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Royal London Corporate Bond Fund

Quarterly Investment Report

31 December 2024

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London Corporate Bond 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.

Contents

ROYAL LONDON ASSET MANAGEMENT

The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return over the medium term, which should be considered as a period of 3-5 years, by investing predominantly in sterling-denominated corporate bonds. The Fund's performance target is to outperform, after the deduction of charges, the Markit iBoxx Sterling Non-Gilt Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is considered an appropriate benchmark for Fund performance. In addition to the benchmark for performance, the IA Sterling Corporate Bond sector is considered an appropriate benchmark for performance comparison.

Benchmark: iBoxx Sterling Non-Gilt All Maturities Index

Fund value

	Total £m
31 December 2024	1,451.09

Asset allocation

	Fund (%)	Benchmark (%)
Conventional credit bonds	99.19	99.40
Index linked credit bonds	0.59	-
Conventional gilts	0.22	-
Conventional foreign sovereigns	-	0.60

Fund analytics

	Fund	Benchmark
Fund launch date	29 March 1999	
Base currency	GBP	
Duration (years)	6.53	5.50
Gross redemption yield (%)	6.47	5.36
Number of holdings	349	1,227
Number of issuers	223	495

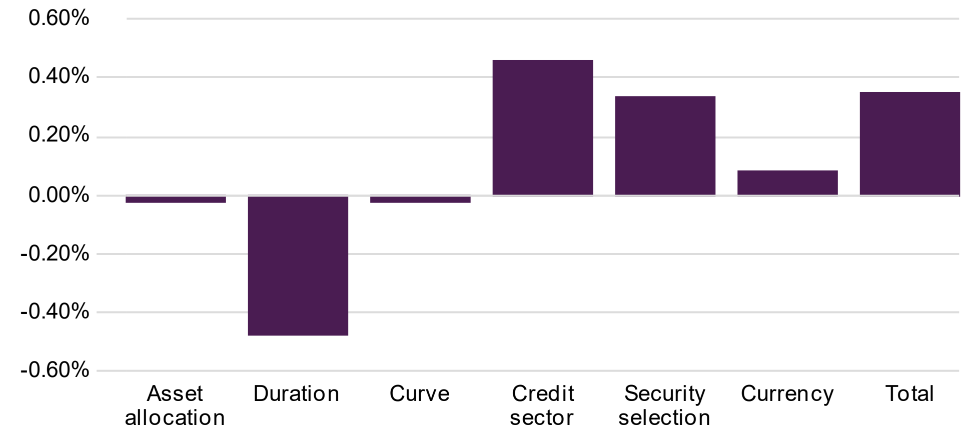
Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	0.01	(0.49)	0.50
1 Year	5.54	1.71	3.83
3 Years (p.a.)	(0.14)	(3.13)	3.00
5 Years (p.a.)	1.86	(1.03)	2.89
10 Years (p.a.)	3.65	1.71	1.94
Since inception (p.a.)	5.37	3.58	1.79

Past performance is not a guide to future performance. 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 30 April 2010.

Attribution over the quarter



Performance commentary

The final quarter of 2024 was turbulent for fixed income investors amid a series of headwinds coming from rising government bond yields, ongoing political volatility – domestic and abroad – and differences in central bank policies. Credit spreads are at all-time tights, across markets, and gilt yields are at multi-decade highs but we still believe all-in yield from credit is attractive and believe the risk of downgrade or default is still well compensated at current spread levels.

Despite this, the fund was able to achieve strong outperformance in the quarter, driven by the diversification of the portfolio and ability to mitigate risk – where we have reduced exposure to subordinated debt in some instances. A detractor for performance was our duration positioning. The fund was long duration versus the benchmark and, as yields rose, we gave back some performance gained earlier in the year from the same positioning as yields had fallen. Gilt yields moved higher following the UK budget, where concern lingered around inflation pressures and focus then shifted to the pace of interest cuts from the Bank of England. Going forward, however, we are happy with the small long duration position, expecting gilt yields to fall over the medium term.

Driving the outperformance was our credit allocation and stock selection. Our overweight exposures to insurance and structured bonds, and underweight exposure to supranationals all contributed positively. By stock selection, our bank and insurance bonds were standout performers, led by insurance perpetual bonds from Axa, Esure and Allianz. Our exposure to subordinated bonds from Direct Line was also helpful, these benefiting from a re-rating following the announcement of the takeover by Aviva.

Stock selection in structured bonds was also positive for performance, including positive contributions in relation to water sector exposure. Following a series of negative headlines there has been a lot of volatility in the sector. Ofwat released their final determination for the water sector in December, which saw a softening in stance from the regulator versus its draft in the summer, and leaves a package that likely works for most firms. It was positive for the sector overall, as it removes a big overhang and should see spreads for most firms in the sector continue to normalise. We also expect to see more issuance as the water firms look to fund this big rise in infrastructure spending.

