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# A year in ABS investing: growth, resilience and the road ahead

Seema Sopal, ABS Fund Manager, discusses how the team look to deliver resilient returns and uncover global opportunities, and how the market may develop for investors in the year ahead.



## How has the ABS (Asset Backed Securities) team settled into Royal London Asset Management?

One year in, the integration has gone very smoothly. The cultural alignment with the broader Fixed Income team has been strong, particularly as we share the same investment philosophy: a long-term, valuation-driven approach and a strong focus on downside risk mitigation.

Operationally, the support and collaboration of Royal London Asset Management's infrastructure has enhanced our risk and governance and legal capabilities, as well as distribution reach. This has allowed us to focus on what we do best, namely identifying resilient, well-structured securitised opportunities. Overall, it has strengthened the platform, and we now feel fully embedded within the Fixed Income team rather than adjacent to it. Importantly, the support from Royal London Group reinforces that securitised credit is viewed as a strategic opportunity within the business, not simply a satellite allocation.

## What have been the key successes of the team and funds over the last 12 months?

The past year has validated the strategy, the team and the timing. From a performance perspective, the funds have delivered strong risk-adjusted returns (see charts below), demonstrating the resilience of the asset class through periods of market volatility.

At the same time, the funds have continued to generate attractive levels of income, which has been particularly valuable in an environment where investors are increasingly focused on dependable carry. We've also seen encouraging growth in assets under management. Alongside the continued support from our internal investor Royal London Group, we are pleased to have won, at this early stage, a number of external clients across

the funds. Broadening the client base and securing those first external mandates has been an important milestone for the platform. Overall, we feel we've moved from establishing the capability to demonstrating the proposition in practice.

## In what has been an eventful year for geopolitics, how has this asset class performed and why?

Despite geopolitical noise and macro uncertainty, securitised credit has performed well largely because returns are driven more by the underlying collateral's cash flows than by headline risk. In short, ABS, from a risk perspective, tends to be driven more by borrower behaviour than by geopolitical headlines.

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When we launched the funds in March 2025, the world was already facing elevated geopolitical tensions from tariff disputes to ongoing conflict risk – and a year on those uncertainties remain.

In an environment where macro risks feel heightened, the asset class has behaved as a relatively defensive and resilient source of income. The reason for this lies in the structural characteristics of ABS. Exposure is backed by pools of real assets – mortgages, auto loans and consumer credit – with cash flows ultimately driven by borrowers continuing to service those loans. These structures also include multiple layers of protection such as tranching, credit enhancement and excess spread, which provide built-in buffers for investors.

As ABS investors, our primary focus is therefore on the quality of the underlying assets and the strength of the underwriting. Post-GFC regulatory changes have materially improved loan standards and capital structures, including requirements for originators to retain risk and maintain alignment with investors. Finally, the complexity of the asset class often means spreads compensate investors for the risk, creating attractive relative value opportunities.

### **Which markets and sub asset classes will the funds look to move towards over the next 12 months?**

Over the next 12 months our focus will remain on areas where spreads continue to potentially offer attractive value relative to the underlying fundamentals, while maintaining our emphasis on strong underwriting and resilient collateral.

One market we continue to see opportunity in is Australia. The market benefits from strong underwriting standards, conservative structures, and historically resilient collateral performance. Importantly, Australian securitised credit continues to offer a spread pick-up relative to comparable assets in other developed markets. Historically, that pick-up has been in the region of 20-50bps, although more recently it has tightened to around 10-30bps as offshore investor demand for the market has increased.

We also spent time in Australia last November attending the Australian Securitisation Forum, which had record attendance from issuers and both domestic and offshore investors. Alongside the conference we conducted on-site due diligence with a number of issuers in Sydney and Melbourne. Seeing origination platforms first-hand provided valuable insight into the nuances of the market and reinforced our confidence in the quality of underwriting and lending standards.

Alongside opportunities in Australia, we are also monitoring developments in the European CLO market across the capital structure. Following strong issuance since 2025 – including both new deals and a wave of resets and refinancings – supply has increased meaningfully and we expect there may be some spread widening as the market continues to absorb that issuance.

More recently, geopolitical volatility linked to the US / Israel strikes on Iran has contributed to a more cautious tone across risk markets, particularly within the leveraged loan universe that underpins the CLO collateral. At the same time, the pace of issuance in the European CLO primary market has slowed somewhat amid the uncertainty. It will therefore be interesting to see how the market evolves as issuance begins to normalise, as periods like this can often create attractive entry points for investors.

From a portfolio point of view, we continue to favour short-dated, senior paper and high-quality investment grade mezzanine tranches where credit enhancement remains substantial, and investors are well compensated for the risks being taken. As always, our focus remains on collateral resilience, strong underwriting, and structures that provide meaningful downside risk mitigation.



## Conversely, are there any geographic areas or sub asset classes which concern you?

As always, our approach is to remain selective and disciplined, particularly in areas where market enthusiasm may be running ahead of fundamentals.

One area we are monitoring closely is the UK and European CMBS (Commercial Mortgage-Backed Securities) market, which has seen something of a re-emergence over the past year after a relatively quiet period for issuance. While it is encouraging to see activity returning to the market, we have observed a number of recent transactions backed by logistic assets where exposure is concentrated to a single sponsor or operator.

