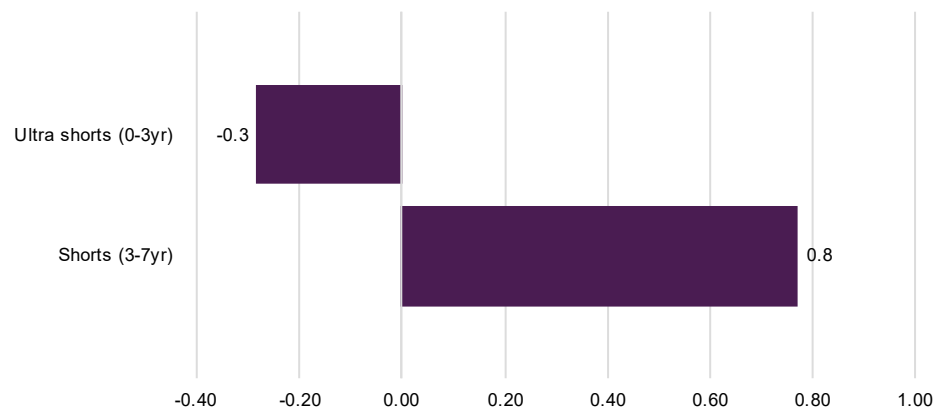


Asset allocation relative to benchmark (duration)



Fund breakdown

Maturity profile relative to benchmark



Market commentary

Market overview

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. In sterling credit, spreads that had tightened through 2025 began to widen in early 2026, with concerns over US private credit having a greater influence than Iran developments, while higher underlying gilt yields further lifted all-in yields. Primary markets were active over the first quarter, particularly during February. Credit performance was supported by areas such as structured bonds and financials, even as investors became more sensitive to inflation risk and the direction of policy rates.

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). In the US, 10-year treasury yields rose to 4.31% in March from 4.14% at the end of December. The German 10-year bund yield was 2.98% at the end of the first quarter, rising from 2.82% three months prior.

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.

Economic overview

In the run up to the conflict in Iran, business surveys looked consistent with most major economies seeing modest growth in the first quarter while job growth indicators remained relatively soft. Inflation was running above target in the US, UK and Japan, but was at target in the euro area. However, onset of the Iran conflict in March is expected to increase inflation and weigh on global activity. This was reflected in the composite PMI data in March, which deteriorated in most economies (albeit continuing to point to modest growth), and signalling lengthening delivery times (as the conflict hit supply chains) and sharp increases in supplier input prices.

In the UK, following the start of the conflict in the Middle East, the Bank of England (BoE) unanimously held rates in March, having also held in February, but with four MPC members changing their vote from a cut to "on hold". The central bank noted that the rise in energy prices presented upside risks to inflation and downside risks to growth. As expected, the fiscal statement of Chancellor Rachel Reeves announced little in the way of policy but did show a modest increase in forecast fiscal headroom. However, following the statement, public sector net borrowing overshot expectations (February data) and higher energy prices weaken the outlook. GDP grew just 0.1% in the fourth quarter (released in the first quarter), and remained subdued at the start of the year, with GDP failing to grow in January. Composite PMIs continued to signal modest activity growth in January and February but fell in March after the onset of the conflict. Meanwhile, the UK labour market data remained soft. The unemployment rate rose to 5.2% and the employment PMI remained below the 50 "no growth" mark in January and February and deteriorated further in March. Inflation remained at 3.0%Y in February, above the BoE's

Market commentary

target. The BoE had expected inflation to fall close to target by the third quarter but revised their forecast to around 3.5% following events in the Middle East.

The US fourth quarter GDP (released in the first quarter) slowed to only 0.7% (quarter-on-quarter annualised), although this was largely due to the disruption caused by the government shutdown (which did not end until mid-November). However, activity appeared stronger by the turn of the year. The composite PMI and ISM surveys pointed to modest activity growth in January and February. However, the March composite PMI deteriorated from 52.3 to 50.3 as the conflict began to weigh on business activity. Inflation continued to run above target with PCE inflation at 2.8% year-on-year in the January data and core PCE inflation rose to 3.1% year-on-year. February CPI inflation came in at 2.4% year-on-year. March business surveys signalled increasing energy costs were starting to feed through strongly into input prices for producers.

The US Federal Reserve kept rates on hold in both January and March. The March participant projections continued to indicate a median expectation of one cut in 2026 and another in 2027, despite higher oil prices, but both 2026 and 2027 median GDP growth and inflation forecasts rose, the former reflecting productivity according to Fed Chair Jerome Powell. Fed independence issues came to the fore again in January with the Department of Justice serving the Fed with subpoenas, although later blocked by a federal judge. US President Donald Trump announced that Kevin Warsh would succeed Powell, whose term ends this year. On trade, as was anticipated by many, the Supreme Court rejected that the International Emergency Economic Powers Act (IEEPA) authorised President Trump's use of tariffs. Trump swiftly followed that ruling with the announcement of a (time-limited) 15% global tariff (though an increase of only 10% was processed).

As expected, in the euro area the European Central Bank (ECB) kept rates steady at both February and March meetings. Following the onset of the conflict, ECB President Christine Lagarde noted that "war in the Middle East has made the outlook significantly more uncertain, creating upside risk for inflation and downside risks for economic growth". Lagarde said the central bank was "well positioned" to deal with the shock. Commentary from policymakers over the month suggested that a rate hike would at least be discussed in April.

Euro area GDP held up well in Q4, growing 0.2% quarter-on-quarter. The composite PMI business survey measure signalled modest growth in January and February, but fell from 51.9 to 50.5 in March. Headline inflation fell marginally below target in January and February, but rose sharply to 2.5% in March as higher fuel costs started to feed through.

Outlook

The ongoing global macro environment remained unsettled. Geopolitical risks, ongoing 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 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.

Monetary policy expectations were materially repriced during March, with markets briefly pricing more than three rate hikes from the BoE before ending the quarter at around two hikes, a sharp contrast to the two rate cuts the markets had priced at the end of February. While markets have scaled back expectations for near-term policy easing, we continue to view aggressive tightening scenarios as unlikely, given softening growth and weakening labour market conditions.

Inflation dynamics remain complex. Energy-led price pressures may keep headline inflation elevated in the near term, but absent sustained second-round effects, these shocks are likely to prove transitory in nature. With domestic demand slowing and labour market conditions cooling, underlying inflation pressures should continue to ease over time. This suggests that inflation may remain uncomfortable in the short run but becomes increasingly disinflationary further out.

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.

Supply dynamics remain an important consideration for gilt markets. The long end of the curve continues to benefit from constrained issuance, with limited supply expected until later in the year. While fiscal uncertainty remains elevated, the near-term supply outlook continues to provide a degree of technical support, particularly for longer-dated gilts.

Against this backdrop, the funds enter the second quarter positioned to benefit from a stabilisation in rate expectations and a reassessment of growth risks. We continue to see value in selective duration exposure and curve opportunities, particularly where recent moves appear to have over-discounted near-term inflation risks relative to the medium-term growth outlook. In relative terms, we believe that gilts offer compelling value versus other developed market government bonds, particularly as growth dynamics look more fragile.

Further Information

Please click on the links below for further information:



Find out more

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

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

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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.

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 31 March 2026

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(0.50)	1.16	3.68	12.84	9.23	4.11	1.78
Fund (net)	(0.56)	1.05	3.45	12.10	8.04	3.88	1.56

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)	3.68	4.37	4.28	(1.62)	(1.60)
Fund (net)	3.45	4.14	4.05	(1.84)	(1.82)

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 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.