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Royal London Credit Funds

Fund Manager Commentary

31 August 2024

Fund Manager Commentary

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The purpose of this report is to provide an update on the Royal London Fixed Income Funds. The report has been produced by Royal London Asset Management. The report starts with a performance summary followed by Fund Manager commentary for each of the Funds. All data within this report is at the report date unless otherwise stated.

Contents

ROYAL LONDON
ASSET MANAGEMENT

Performance

	1 month (%)	Rolling 12 months (%)
RL Corporate Bond Fund Z Inc	**0.95**	**12.93**
iBoxx Sterling Non-Gilts All Maturities Index	0.36	9.55
IA Sterling Corporate Bond Sector	0.56	10.50
RL Ethical Bond Fund Z Inc	**0.84**	**12.09**
iBoxx Sterling Non-Gilts All Maturities Index	0.36	9.55
IA Sterling Strategic Bond Sector	1.14	10.54
RL Global Bond Opportunities Fund Z Inc	**1.20**	**12.36**
IA Global Mixed Bond Sector	0.69	6.66
RL Investment Grade Short Dated Credit Fund Z Inc	**0.48**	**9.77**
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.36	8.06
IA Sterling Corporate Bond Sector	0.56	10.50
RL Short Duration Credit Fund Z Inc	**0.32**	**11.53**
ICE BofA ML 1-5 year Sterling Non-Gilt All Stocks Index	0.36	8.06
IA Sterling Strategic Bond Sector	1.14	10.54
RL Sterling Credit Fund Z Inc	**0.89**	**12.84**
iBoxx Sterling Non-Gilts All Maturities Index	0.36	9.55
IA Sterling Corporate Bond Sector	0.56	10.50
RL Sterling Extra Yield Bond Fund A Inc	**0.90**	**13.44**
RL Sterling Extra Yield Bond Fund B Inc	**0.86**	**13.03**
RL Sterling Extra Yield Bond Fund Y Inc	**0.93**	**13.92**
RL Sterling Extra Yield Bond Fund Z Inc	**0.93**	**13.92**
IA Sterling Corporate Bond Sector	0.56	10.50
IA Sterling High Yield Sector	1.32	11.93
IA Sterling Strategic Bond Sector	1.14	10.54

Past performance is not a guide to future performance. 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.

Source: RLAM and Morningstar, as at 31 August 2024. Returns quoted are net of fees. Please note that with effect from 1 February 2024 RLAM are using peer group comparisons provided by Morningstar. Prior to this peer comparisons were provided by Lipper so there may be some differences compared to the data provided historically. All IA sector performance shown is for the median.

Credit Market Review

Market highlights – sterling investment grade credit

The sterling investment grade market (iBoxx) produced positive returns in August, with a return of 0.36%. The average investment grade credit spread (the average extra yield available from a corporate bond compared with government debt of equal maturity) widened marginally to 1.05% from 1.04%.

There was a recovery in primary market issuance in the sterling market in August following July’s light output. The total issued was £3.1 billion, considerably higher than the £900m seen the previous month. Supply was led by non-financials, particularly a couple sizable cross-border deals, a good sign for investors as it improves diversification in the market.

In UK investment grade markets, the positive returns were broad based with no sector seeing a negative return. Relatively, social housing outperformed while insurance and structured bonds lagged.

Global government bond yields fell slightly in August as comments from the US Federal Reserve put investors alert for impending interest rate cuts. US Treasury 10-year yields fell to 3.92% from 4.05%, while German bund 10-year yields inched lower to 2.23% from 2.24%. In the UK, however, 10-year gilt yields rose slightly, rising to 4.02% from 3.97%, with the FTSE UK Conventional Gilt All-Stocks index returning 0.50%.

Royal London Corporate Bond Fund

Portfolio commentary

The fund outperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in August. This primarily reflected security selection, while credit allocation was a drag on performance. On a year-to-date basis, the fund has posted positive total returns and is well ahead of the benchmark.

UK government bond yields moved marginally higher in August while credit spreads widened slightly. The sterling credit market underperformed gilts over the period.