Performance and activity

Top 10 holdings

	Weighting (%)
HSBC BANK FUNDING STERLING LP 5.844 31 Dec 2079	2.03
LEGAL & GENERAL GROUP PLC 5.5 27 Jun 2064	1.76
CO-OPERATIVE BANK FINANCE PLC 6 06 Apr 2027	1.52
BARCLAYS BANK PLC 6.278 31 Dec 2079	1.31
STANDARD CHARTERED PLC 6.36078 31 Dec 2079	1.28
VIRGIN MONEY UK PLC 7.625 23 Aug 2029	1.27
ASSICURAZIONI GENERALI SPA 6.269 31 Dec 2079	1.26
M&G PLC 6.34 19 Dec 2063	1.22
SOUTHERN WATER SERVICES FINANCE LT 3 28 May 2037	0.96
BARCLAYS BANK PLC 3.596 31 Dec 2079	0.92
Total	**13.54**

Fund activity

The new issue market was relatively subdued during the fourth quarter, and indeed for 2024 as a whole. With credit spreads continuing to tighten over the quarter, we looked for opportunities to reduce risk through taking profits and recycling into other bonds. This was perhaps most notable in subordinated financials, where there has been broad-based strong performance in 2024. During the quarter we trimmed a number of positions, including Barclays, HSBC, Aviva and Phoenix. But this activity was visible across a range of issues, including East Japan Railway after strong performance.

In recent years, gas-related utilities have struggled relative to electricity distribution, reflecting asset stranding risk. This reasoning was behind our near removal of the sector from our portfolios in 2019, but after a sustained period of underperformance, we believe that the market has over-corrected, and combined with regulatory changes for the sector, the higher spread on gas companies over electricity now more than compensates for this risk. During the quarter, we added a new issue from gas distributor Northern Gas Networks a company that remains a part of essential infrastructure in the UK, where around three-quarters of households still rely on mains gas for heating.

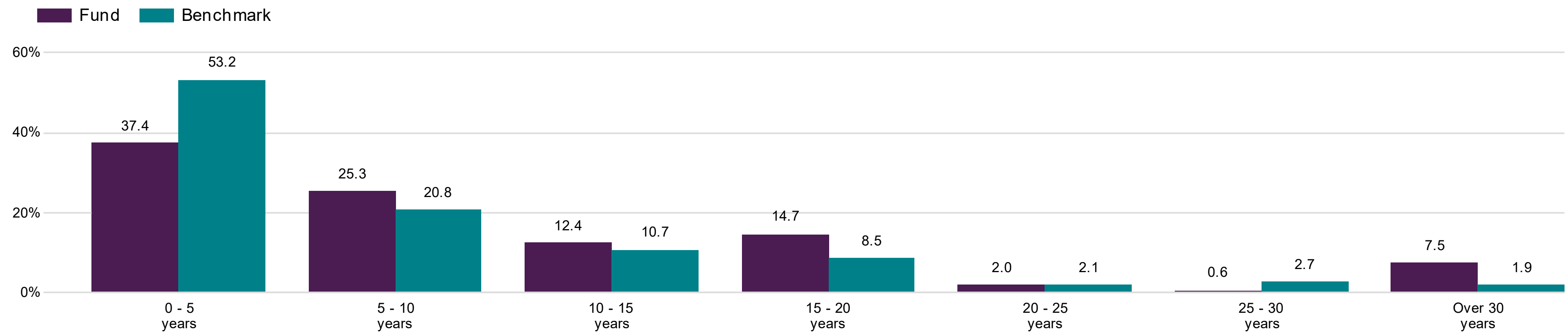
Structured bonds also remain a key component in our portfolios. During the quarter we took part in a new floating rate note issue from UK Logistics – with the bonds secured against a total of 63 logistics properties spread throughout the UK and positioned in a close proximity to urban centres, allow SMEs to reduce their direct emissions as well as transportation costs thanks to being closer to end customers. These are AAA rated bonds that came at a spread of more than double the spread on the average A rated corporate bond and show the value available in non-index issues.

Supranationals are a relatively small part of the portfolio compared to the much higher weighting this sector has in all-maturities indices. Our portfolios tend to have a low weighting as we believe that we can achieve a better yield elsewhere in the market without taking excessive risk. However, we are still open for opportunities in this space – for example adding a new issue from Saltaire Finance, the bonds part of the UK's Affordable Homes Guarantee Scheme and guaranteed by the government yet still paying around 50bps over equivalent gilts.

