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Royal London Short Term Fixed Income Fund

Quarterly Investment Report

30 September 2026

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 30 September 2026

The purpose of this report is to provide an update on the Royal London Short Term Fixed Income 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, over rolling 12-month periods, through a combination of capital growth and income, before the deduction of fees. The performance comparator for the Fund is the Bank of England Sterling Overnight Interbank Average ("SONIA") plus 0.50%. SONIA is the average overnight interest rate UK banks pay for unsecured transactions in sterling. It is considered to be an appropriate benchmark as it is a widely recognised approach to benchmarking short-term money market and fixed income funds.

Fund value

	Total £m
30 September 2026	3,322.87

Fund analytics

	Fund
Fund launch date	15 June 2011
Benchmark	Sterling Overnight Index Average (SONIA)
Weighted average maturity (years)	0.19
Number of issuers	47
Redemption yield (%)	4.23

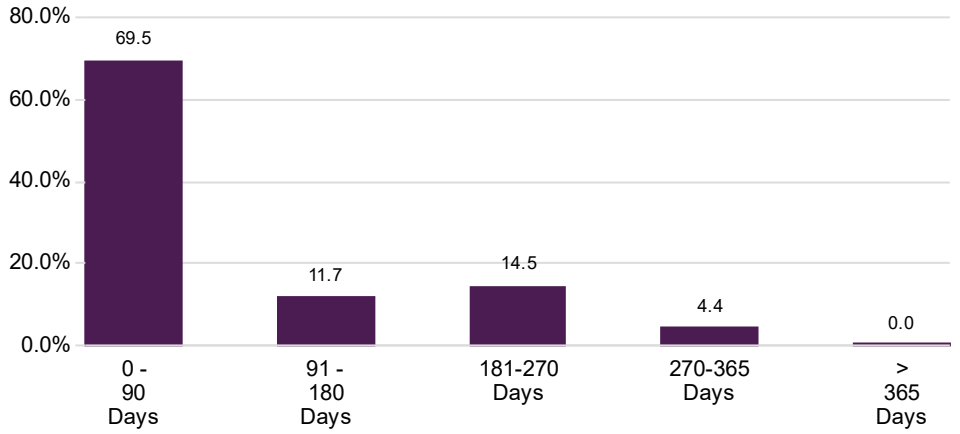
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.04	0.93	0.11
YTD	3.16	2.78	0.38
1 Year	4.34	3.78	0.56
3 Years (p.a.)	5.10	4.45	0.64
5 Years (p.a.)	4.00	3.61	0.39
10 Years (p.a.)	2.37	1.94	0.42
Since inception (p.a.)	1.92	1.46	0.46

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 21 May 2012.

Duration profile



Performance commentary

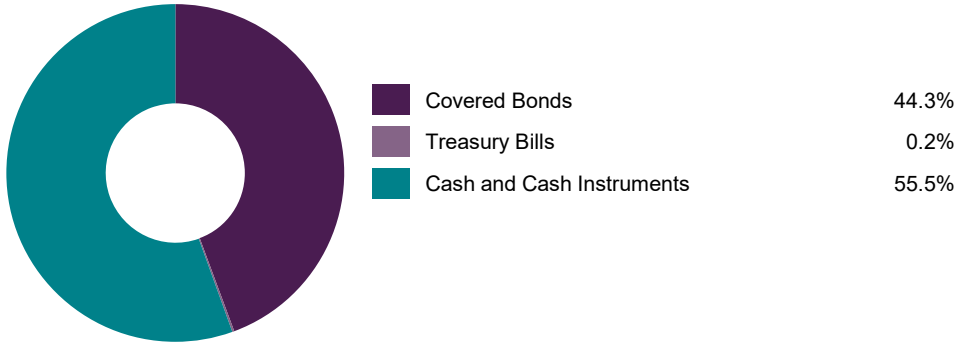
The underlying trend of note during the quarter was longer money market rates rising to reflect increased concerns over second round inflation effects and stronger growth translating into a number of Bank of England rate increases over the next 12 months. This effect was particularly visible in September.

Performance was ahead of the SONIA benchmark over the quarter. There were strong returns from the two main components within the fund, namely money market exposure and holdings in covered bonds. Rising money market rates are a headwind for any liquidity or fixed income fund that has duration exposure. We had increased the fund's weighted average life (WAL) in the earlier part of the second quarter, before allowing this to drift lower through most of the summer. As a result, although the impact of rising rates on our longer money market holdings was negative, this impact was mitigated. In addition, a modest proportion of our money market exposure was in floating rate CDs, which also did relatively well.