The fund performance was driven by security selection. In particular, our banking and structured bonds contributed strongly. Our sector allocation was a negative in the month, with our underweighting in supranationals and the overweight position in insurance bonds both proving a detractor, offset slightly by our overweight to social housing.

The new issue market recovered in August from a stale July, with new issues coming at attractive spreads compared with their existing bonds. Our focus was on some large cross-border deals, in particular a new issue from East Japan Railway. The 2054 bonds came at an attractive yield and offers geographical diversification to the fund. Another new issue we took part in was an issue of 2041 senior bonds from US commercial property investor Realty Income Corp.

In the secondary market, we continue to see inefficiency in UK water utilities – with the sector suffering from negative newsflow, making bonds attractive for fundamental credit risk. We added to our exposure in Southern Water and Yorkshire Water at elevated spreads compared with peers and other regulated businesses. Additionally, we also switched into longer duration Yorkshire Water bonds, moving into 2039 bonds from 2030, while picking up additional spread.

Investment outlook

We remain of the view that global interest rates will come down in the second half of the year. August inflation data was supportive of this view, particularly in the US.

Central banks will pay attention to upcoming inflation data releases. Whilst service inflation and wage growth remain elevated, good progress has been made on bringing down headline inflation. We expect the Bank of England to further reduce the Base Rate in Q4 and see scope for a modest reduction in gilt yields.

Despite the decline in yields since April we believe that the sterling credit market, offering a yield around 5%, remains attractive both in absolute terms but also relative to government bonds and that current spreads continue to compensate investors for default risk.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

AA

Shalin Shah

Senior Fund Manager

Matt Franklin

Fund Manager

Royal London Corporate Bond Fund continued

Key views within the fund

Well diversified, with over 300 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall fund performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration slightly longer than the benchmark, which has been increased as yields have risen. Interest rate sensitivity is broadly neutral when factoring in a number of bonds which have theoretical duration but are not as interest rate sensitive.

An overweight position in subordinated financial debt, where we believe yields are attractive.

Orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

Environmental, social and governance (ESG) risk factors are fully integrated in the management of the portfolio. The WACI (weighted average carbon intensity) of the portfolio is below that of the index.

Royal London Ethical Bond Fund

Portfolio commentary

The fund outperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in August. This primarily reflected positive security selection. On a year-to-date basis, the fund has posted positive total returns and is well ahead of the benchmark.

UK government bond yields moved marginally higher in August while credit spreads widened slightly. The sterling credit market underperformed gilts over the period.

The fund's performance was driven by security selection. In particular, our banking and structured bonds contributed strongly. Our sector allocation was a negative in the month, with our underweight in supranationals and the overweight position in insurance bonds both proving a detractor, offset slightly by our overweight to social housing.

The new issue market recovered in August from a stale July. Our focus was on some large cross-border deals, in particular a new issue from East Japan Railway. The 2054 bonds came at an attractive yield and offers geographical diversification to the fund. Another new issue we took part in was an issue of 2041 senior bonds from US commercial property investor Realty Income Corp.

In the secondary market, we continue to see inefficiency in water utilities – with the sector suffering from negative newsflow, making bonds attractive for the credit risk. We added to our exposure in Welsh Water, the bond seeing good spread levels following widening in the sector. Additionally, we switched into longer duration Yorkshire Water bonds, moving into 2039 bonds from 2030, while increasing yield significantly.

Investment outlook

Last quarter we highlighted that we expected yields to remain sensitive to economic data, and unless there was a significant deterioration in underlying trends, we expected this to lead to range-bound yields. This is the scenario that unfolded, with markets seeming to mark time until central banks – notably the Federal Reserve – start to cut rates.

Headline inflation is now significantly lower in the US, euro zone and UK compared to 2023. Base effects account for a material part of these falls. Beyond the headline figures, the likes of services inflation and wage growth remain higher than most central bankers would prefer. That said, we do expect to see more movement from central banks in the second half of the year, even if the rate cuts are not going to come through as quickly as anticipated and that the neutral level may be a bit higher than previously thought.

Bond yields generally are still at attractive levels in our view – both in absolute terms and relative to government bonds – and given the supportive economic backdrop, we believe that credit spreads continue to compensate credit investors for the risk of downgrade.

