ROYAL LONDON
ASSET MANAGEMENT

The case for active management in global index linked bonds

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Global index-linked bonds are designed to provide investors with exposure to real interest rates across a diversified geographic opportunity set, while helping to mitigate the effects of inflation. After a prolonged period of financial repression, real yields across many developed markets have reset meaningfully higher and now sit at levels that we believe look attractive on a long-term historical basis. With global interest rates towards the top of their range over the last few decades, the asymmetry for a downward path in a number of major economies is likely over the medium term.

In our view, global linkers can offer the potential for capital gains through falling real yields, while also providing diversification across different inflation regimes, fiscal dynamics and central bank reaction functions. In this environment, dispersion across maturities, breakevens and markets remains elevated, reinforcing the case for active management.

Global index-linked bonds are sovereign bonds whose principal and coupon payments are adjusted in line with inflation measures in their respective markets. Investors therefore gain exposure to real yields across a broader global opportunity set, rather than relying on a single domestic inflation market. Returns are driven by movements in real yields, inflation accrual through indexation, and changes in inflation expectations, which are reflected in breakeven inflation rates versus equivalent nominal government bonds. This creates a diversified source of inflation-linked return potential across regions, curves and policy regimes.

For investors concerned about interest-rate volatility, a short duration global index-linked strategy can offer a more measured way to access the benefits of inflation-linked bonds. By focusing on shorter-dated securities, the strategy can be less sensitive to changes in real yields than longer-duration strategies, helping to reduce drawdown risk in periods when bond yields rise. At the same time, investors retain exposure to inflation accrual and breakeven opportunities across global markets, while benefiting from greater flexibility to adapt as monetary policy expectations evolve. This can make a short duration approach particularly attractive for investors seeking inflation protection and real yield exposure, but with a lower level of duration risk.