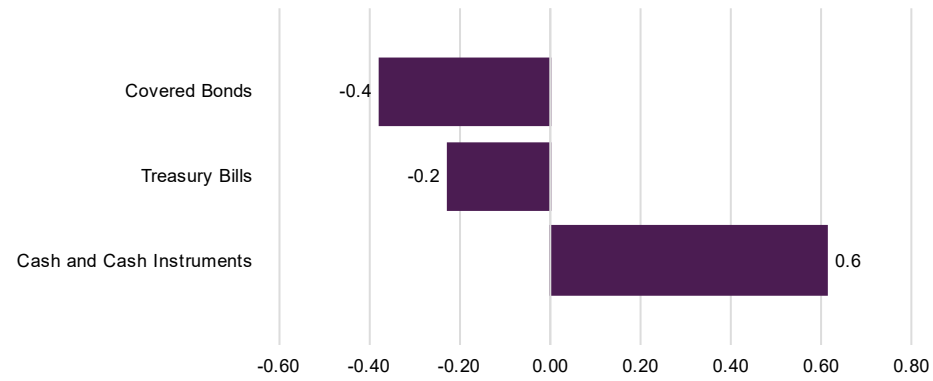
Our exposure to covered bonds was also positive. These typically have longer maturities than money market exposure, but have limited interest rate risk due to the floating rate structure. Our exposure is selective, and our holdings performed well, primarily due to the attractive income these produce.

Performance and activity

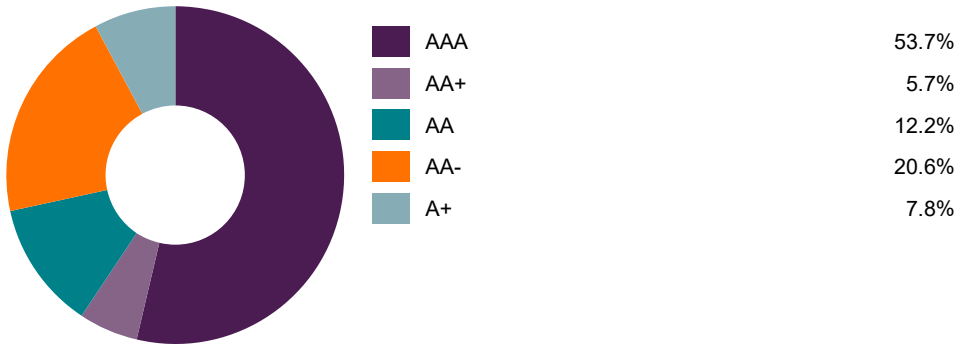
Asset allocation profile



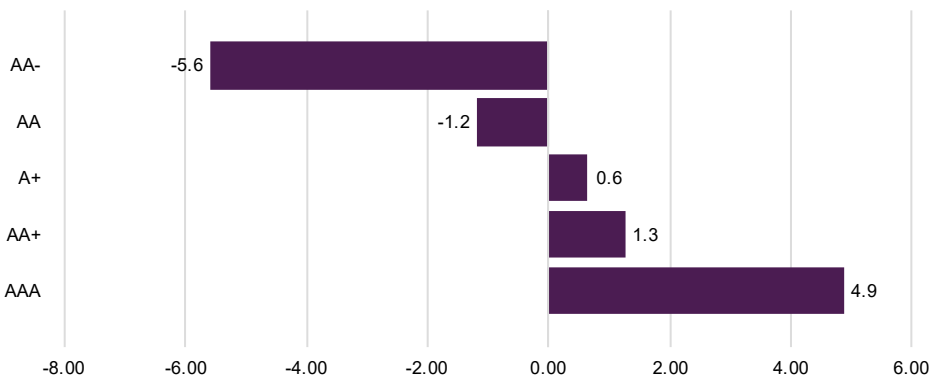
Change since last quarter (asset allocation) %