We target – and achieve – a material yield premium over the market level in our credit strategies. Given the potential challenges in the outlook, we remain focused on identifying companies with attractive financial characteristics and ensuring that we are diversified across issuers and sectors. Our view remains that over the medium term our focus on delivering strong income will generate attractive performance.

CITYWIRE AA

Paola Binns

Head of Sterling Credit

CITYWIRE A

Eric Holt

Senior Fund Manager

Royal London Ethical Bond Fund continued

Key views within the fund

The fund is diversified in order to improve portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

The fund has a significant underweight position in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Duration is broadly in line with the benchmark.

The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich property and social housing sectors, and towards structured bonds, which benefit from a claim on assets and cashflows.

Royal London Global Bond Opportunities Fund

Market highlights

	Total return (%)	Spread at end of month (basis points)	Spread change over month (basis points)
HY global non-financial corps ICE BofA ML global non-financial high yield index	1.50	344	-9
AT1 ICE BofA ML contingent capital index	1.49	312	-7
Emerging market ICE BofA ML	1.57	376	-14
HY global non-financial hybrid corps ICE BofA ML global hybrid non-financial high yield index	2.02	238	-12
IG global non-financial hybrid corps ICE BofA ML global hybrid non-financial corporate index	1.16	199	-9
Dollar investment grade corporate bonds ICE BofA ML US corporate index	1.53	96	-1
Sterling investment grade corporate bonds ICE BofA ML sterling corporate and collateralised index	0.28	120	5
Euro investment grade corporate bonds ICE BofA ML euro corporate and Pfandbriefe index	0.33	111	4

At his Jackson Hole speech, US Federal Reserve Chair Jerome Powell signalled a stronger likelihood of a September rate cut, saying that the "time has come for policy to adjust." He also indicated a significant amount of sensitivity to labour market data, saying that: "We do not seek or welcome further cooling in labour market conditions." The FOMC minutes for the July meeting also showed that the "vast majority" of participants said that "it would likely be appropriate to ease policy at the next meeting" if the economy evolves as expected. Early in August, the weak payrolls figures helped raise US recession fears. July nonfarm payrolls were much weaker than expected at 114K (consensus: 175K) and, during the month, the benchmark revisions also lowered the recent run rate of payroll gains.

Overall, though, US data was relatively mixed in August and, by the end of the month, the Atlanta Fed's nowcast for third quarter GDP was at a robust 2.5% quarter-on-quarter annualised and second quarter GDP itself was revised up to 3.0%. Other activity indicators included July real personal spending rising 0.4% month-on-month and headline durable goods orders rose strongly. Inflation data was again relatively reassuring from a Fed perspective. July CPI fell from 3.0% year-on-year to 2.9%; core rose 0.2% month-on-month as did the core PCE deflator. So-called 'super-core' inflation also rose 0.2% month-on-month on both CPI and PCE measures.

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Rachid Semaoune

Senior Fund Manager

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Eric Holt

Senior Fund Manager

Royal London Global Bond Opportunities Fund continued

The European Central Bank did not have a meeting in August, but a number of ECB speakers indicated that they would support a September rate cut although there were more cautious voices too. August CPI was in line with consensus with headline CPI at 2.2% year-on-year after 2.6%, drawing close to the ECB's 2% target. Core CPI also fell a tenth as expected to 2.8%. However, services inflation rose to 4.2% year-on-year after 4.0%. Activity data released over the month were mixed, but indicated relatively subdued activity growth.

The Bank of England cut Base Rates 25 basis points, on a 5-4 vote, with Governor Andrew Bailey saying that they need to be careful not to cut too quickly. As of the end of August, the market was priced for the next rate cut to come at the BoE's November monetary policy meeting. Public sector finances came in worse than expected in July. As a result, UK Prime Minister Keir Starmer warned that the Autumn Budget is "going to be painful" and that the burden will fall on those with the broadest shoulders.

Meanwhile, UK data released in August painted a relatively robust picture of economic activity, while inflation rose a bit less than expected (even if it did move back above the central bank's 2% target). Year-on-year July CPI inflation was a touch softer than expected but rose two-tenths to 2.2%. Core inflation was also a tenth lower than expected – falling two-tenths to 3.3% year-on-year. Services inflation was also weaker than forecast, falling to 5.2% (down 5-tenths). Second quarter GDP rose 0.6% quarter-on-quarter after 0.7%, confirming robust economic activity growth in the first half.