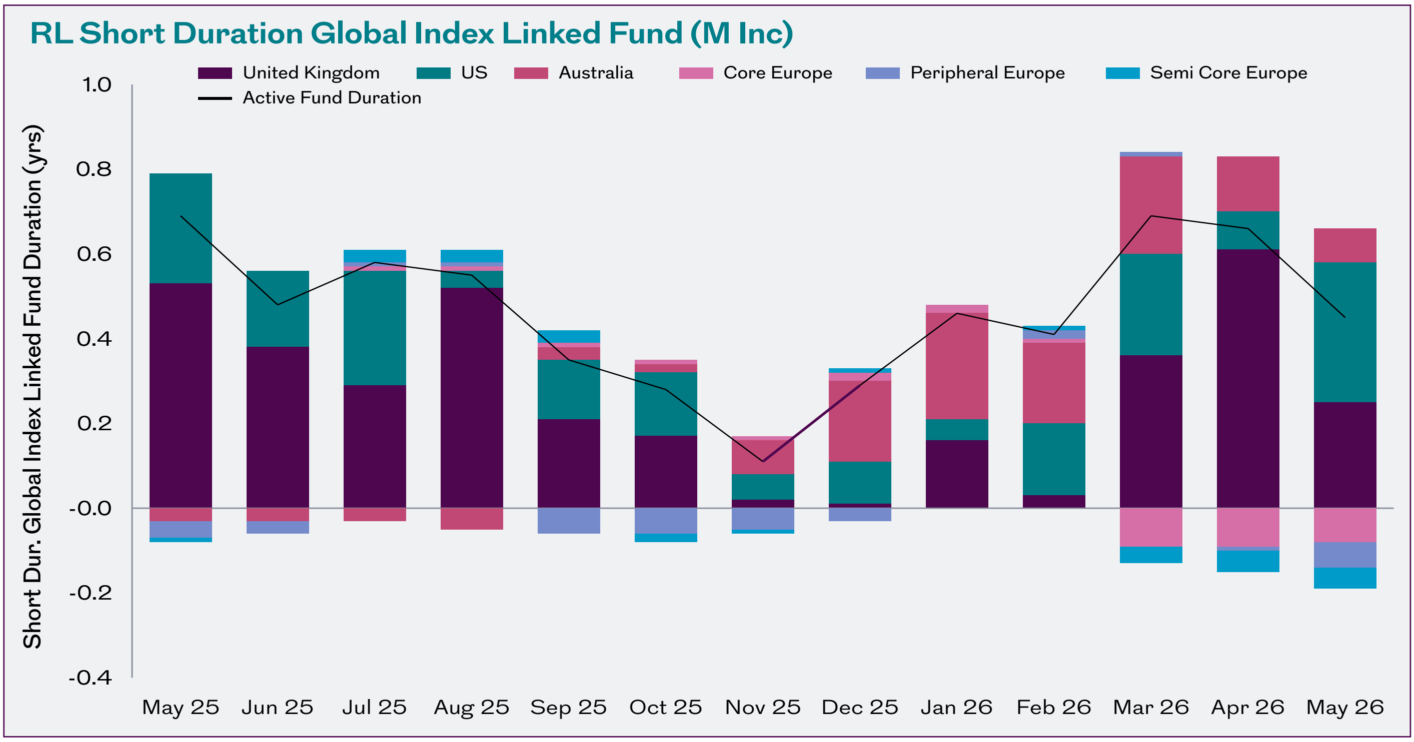
Role of linkers within portfolios

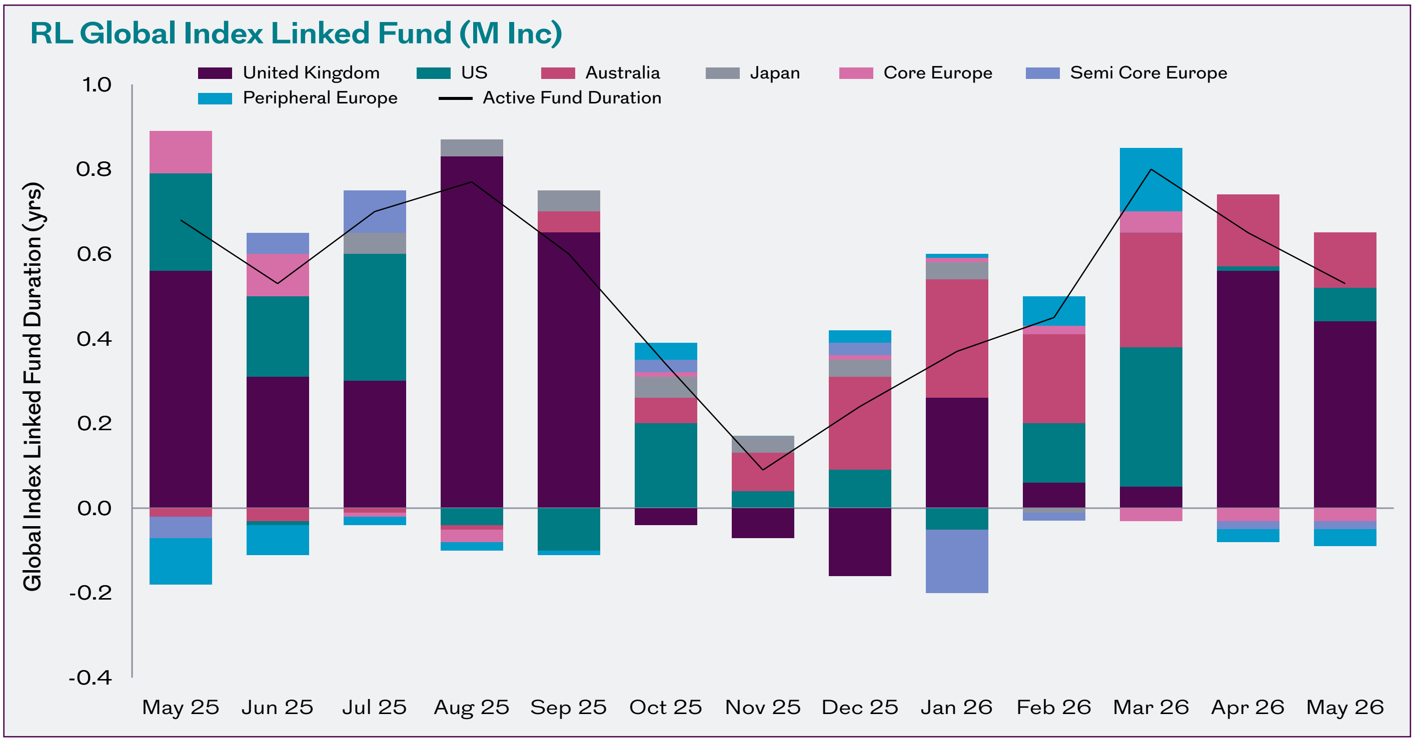
Index-linked bonds can sometimes feel counterintuitive. Inflation has remained relatively sticky, yet linkers have struggled at times. The reason is that linkers are not just driven by inflation, they are driven by two forces working together: real yields and inflation expectations. Understanding that interaction is key to making sense of where the opportunity lies.

And not all linkers behave the same. Shorter dated strategies tend to be driven more by realised inflation and are typically more stable, with less sensitivity to changes in real yields. Longer dated linkers, by contrast, are much more exposed to shifts in interest rate expectations and forward-looking inflation dynamics, which makes them more volatile, but also offers greater upside if real yields fall.