Credit rating profile

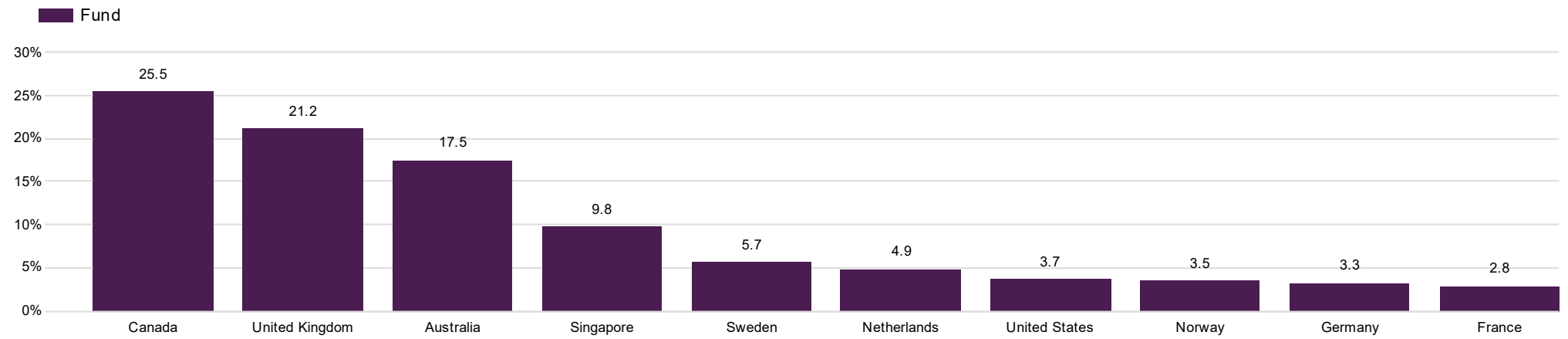


Change since last quarter (rating) %

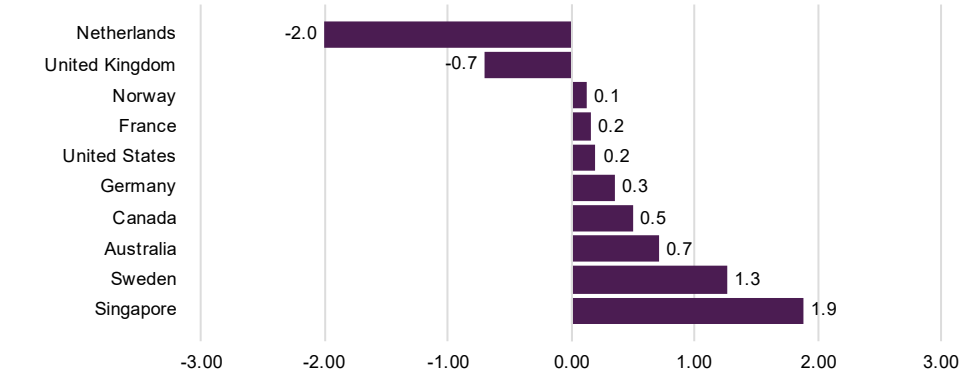


Performance and activity

Top ten geographic allocation (ex gilts) %



Change since last quarter (geographic) %



Performance and activity

Fund activity

Markets have moved to price in significant rate rises more than once this year. On each occasion, we felt that market reaction to short-term economic data was overshooting where the Bank of England will end up. Our investment approach is predicated on looking at value versus our models, rather than betting on macro outcomes, but we do see greater opportunity to add longer yields when markets overshoot.

In practice, this means that rather than a wholesale move into long-dated paper, we will look to pick up paper from names that score highly on our credit quality and ESG scores, and look attractive on our valuation models. This was most noticeable in September when rates had jumped materially, when we added one-year paper from SEB and DNB, the latter already pricing in almost four increases in Bank of England rate and hence offering a very attractive yield.

Covered bonds from favoured issuers are always attractive for the fund, and remain a significant part of the portfolio given the AAA rated, dual recourse nature of the bonds. Their eligibility as collateral means that some buyers are less price sensitive, and we therefore take a very selective approach. With market activity increasing after the summer, we were able to add new issues from United Overseas Bank and Australia and New Zealand Banking, also switching out of very short-dated Commonwealth Bank of Australia covereds at tight levels into a new issue from the same institution. With short-dated covered bonds in demand, we also took profits on one and two-year covered bonds from Santander UK.

Market commentary

Market overview

Global economic activity remained resilient over the quarter despite a more challenging backdrop of higher energy prices, rising government bond yields and renewed monetary policy tightening. US growth continued to be supported by robust household spending and a relatively firm labour market. The euro area also performed more strongly than expected, with second-quarter GDP recording its fastest quarterly expansion in four years, supported by consumption, exports and manufacturing activity.

Fixed income markets weakened over the period as persistent inflationary concerns and elevated energy prices prompted investors to reassess the path of monetary policy. The Federal Reserve, European Central Bank and Bank of Japan all raised interest rates during the quarter, while expectations increased that the Bank of England would also tighten policy. Government bond yields rose sharply, particularly at shorter maturities, as markets priced a higher path for policy rates, while longer-dated bonds weakened on fiscal concerns and rising issuance.