Global government bond yields fell slightly in August as comments from the US Federal Reserve put investors alert for impending interest rate cuts. US Treasury 10-year yields fell to 3.92% from 4.05%, while German bund 10-year yields inched lower to 2.23% from 2.24%. In the UK, however, 10-year gilt yields rose slightly, rising to 4.02% from 3.97%, with the FTSE UK Conventional Gilt All-Stocks index returning 0.50%.

Global investment grade markets saw positive returns for the month. Credit spreads ended the period tighter in the US, while they widened modestly in the UK and euro zone (ICE indices).

Portfolio commentary

The fund recorded a strong positive net return in August, slightly behind the high yield markets and better than euro and sterling investment grade indices. Exposure to AT1 bonds was again helpful, as was the high degree of carry built into the portfolio.

In the primary market, we participated in a new hybrid euro-denominated issues from German life sciences firm Merck and a tier 2 euro-denominated issue from Spanish lender Caixabank. Finally, we added a floating rate note from Norwegian shipowner Ocean Yield.

In the secondary market, we are added to our holding in hybrid bonds from French utility EDF, US dollar bonds from UK insurer Phoenix Group and euro-denominated floating rate bonds from UK pub operator Stonegate.

Royal London Global Bond Opportunities Fund continued

Investment outlook

In recent months, we have highlighted that we expect yields to remain sensitive to economic data, and unless there was a significant deterioration in underlying trends, we expected this to lead to range-bound yields. This is the scenario that has unfolded recently – with US 10-year treasury yields largely confined to a 4-4.5% range, with markets seeming to mark time until central banks – notably the Federal Reserve – appear ready to start cutting rates. We expect a small fall in government bond yields over the next few months as we approach that point.

Headline inflation is now significantly lower in the US, euro zone and UK compared to 2023. Base effects account for a material part of these falls. Beyond the headline figures, the likes of services inflation and wage growth remain higher than most central bankers would prefer. That said, we do expect to see more movement from central banks in the second half of the year, even if the quantum of those moves is less than many were forecasting earlier in the year.

Bond yields generally are still at attractive levels in our view – both in absolute terms and relative to government bonds – and given the supportive economic backdrop, we believe that credit spreads continue to compensate credit investors for the risk of default. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Bond yields generally are still at attractive levels in our view – both in absolute terms and relative to government bonds – and given the supportive economic backdrop, we believe that credit spreads continue to compensate credit investors for the risk of default. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Royal London Investment Grade Short Dated Credit Fund

Portfolio commentary

The fund outperformed its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index, in August. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.

UK government bond yields moved marginally higher in August while credit spreads widened slightly. The sterling credit market underperformed gilts over the period.

The fund's performance was driven by security selection. In particular, our structured bonds contributed strongly, while our banking and insurance holdings were also positive. Our sector allocation was a negative in the month, with our underweighting in supranationals proving a detractor.

The new issue market recovered in August from a stale July. Our focus was on some large cross-border deals, a new hybrid euro-denominated issues from German life sciences firm Merck, offering geographical diversification to the fund, and an issue of 2041 senior bonds from US commercial property investor Realty Income Corp. We also participated in a tier 2 euro-denominated issue from Spanish lender Caixabank.

In the secondary market, we added to preferred positions in Delmar – CMBS secured on Tesco stores and distribution centres, offering an attractive spread compared with Tesco unsecured lending - and Telereal, which is secured on BT telephone exchanges.

Investment outlook

We remain of the view that global interest rates will come down in the second half of the year. August inflation data was supportive of this view, particularly in the US.

Central banks will pay attention to upcoming inflation data releases. Whilst service inflation and wage growth remain elevated, good progress has been made on bringing down headline inflation. We expect the Bank of England to further reduce the Base Rate in Q4 and see scope for a modest reduction in gilt yields.

