

# Approach to secured credit

Martin Foden, Head of Credit Research



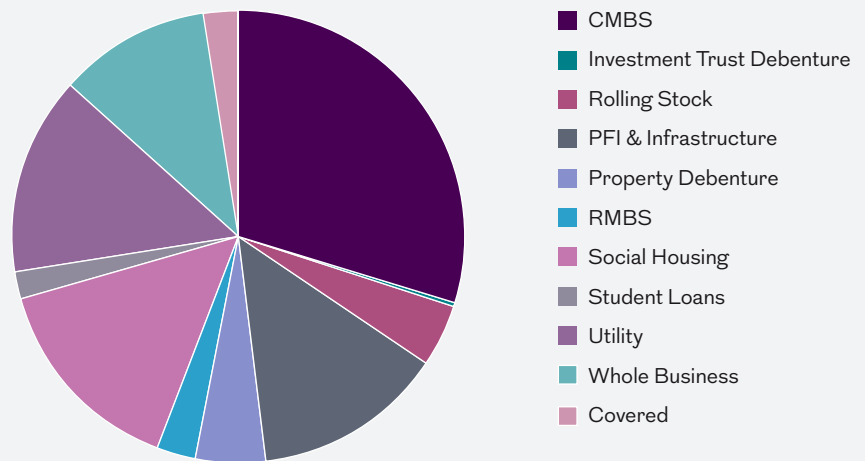
## Key points

- Secured credit (bonds that benefit from asset backing as distinct from unsecured bonds) has always been at the heart of our differentiated credit approach and forms the foundation for the majority of our credit solutions
- Security is a key credit enhancement – offering potentially greater visibility and control to creditors in uncertain times
- We believe security as an attribute is under appreciated and under valued in a bond market that tends to favour more superficial characteristics
- Not all security is equal and the idiosyncrasies have to be analysed and understood to avoid potential pitfalls
- In our view, blending the best opportunities from secured corporate bonds and securitisations allows us to enhance portfolio fundamentals, diversity, and returns

Royal London Asset Management's journey through secured credit investment is neatly framed by our evolution. We have been investing in secured corporate bonds for over 30 years across a wide range of asset-rich sectors including infrastructure, social housing, investment trusts and commercial real estate – representing an extremely granular range of issuers.

From this heritage, following the Global Financial Crisis (GFC), we extended our reach into the securitisation market by investing selectively across residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) and other asset backed securities (ABS). In the broadest of terms, secured credit represents a welcomingly diverse set of economic exposures with one critical commonality – a charge over assets.

## Typical Secured Credit Allocation



Source: Royal London Asset Management 30 April 2026.

# The Secured Credit Opportunity



## Security

Enhanced control  
Enhanced recovery  
Idiosyncratic



## Diversity of opportunity

Tenor  
Cashflows  
Economic exposure



## Undervalued

Ratings  
Complexity  
Regulation

## Benefits of security, and the research hurdle

Security is a key credit enhancement, providing tangible backing to enhance bond recovery should a company default. However, its true value is more nuanced. By investing in bonds with the right type of security, both in terms of legal enforceability and appropriateness of collateral, dovetailing with protective covenants, such as early triggers that require issuers to supplement collateral pools as values fall, we can inject some dynamic protection into our credit portfolios. In an increasingly uncertain world, in an asset class with asymmetric risk and return profiles, we believe the enhanced visibility and control from secured lending is hugely beneficial.

Equally, buying secured bonds is not a free ride. The analysis cannot be delegated and gaps in third-party environmental, social and governance (ESG) data must be plugged. Each bond is unique, whether due to the underlying assets or cashflows or different covenant packages and issuing structures. Accordingly, secured bond documentation is more complex and comprehensive than that for unsecured bonds. This is a good thing to the extent it reflects greater levels of protection and, what is more, as security and covenants are permanent over the life of the bond, the extra effort required to fully understand the investment is usefully efficient. And, as a market leader in this area, with multi-cycle experience, the varying practical and commercial efficacy of different covenants and structures is very clear.

## An evolving landscape

Building on a solid bedrock of investment in secured corporate bonds, over a decade ago we extended our expertise into the securitisation market, which hitherto had been perceived as a 'low risk' bank to bank market. Suddenly, forced selling into an unreceptive market provided a good opportunity to add

new exposures to bonds that for all their structural differences – ring-fencing of assets, floating rate coupons – simply represented another method by which corporates could raise secured financing. Critically, given some of the latent risks that we perceive in a now largely rehabilitated securitisation market – economic concentrations, over-rating of subordinated classes and extension risk – we can be highly selective in this area. Adding only the highest quality and highest conviction names and structures, supplements our wider holdings of secured corporate bonds to enhance overall portfolio fundamentals, diversity, and returns.

## An exploitable market inefficiency

For all their fundamental advantages, we believe the attraction of secured bonds is that these enhancements remain underappreciated and undervalued in a market that has largely developed as a conduit for unsecured finance. Rating agency methodologies perpetuate this inefficiency by concentrating on probability of default rather than loss given default. Effectively, this means that rating agencies, as the largest arbiters of credit risk in the economy and embedded in control and regulatory frameworks across the globe, are telling investors that bond recovery following a default is an incidental issue. No wonder fundamental protections, such as security and covenants, are often overlooked. It is also remarkable that name recognition can count for more than a tangible claim on assets. How else can we explain a market that accepts a lower credit spread for unsecured lending to the UK property company, British Land plc, than it does for secured lending to the same business, as seen in the table below. Whilst the secured bond may not provide the convenient tick boxes of a credit rating or index constituency, we feel the belt and braces of a first claim on the group's properties and covenants that require the company to maintain the value of the properties at 1.5x the value of the money we have lent more than compensates.