During the quarter, Andy Burnham became UK Prime Minister. The government reaffirmed commitment to the fiscal rules which, alongside higher inflation and higher bond yields weighing on the fiscal headroom, leaves little room for manoeuvre in the October budget. Towards the end of the quarter, Burnham proposed changes to the pension triple lock to help fund new social care policy and indicated a willingness to reassess the UK's relationship with Europe. However, the proposals were light on details and not expected to take effect until after the next election, likely from 2030.

In the UK, the government's Debt Management Office sold £4.25 billion of July 2036 gilts at an average yield of 5.383% at the end of September, the highest 10-year borrowing cost since 1999. Demand for higher yields reflected ongoing inflation concerns and expectations of increased fiscal spending ahead of the forthcoming Autumn Budget. Monetary policy expectations also shifted over the quarter and markets started pricing in a 25bps rate hike in November, with roughly four increases priced in by the middle of next year.

UK 10-year gilt yields ended September at 5.43% compared to 4.76% at the end of June. US treasury yields also moved higher over the quarter, with the 10-year treasury yield ending September at 5.28%, having closed at 4.44% at the end of June. Across Europe, government bond yields similarly pushed upwards. The German 10-year bund was 3.55% at the end of September, up from 2.87% three months prior.

While government bond volatility has been a notable feature of 2026, the stability of UK interest rates means that SONIA, the Sterling Overnight Index Average, has been virtually unchanged. This continued through the third quarter, with this unchanged at 3.73%. Further along the money market curve, changing market expectations about future Bank of England policy have seen sharp movements. During the quarter, the market moved to price in significant rate hikes over the following 12 months, with two-year gilt yields, often seen as a proxy for market expectations of BoE rates, moving significantly higher, from 4.18% to 4.75%.

Outlook

The global impact of the conflict in the Middle East is not yet fully visible. Since its commencement in February, we have seen hopes of ceasefire or more permanent resolution increase and fall on a number of occasions. Oil supplies have been disrupted and are likely to remain so for some time, even if somewhat mitigated by the reopening of the East-West Saudi pipeline towards the end of the quarter. As stated previously, this has a simple and predictable first round impact on inflation, with price rises feeding through into elevated headline inflation this year and expected to then fall back in 2027 due to the base effects of year-on-year comparisons. The short and medium-term impact on growth is harder to predict, but historically, sudden sharp increases in energy prices have had a negative impact on global growth.

With inflation higher on a technical basis, and second-round effects also likely to push inflation higher as workers look for higher wages to offset higher cost of living, it would have been easy for central banks to start increasing interest rates in the spring or summer. Concerns over the impact on growth have undoubtedly slowed down those increases, but with economic growth proving resilient, we have now seen the Fed and ECB increase rates, with a November increase from the Bank of England fully priced into markets.

For the BoE, we believe that the pressure to increase rates will see an increase shortly. However, we note that markets are not just pricing in a November hike, but three subsequent increases, taking rates 100bps higher by summer 2027 and then remaining flat for some time. That pattern of monetary policy changes feels unlikely in our view, given that it assumes inflation increases and then remains high for some time, and that the impact of fuel price increases will be negligible on consumption and therefore overall growth. We also have the first budget of the new Prime Minister in Autumn, which will also undoubtedly impact BoE thinking and market pricing.

While we target an attractive yield in the portfolios, we are mindful of liquidity and security as well, therefore preferring to look for value on a case-by-case basis using our models, rather than implementing large-scale macro or interest rate calls. We continue to believe that the overall yields in our liquidity and short-term fixed income funds remain attractive for investors.

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.

Disclaimers

Important information

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Issued in October 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.

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.

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.

Inflation risk

Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

Performance to 30 September 2026

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	1.04	2.24	4.34	16.10	21.66
Fund (net)	1.03	2.23	4.31	15.99	21.48

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
5.10	4.00
5.06	3.97

Year on year performance (%)

	30/09/2025 - 30/09/2026	30/09/2024 - 30/09/2025	30/09/2023 - 30/09/2024	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022
Fund (gross)	4.34	5.00	5.97	4.71	0.08
Fund (net)	4.31	4.97	5.94	4.68	0.05

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 September 2026. All figures are mid-price to mid-price for the Royal London Short Term Fixed Income 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.

Covered bonds

Bonds or notes that are backed by cash flows from mortgages or other debt.

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.

Floating rate notes

Bonds that pay a variable rate of interest. The interest rate is tied to a benchmark and adjusted periodically.

Money market instruments

Investments that pay interest, have a short duration and are designed to maintain a stable value.

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.

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.

Weighted average maturity

The average length of time to maturity of all underlying securities in the fund weighted to reflect the relative holdings in each instrument, assuming that the maturity of a floating rate instrument is the time remaining until the next interest rate reset to the money market rate, rather than the time remaining before the principal value of the security must be repaid.