Despite the decline in yields since April we believe that the sterling credit market, offering a yield around 5%, remains attractive both in absolute terms but also relative to government bonds and that current spreads continue to compensate investors for default risk.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

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Paola Binns

Head of Sterling Credit

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Eric Holt

Senior Fund Manager

Royal London Investment Grade Short Dated Credit Fund continued

Key views within the fund

The fund is well diversified in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

It has a minimal weighting in supranational bonds, as we expect corporate debt to outperform over the medium term.

Fund duration was marginally longer than the benchmark at month end.

It has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards structured debt, which benefits from a claim on assets and cashflows; secured issues in the asset-rich property and social housing sectors; and covered bonds (i.e. senior bank debt benefiting from a first claim on a specified over-collateralised pool of assets).

Royal London Short Duration Credit Fund

Portfolio commentary

The fund broadly performed in line with its benchmark, the ICE BofAML 1-5yr Sterling Non-Gilt All Stocks Index, over the month of August as a whole. On a year-to-date basis, the fund has posted positive total returns and remains well ahead of the benchmark.

UK government bond yields moved marginally higher in August while credit spreads widened slightly. The sterling credit market underperformed gilts over the period.

The fund’s performance was driven by security selection. In particular, our banking and structured bonds contributed strongly and our real estate holdings were also a positive. Our sector allocation was a negative in the month, with our underweighting in supranationals and the overweight position in insurance bonds both proving a detractor.

The new issue market recovered in August from a stale July. Our focus was on some large cross-border deals, a new hybrid euro-denominated issues from German life sciences firm Merck, offering geographical diversification to the fund, and an issue of 2041 senior bonds from US commercial property investor Realty Income Corp. We also participated in a tier 2 euro-denominated issue from Spanish lender Caixabank.

In the secondary market, we continue to see inefficiency in water utilities – with the sector suffering from negative newsflow, making bonds attractive for the credit risk. We added to our exposure in Southern Water, the issue seeing good spread levels following widening in the sector. We also added to preferred position in Telereal – secured on BT telephone exchanges.

Investment outlook

We remain of the view that global interest rates will come down in the second half of the year. August inflation data was supportive of this view, particularly in the US.

Central banks will pay attention to upcoming inflation data releases. Whilst service inflation and wage growth remain elevated, good progress has been made on bringing down headline inflation. We expect the Bank of England to further reduce the Base Rate in Q4 and see scope for a modest reduction in gilt yields.

Despite the decline in yields since April we believe that the sterling credit market, offering a yield around 5%, remains attractive both in absolute terms but also relative to government bonds and that current spreads continue to compensate investors for default risk.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

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Paola Binns

Head of Sterling Credit

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Eric Holt

Senior Fund Manager

Royal London Short Duration Credit Fund continued

Key views within the fund

The fund is well diversified, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual exposure.

The fund has a significant underweight in supranational bonds, as we expect corporate debt to outperform over the medium term.

Fund duration was marginally longer than the benchmark at month end.

The fund has an overweight position in subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich investment trust, property, and social housing sectors, and towards structured issues, which benefit from a claim on assets and cashflows.

Royal London Sterling Credit Fund

Portfolio commentary

The fund outperformed its benchmark, the iBoxx Sterling Non-Gilts All Maturities Index, in August. This primarily reflected security selection, while credit allocation was a drag on performance. On a year-to-date basis, the fund has posted positive total returns and is well ahead of the benchmark.

UK government bond yields moved marginally higher in August while credit spreads widened slightly. The sterling credit market underperformed gilts over the period.

The fund/portfolio’s performance was driven by security selection. In particular, our banking and structured bonds contributed strongly. Our sector allocation was a negative in the month, with our underweighting in supranationals and the overweight position in insurance bonds both proving a detractor, offset slightly by our overweight to social housing.

The new issue market recovered in August from a stale July. Our focus was on some large cross-border deals, in particular a new issue from East Japan Railway. The 2054 bonds came at an attractive yield and offers geographical diversification to the fund. Another new issue we took part in was an issue of 2041 senior bonds from US commercial property investor Realty Income Corp.