Logistics has been a strong-performing real estate sector in recent years, but structures where a large proportion of the collateral is linked to one sponsor can introduce meaningful concentration risk. From a portfolio construction perspective, we prefer transactions that provide broader diversification across borrowers, assets and tenants rather than relying heavily on the performance of a single platform.

We are also monitoring the emergence of European data centre securitisations. The sector has attracted significant investor attention given the rapid growth in demand for data storage and computing capacity, particularly as investment linked to AI continues to accelerate. However, the securitised market for these assets in Europe remains relatively small and concentrated, with only a limited number of issuers, such as Vantage and Yondr. As the asset class develops, questions remain around the long-term sustainability of some business models and how future supply of data centre capacity will evolve alongside demand.

Overall, while both sectors may present opportunities over time, they require careful underwriting and a disciplined approach to investment allocation.

## What are the risks which worry you most and how are you positioning the portfolios to mitigate against them?

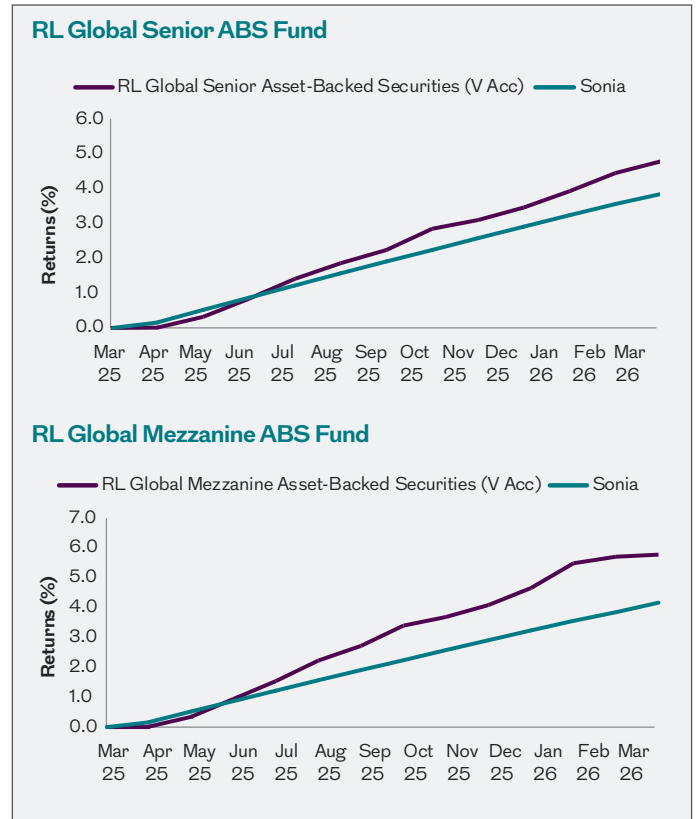
As with any credit market, the key risks we monitor are a deterioration in underlying credit fundamentals and periods of heightened market volatility. A weaker economic environment could place pressure on borrowers and lead to a higher arrears or default rate across certain segments of the consumer and corporate loan markets. In addition, geopolitical developments and shifts in monetary policy can lead to periods of spread volatility and reduced market liquidity. As we have seen in recent years, these types of events can create short-term dislocations in credit markets even when underlying collateral performance remains relatively stable.

Our approach to managing these risks is centred on maintaining a strong focus on collateral quality, structural protection, and diversification. We favour transactions where credit enhancement remains substantial and where the underlying loan pools demonstrate resilient borrower characteristics. From a portfolio construction perspective, we also seek to diversify exposures across issuers, asset types and geographies, while maintaining a bias towards senior and higher quality tranches within capital structures. These securities benefit from multiple layers of protection, including subordination and excess spread, which could provide meaningful downside risk mitigation for investors.

Finally, maintaining liquidity and avoiding excessive concentration in any single issuer, sponsor or subsector remains an important part of our risk management framework. This allows us to navigate periods of market volatility while aiming to take advantage of attractive opportunities as they arise.

## Performance of our ABS funds:

The RL Global Senior ABS Fund has delivered annualised returns since inception of 4.93% versus benchmark returns of 4.03%. The RL Global Mezzanine ABS Fund has delivered annualised returns since inception of 5.58% versus benchmark returns of 4.03%.



For more information on performance and portfolio data, please visit our Fund Centre:

[RL Global Senior ABS Fund](#)

[RL Global Mezzanine ABS Fund](#)

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 the investment. The impact of fees reduces the return. The funds should be considered a medium to long term investment.

Source: RLAM as at 31 March 2026. Fund performance figures are stated gross of fees and gross of tax for the RL Global Senior ABS Fund and RL Global Mezzanine ABS Fund (V Acc). The index for the Fund is SONIA. Both the Fund and Index performance are based on close of business prices. Inception date for the Funds is 18 March 2025.

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## Investment risks

**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.

**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 Funds to financial loss.

**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.

**Derivatives risk for efficient portfolio management:** Derivatives may be used by these Funds for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

**Exchange rate risk:** Investing in assets denominated in a currency other than the base currency of the Funds 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.

**Leverage risk:** The Funds employ 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.

**Liquidity risk:** In difficult market conditions the value of certain funds 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.

**Overseas markets risk:** Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates

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## Contact us

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