For many investors, linkers serve several distinct purposes. Linkers provide a direct hedge against inflation outcomes that exceed expectations, making them a suitable component of portfolios with inflation-sensitive liabilities or real return objectives. By separating nominal rate risk from real rate risk, linkers diversify traditional gilt exposure and can behave differently to nominal bonds during periods of inflation volatility. Linkers retain the convexity and duration benefits of long-dated government bonds, while mitigating against upside inflation risks.

Figure 1: Relative positions of our global index linked funds





Past performance is not a guarantee or reliable indicator of future returns. Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.

Source: RLAM as at May 2026.

Historically attractive real yields

Following the sharp global tightening cycle of 2022–2024, global real yields have moved decisively higher. Across the curve, real yields are now positive and sit towards the upper end of their long-term historical ranges.

From a valuation perspective, this represents a markedly different starting point to much of the past decade, when real yields were persistently negative. In our view, higher starting real yields can seek to improve prospective long-term returns and provide a stronger cushion against adverse scenarios.

Potential for future downward pressure on interest rates

While inflation has tapered from the highs we saw post-Covid, prolonged sticky inflation, coupled with limited demand, can lead to fragile growth dynamics. Policy rates remain largely restrictive by historical standards and central banks will be mindful of this when considering their next policy moves, and we therefore believe the asymmetry for long duration assets is therefore improving. For linkers, prices are sensitive to changes in real yields which can be associated with increases in capital values. Long-dated index linked gilts exhibit significant sensitivity to real yield movements, meaning even modest declines in real yields can generate meaningful price appreciation. In our view, high starting real yields, and the option to benefit from rate cuts, create a potentially compelling combination.

Supportive supply backdrop

The UK debt management office has adjusted its issuance strategy in response to market conditions. Recent and forward-looking issuance plans show a reduced emphasis on long dated supply, a trimming of index linked issuance relative to history, and greater flexibility in the maturity profile of new issuance. With structural demand from pension schemes lower than in the past, these supply adjustments matter. Lower net supply of long-dated and index linked gilts reduces the amount of duration risk the market needs to absorb, providing technical support to valuations, particularly at the long end of the real yield curve. This is a theme that has been adopted by other global issuers who have either greatly reduced their index linked issuance or ceased issuance altogether.

Current environment: Heightened macro and geopolitical uncertainty

The ongoing global macro environment remains unsettled. Geopolitical risks, fiscal uncertainty and divergence in global monetary policy continue to drive volatility in both nominal and real yields. In such environments, inflation expectations and real rates can move independently, creating opportunities but also risks for passive investors. Linkers provide a degree of stability against unexpected inflation outcomes while retaining the defensive characteristics of sovereign bonds during risk-off episodes.

More specifically the recent escalation in tensions around Iran, adds 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 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. We believe that the combination likely points to falling real yields over time, reinforcing the case for duration, while index linked bonds can offer valuable mitigation against upside inflation risks should energy driven pressures persist for longer than expected.