In the secondary market, we continue to see inefficiency in water utilities – with the sector suffering from negative newsflow, making bonds attractive for the credit risk. We added to our exposure in Southern Water, the bond seeing good spread levels following widening in the sector. Additionally, we also switched into longer duration Yorkshire Water bonds, moving into 2039 bonds from 2030, while picking up additional spread.

Finally, we added to preferred position in Telereal – secured on BT telephone exchanges.

Investment outlook

We remain of the view that global interest rates will come down in the second half of the year. August inflation data was supportive of this view, particularly in the US.

Central banks will pay attention to upcoming inflation data releases. Whilst service inflation and wage growth remain elevated, good progress has been made on bringing down headline inflation. We expect the Bank of England to further reduce the Base Rate in Q4 and see scope for a modest reduction in gilt yields.

Despite the decline in yields since April we believe that the sterling credit market, offering a yield around 5%, remains attractive both in absolute terms but also relative to government bonds and that current spreads continue to compensate investors for default risk.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

CITYWIRE AA

Paola Binns

Head of Sterling Credit

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Eric Holt

Senior Fund Manager

Royal London Sterling Credit Fund continued

Key views within the fund

Well diversified, with around 350 holdings, in order to improve overall portfolio liquidity and to reduce the effect on overall performance of any deterioration in the creditworthiness of an individual holding.

A significant underweight in supranational bonds, as we expect corporate bonds to outperform over the medium term.

Fund duration was broadly in line with the benchmark at month end.

Orientated towards subordinated financial debt, where we believe yields are attractive.

The fund remains orientated towards secured bonds in the asset-rich investment trust, property and social housing sectors, and structured bonds, which benefit from a claim on assets and cashflows.

Royal London Sterling Extra Yield Fund

Portfolio commentary

The fund recorded returns in August of 0.90%, 0.86%, 0.93% and 0.93% respectively for the A, B, Y and Z class shares. These bring 2024 year to date returns to 7.36%, 7.00%, 7.69% and 7.55% respectively for these share classes.

Fixed interest markets were reasonably quiet in the summer holiday month of August. For short maturity gilts the UK base rate cut, from 5¼% to 5%, at the very start of the month provided some impetus, especially in the context of heightening expectations of further cuts this year, but yields of longer dated gilts were little changed on the month. Overall gilts posted an index return for the month of 0.53%. August's index return for sterling investment grade corporate bonds was a little lower at 0.32%, with the average yield differential over reference gilts rising slightly, to 0.98% but still significantly lower than from a 1.14% at the start of 2024, in part reflecting the expectation of new issuance once the holiday lull was over. High yield markets generally performed well, supported by their higher income generation, with index returns in August of 1.17% for European sub-investment grade bonds and 1.49% for global sub-investment grade bonds. 2024 year to date index returns to end August for these four asset classes, gilts, sterling investment grade corporate bonds, European and global sub-investment grade bonds were -0.58%, 1.84%, 5.61% and 6.76% respectively.

In what was a generally quiet month, most holdings in the fund were little changed in price in October, with return generated primarily from income. There were however a few notable exceptions. There were some strong performances in the subordinated bank sector, with bonds of BNP, NatWest, Standard Chartered and UBS all up in price around 2% on the month. Subordinated bonds of insurers Esure and Just Group were up a similar amount. Long dated bonds of Nottingham Building Society and Santander UK were up more, around 5%, with this further buoyancy reflecting optimism after some recent repayments of similar bonds at attractive levels. Bonds of property group Canary Wharf were up 3% in the month on positive news flow, while bonds of Metro Bank were up over 5% on the sale of a part of their mortgage portfolio, improving the company's capital requirement. Bonds of Thames Water rebounded by about 7% in August after a protracted decline in recent months. The investment in Doric Nimrod Air 2, the business leasing Boeing A380 aircraft to Emirates, were up 13% in the month on news that agreement had been reached with Emirates for the sale of the aircraft at the end of what are now fairly short term leases. Amadeo Air, a similar business, was up 4% in the month. Meanwhile DOF shares, received at the cyclical low of the offshore services sector, were down 12% in the month, from 113 to 97, after a run up at the start of trading in June last year the fund has been reducing its holding progressively in recent months with the latest sale in early August – the holding now represents just 0.4% of fund assets.