## Be the apex creditor!

|               | British Land 5.25% 2032 | British Land 5.264% 2035       |
|---------------|-------------------------|--------------------------------|
| Size          | £300m                   | £250m                          |
| Credit rating | A                       | Unrated                        |
| MSCI rating   | ✓                       | ✗                              |
| Security      | Unsecured               | First fixed charge on property |
| Spread        | 0.8%                    | 1.0%                           |

Past performance is not a guide to future performance. Portfolio characteristics and holdings are subject to change without notice. References to specific securities are provided for information purposes only and should not be construed as a recommendation to buy or sell. Source: Royal London Asset Management, Bloomberg as at 30 April 2026.

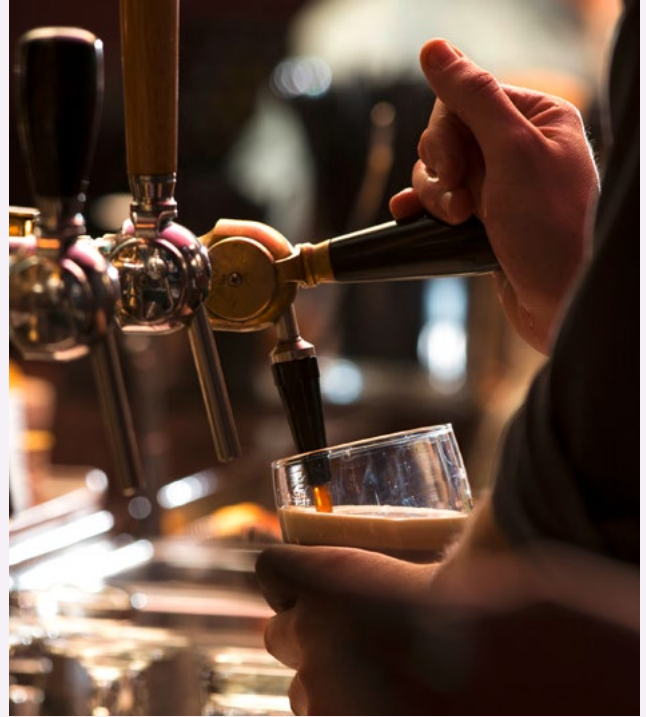
Lending well at the outset is a central tenet of our approach. Additionally, a useful outcome of lending with more pre-emptive control, as well as dampening the impact of unforeseen risks (e.g., poor governance, latent environmental liabilities), is that borrowers are required to negotiate with us if performance deteriorates or they require amendments to restrictive bond terms. Therefore, on an ad hoc but not infrequent basis, bonds are redeemed early at prices above market levels to remove these borrowing restrictions. Most typically this is due to the borrower believing they can finance more efficiently in unsecured form or post M&A, where our covenants prevent the new owners of the borrower executing a leveraging strategy, and can provide additional incremental returns to well-constructed portfolios.



## Case Study - A 'Unique' Opportunity

The unfortunately timed pre-Covid 19 acquisition of the pub company, Enterprise Inns, by the privately owned Stonegate Inns was finally refinanced in 2024, through a wholesale restructure of the wider group's bond and bank funding. As a consequence, the senior tranche of Enterprise's securitisation vehicle ("Unique Pub Finance") which Stonegate inherited was redeemed early, at a material premium to the market price.

The differentiated bonds benefitted from a combination of free cash flow debt service cover ratios (DSCR) and limitations on asset withdrawals, as well as a material level of collateral tied up, that countered Stonegate's financial objectives. Despite low leverage and strong freehold asset backing, the unconventional nature of the structure meant the bonds were rated sub-investment grade, allowing us to earn a significant yield premium versus unsecured yet more conventional consumer bonds even before the early repayment. As well as providing bondholders with considerable control and visibility during periods of significant market volatility, an outcome that resulted in a material premium to redeem the bonds contrasts sharply with the typically negative consequences of owning unsecured credit post M&A.



Source: Shutterstock.

**This case study and any references to specific securities are provided for illustrative purposes only and should not be relied upon as investment recommendations.**

With money increasingly diverted to investment grade corporate bonds as a standardised building block for portfolios – whether an insurance company requiring narrow matching adjustment eligibility or a central bank only buying bonds with certain superficial characteristics – we believe that the opportunity to create better credit portfolios by embracing the idiosyncrasy of bonds will persist. Less conventional perhaps, but secured lending has always been at the heart of our differentiated credit approach and the more the wider market treats bonds as commodities, the more our experienced team are motivated to search out the quirks and the nuances of corporate bonds that can make a fundamental difference to portfolio risk and return.

## Investment risks

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 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.

**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.

**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.

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## Contact us

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**Royal London Asset Management**  
80 Fenchurch Street,  
London EC3M 4BY

**For advisers and wealth managers**  
bdsupport@rlam.com  
+44 (0)20 3272 5950

**For institutional client queries**  
institutional@rlam.com  
+44 (0)20 7506 6500

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