Opportunity for active value

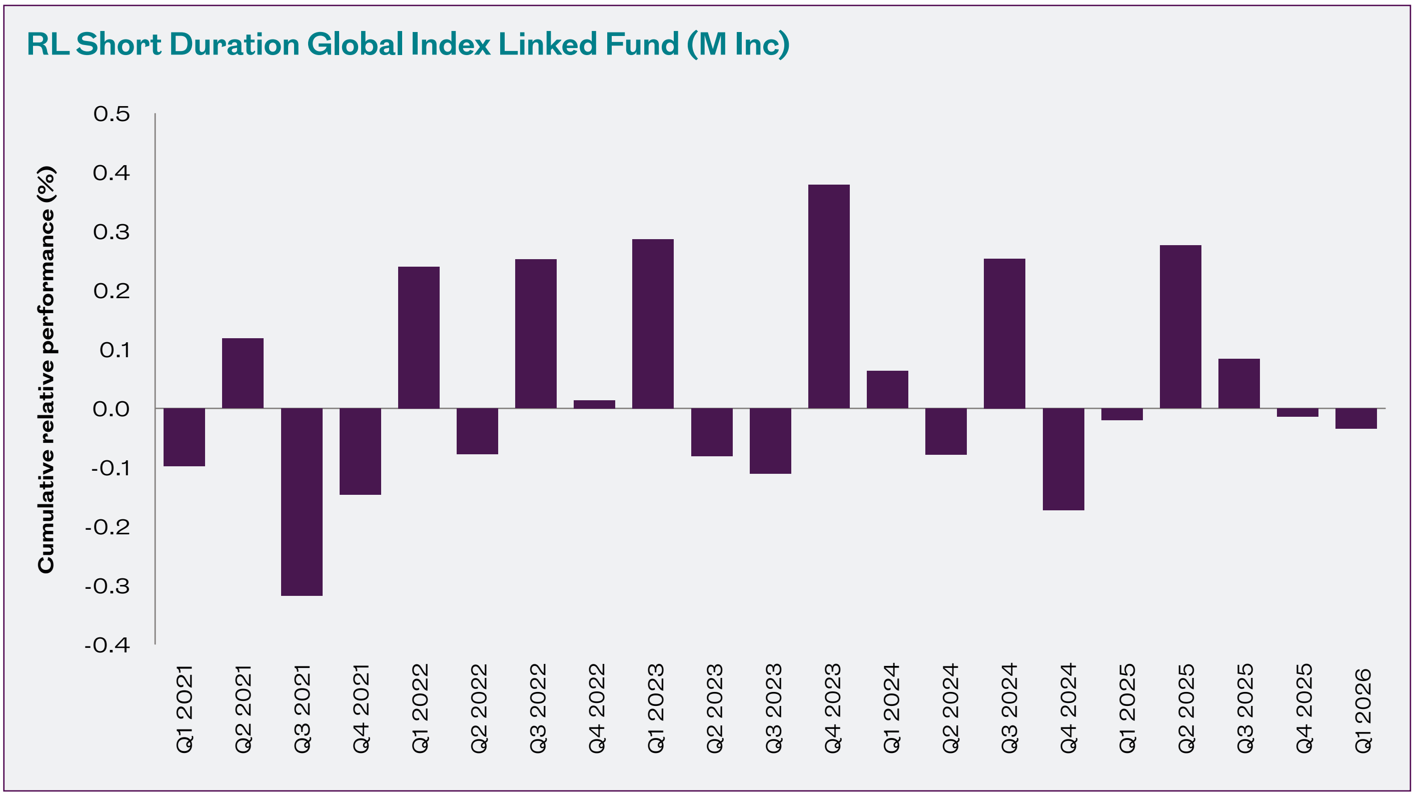
Although index linked gilts are often perceived as a buy and hold asset class, in practice they offer opportunity for active value add, particularly in the current environment. Supply dynamics, pension demand and technical factors can lead to persistent mispricings along the curve. Inflation expectations can become disconnected from underlying fundamentals, particularly during periods of energy price volatility or geopolitical stress. Switching between nominal gilts and linkers can add value when real yields and breakevens move out of line with economic realities. Global differences in inflation dynamics, fiscal policy and central bank reaction functions create opportunities to allocate real rate exposure selectively. We believe elevated volatility increases the opportunity set for active managers with the resources and experience to navigate these markets.