Activity in the month included participating in new issues, including US dollar bonds of Dresdner Bank, euro denominated hybrid bonds – where the issuer has the option to extend repayment beyond the 2029 first call date but at increasing cost – of pharmaceutical company Merck, and unrated bonds of shipping group Ocean Yield. Market purchases in the month included secured bonds of pub group Mitchells& Butlers, and of Anglian Water, the most resilient company in the UK water utilities, but whose yield had risen significantly in the context of the challenges within the sector. A relatively small holding of secured property bonds of Intu Debenture was sold, crystallising a capital gain from purchase and at a level well about the latest valuation of the underlying assets, while 2025 dated bonds of energy company Genel were sold back to the company in a tender process at a level above par and their prevailing market price. Finally, activity in the month in short-dated gilts reflected liquidity management.

Rachid Semaoune

Senior Fund Manager

Eric Holt

Senior Fund Manager

Royal London Sterling Extra Yield Fund continued

Key views within the fund

The fund's objective is to achieve a high level of income by seeking attractive investments across a broad spectrum of fixed income opportunities, encompassing investment grade, sub-investment grade and unrated bonds.

The fund mitigates stock-specific risk by holding a diversified portfolio of investments, so that no individual investment can in isolation have an undue impact on overall performance. In addition, where possible within the yield objective of the fund, investments are focused on bonds where risk is mitigated by structure or a claim on assets or cashflows.

Disclaimers

Important information

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RL Corporate Bond Fund, RL Investment Grade Short Dated Credit Fund and RL Sterling Credit Fund.

The Funds are sub-funds 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.

RL Ethical Bond Fund, RL Short Duration Credit Fund

The Funds are sub-funds of RL Bond Funds II ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001128. 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.

RL Global Bond Opportunities Fund, RL Sterling Extra Yield Bond Fund

The Funds are sub-funds of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000. The Management Company is FundRockManagement Company SA, Registered office: 33 rue de Gasperich, L –5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du SecteurFinancier (CSSF). The Investment Manager is Royal London Asset Management Limited. 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. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

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Risk 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.

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.

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.

Derivative risk

Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

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.

Derivative risk

The fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

Emerging markets risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Exchange rate risk

Changes in currency exchange rates may affect the value of your investment.

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.

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.

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. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Sub-investment grade investment risk

Lower rated investment grade securities may have large uncertainties or major risk exposures to adverse conditions. The market value of securities in lower rated investment grade categories is more volatile than that of higher quality securities, and the markets in which these securities are traded are less liquid than those in which higher rated securities are traded.

Unrated bond risk

Non-rated bonds may have the characteristics of either investment or sub-investment grade bonds. Market activity in unrated securities and instruments may be low for a considerable period of time and this may impact on liquidity.

Performance to 31 August 2024

Cumulative (%) / Annualised (%)

		3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a)	5 Years (p.a)
RL Corporate Bond Fund Z Inc	Gross	3.78	5.37	13.35	-2.14	9.35	-0.72	1.80
RL Corporate Bond Fund Z Inc	Net	3.69	5.19	12.93	-3.30	7.18	-1.11	1.39
RL Ethical Bond Fund Z Inc	Gross	3.31	4.91	12.54	-5.72	3.89	-1.94	0.76
RL Ethical Bond Fund Z Inc	Net	3.20	4.70	12.09	-6.84	1.83	-2.33	0.36
RL Global Bond Opportunities Fund Z Inc	Gross	3.41	5.48	12.89	11.29	24.72	3.63	4.51
RL Global Bond Opportunities Fund Z Inc	Net	3.31	5.26	12.36	9.62	21.67	3.11	4.00
RL Investment Grade Short Dated Credit Fund Z Inc	Gross	2.45	4.15	10.03	3.46	9.02	1.14	1.74
RL Investment Grade Short Dated Credit Fund Z Inc	Net	2.39	4.03	9.77	2.72	7.72	0.90	1.50
RL Short Duration Credit Fund Z Inc	Gross	2.69	4.65	11.88	7.16	15.32	2.33	2.89
RL Short Duration Credit Fund Z Inc	Net	2.61	4.48	11.53	6.17	13.54	2.01	2.57
RL Sterling Credit Fund Z Inc	Gross	3.62	5.25	13.23	-3.81	6.59	-1.28	1.28
RL Sterling Credit Fund Z Inc	Net	3.53	5.07	12.84	-4.81	4.75	-1.63	0.93
RL Sterling Extra Yield Bond Fund A Inc	Gross	2.86	5.62	14.38	14.42	28.06	4.59	5.07
RL Sterling Extra Yield Bond Fund A Inc	Net	2.65	5.18	13.42	11.57	22.86	3.71	4.20
RL Sterling Extra Yield Bond Fund B Inc	Gross	2.85	5.62	14.37	14.42	28.05	4.59	5.06
RL Sterling Extra Yield Bond Fund B Inc	Net	2.51	4.91	12.84	9.88	19.76	3.19	3.67
RL Sterling Extra Yield Bond Fund Y Inc	Gross	2.85	5.62	14.38	14.42	28.06	4.59	5.06
RL Sterling Extra Yield Bond Fund Y Inc	Net	2.75	5.40	13.92	13.05	25.58	4.17	4.66
RL Sterling Extra Yield Bond Fund Z Inc	Gross	2.86	5.62	14.38	14.42	28.06	4.59	5.07
RL Sterling Extra Yield Bond Fund Z Inc	Net	2.71	5.31	13.72	12.45	24.46	3.98	4.47