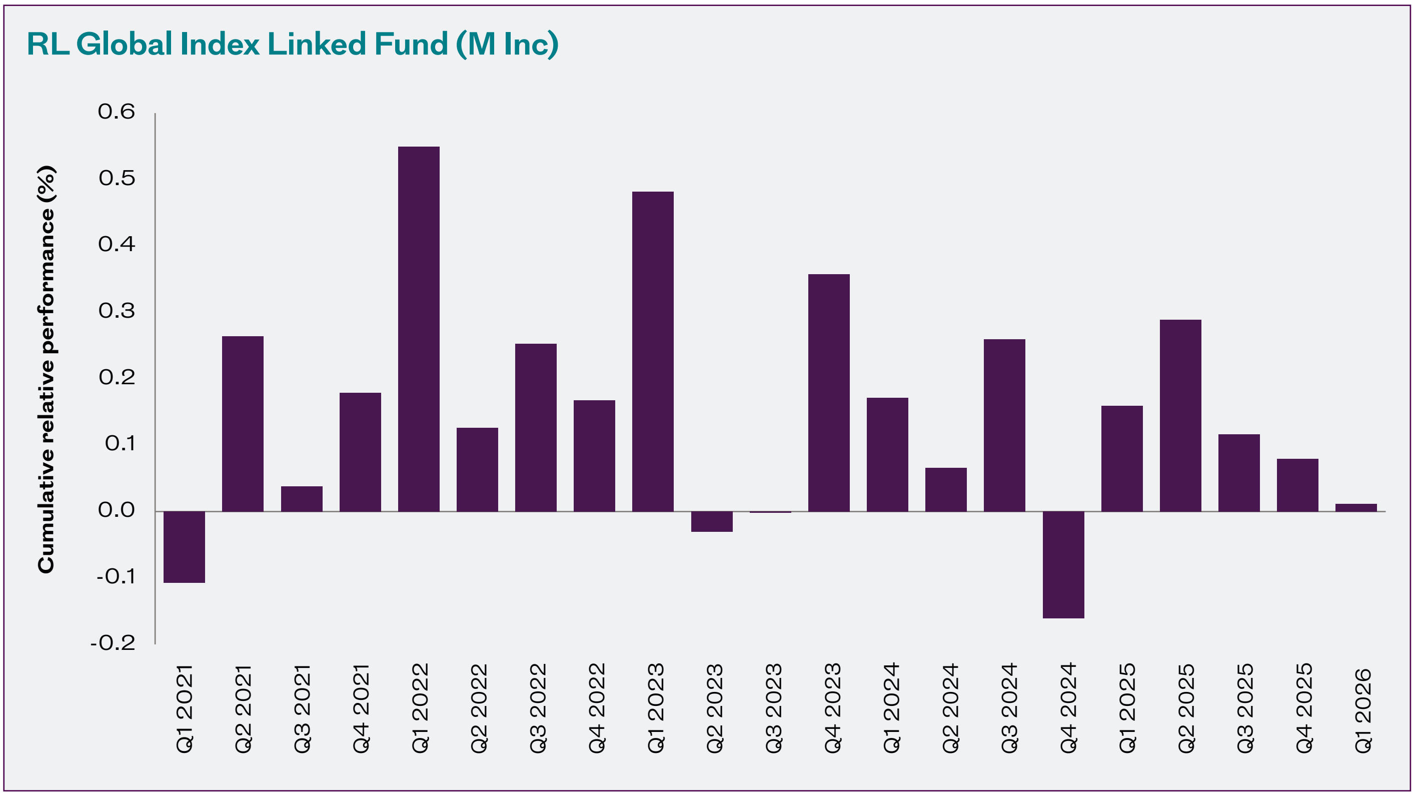
Our approach

Royal London Asset Management has a long and established track record in global government bond markets, including index linked bonds. The RL Global Index Linked Fund aims to provide a return greater than that of the Barclays World Government Inflation Linked Bond Total Return Index (GBP hedged) over rolling 5-year periods, through a combination of capital growth and income, after the deduction of charges. The RL Short Duration Global Index Linked Fund aims to provide a return greater than that of the Fund's composite benchmark comprising of 70% Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year Total Return GBP Index and 30% Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index over rolling 3-year periods, through a combination of capital growth and income, after the deduction of charges.

Our approach is characterised by deep expertise in rates and inflation markets, supported by an experienced dedicated team, an active investment process focused on real yield, breakeven and curve based opportunities, and strong integration of macro, valuation and technical analysis. Our teams have proven ability to manage risk through different market regimes, including periods of extreme volatility. In an environment where starting valuations matter, supply dynamics are supportive and dispersion is elevated, we believe our active management approach to index linked gilts offers investors a valuable option.

Figure 2: Quarterly relative returns of our global index linked funds since start of 2021





Past performance is not a guarantee or reliable indicator of future returns. The value of investments and the income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested. This does not constitute an investment recommendation. For information purposes only.

Source: RLAM as at March 2026.

Year on year performance %

RL Short Duration Global Index Linked Fund (M Inc)

	2025	2024	2023	2022	2021
Share class	5.45%	1.90%	5.47%	-5.42%	4.59%
Benchmark	5.39%	2.04%	5.16%	-5.52%	5.20%

RL Global Index Linked Fund (M Inc)

	2025	2024	2023	2022	2021
Share class	4.88%	-0.59%	3.83%	-17.37%	5.46%
Benchmark	4.61%	-0.65%	3.53%	-18.10%	5.36%

Source: RLAM as at December 2025. **Past performance is not a guarantee or reliable indicator of future returns. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested.** Share class performance is based on mid-day prices, net of fees and gross of taxes, with gross income reinvested unless otherwise stated. Benchmark performance is priced at close of business, gross of fees and taxes. The impact of fees reduces your investments. Rolling performance data shown using month end returns. The benchmark for the RL Short Duration Global Index Linked Fund is the Barclays World Government Inflation Linked Bond Total Return Index. The RL Global Index Linked Fund has a composite benchmark comprising of 70% Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year Total Return GBP Index and 30% Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index.

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.

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.

Efficient Portfolio Management (EPM) Techniques: The Funds 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 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.

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 Funds to financial loss.

Charges from Capital Risk: Charges are taken from the capital of the Funds. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Government and Public Securities Risk: The Funds 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.

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