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.
Source: RLAM as at 31 August 2024. All figures are mid-price to mid-price in GBP unless otherwise stated.

Performance to 31 August 2024

Year on year performance (%)

		30/06/2023 – 30/06/2024	30/06/2022 – 30/06/2023	30/06/2021 – 30/06/2022	30/06/2020 – 30/06/2021	30/06/2019 – 30/06/2020
RL Corporate Bond Fund Z Inc	Gross	12.36	-2.02	-11.50	7.35	5.34
RL Corporate Bond Fund Z Inc	Net	11.93	-2.42	-11.86	6.91	4.91
RL Ethical Bond Fund Z Inc	Gross	12.55	-5.06	-12.19	5.58	6.03
RL Ethical Bond Fund Z Inc	Net	12.10	-5.43	-12.54	5.16	5.61
RL Global Bond Opportunities Fund Z Inc	Gross	11.47	5.49	-6.57	12.90	-0.87
RL Global Bond Opportunities Fund Z Inc	Net	10.93	4.94	-7.06	12.31	-1.29
RL Investment Grade Short Dated Credit Fund Z Inc	Gross	10.93	-1.76	-6.22	3.68	2.21
RL Investment Grade Short Dated Credit Fund Z Inc	Net	10.66	-2.00	-6.45	3.43	1.96
RL Short Duration Credit Fund Z Inc	Gross	11.22	0.54	-5.36	5.46	2.49
RL Short Duration Credit Fund Z Inc	Net	10.87	0.23	-5.65	5.13	2.17
RL Sterling Credit Fund Z Inc	Gross	12.97	-3.42	-12.28	6.81	5.24
RL Sterling Credit Fund Z Inc	Net	12.57	-3.76	-12.59	6.44	4.87
RL Sterling Extra Yield Bond Fund A Inc	Gross	14.26	2.55	-3.03	16.01	-3.90
RL Sterling Extra Yield Bond Fund A Inc	Net	13.30	1.69	-3.84	15.04	-4.64
RL Sterling Extra Yield Bond Fund B Inc	Gross	14.26	2.54	-3.03	16.00	-3.92
RL Sterling Extra Yield Bond Fund B Inc	Net	12.72	1.17	-4.33	14.44	-5.12
RL Sterling Extra Yield Bond Fund Y Inc	Gross	14.25	2.55	-3.04	16.01	-3.89
RL Sterling Extra Yield Bond Fund Y Inc	Net	13.80	2.14	-3.43	15.55	-4.22
RL Sterling Extra Yield Bond Fund Z Inc	Gross	14.26	2.55	-3.04	16.01	-3.90
RL Sterling Extra Yield Bond Fund Z Inc	Net	13.60	1.95	-3.60	15.34	-4.39

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 31 August 2024. All figures are mid-price to mid-price in GBP unless otherwise stated.