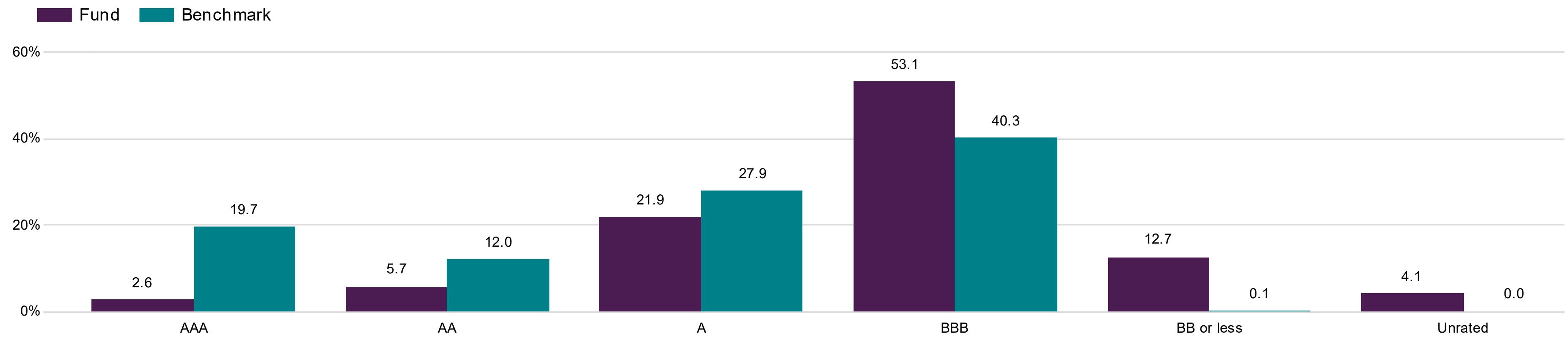
We added selectively to non-sterling bonds. In general, we feel that US dollar and euro investment grade markets do look expensive relative to sterling, but where the risk/reward pay-off looks attractive we are happy to add. Examples during the quarter include a new issue of euro-denominated RT1 bonds from Dutch insurer Athora, and tier 1 US dollar bonds from Standard Chartered in the secondary market, both yielding over 7%.

Fund breakdown

Maturity profile

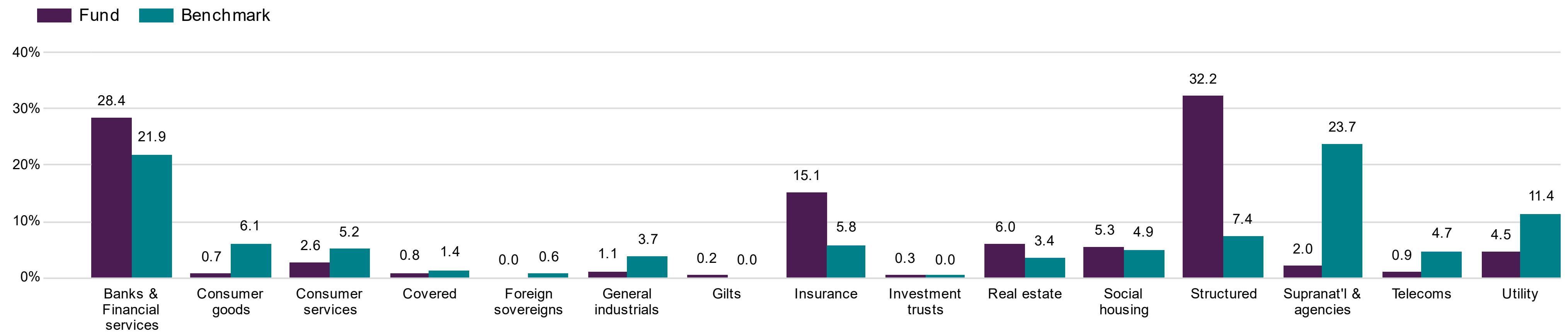


Credit ratings



Fund breakdown

Sector breakdown



Fund Engagement

Engagement definition

Engagement is active dialogue with investee companies (or other entities). There are two types: engagement for information, which is dialogue as part of investment research or ongoing monitoring, without specific objectives for change, and engagement for change, which is purposeful dialogue to influence positive change, with defined objectives and demonstrable outcomes.

Engagements

Engagement activity	Fund 3 months	Fund 12 months
Number of entities engaged	20	38
Number of engagements	24	88

This is an estimate. Some engagements at the issuer level may not have been attributed to the specific bond held in the fund, resulting in a lower number of engagement activities.

Total engagements by theme and topic

Biodiversity	**1**
Climate	**10**
Climate - Transition Risk	9
Climate - Physical Risk	1
Governance	**7**
Corporate Governance	3
Remuneration	3
Strategy	1
Health	**6**
Mental Health	6
Social & Financial Inclusion	**4**
Just transition	2
Social & Financial inclusion	2

The numbers of engagements and themes/topics discussed may differ where a single engagement covers multiple themes/topics.

Engagement focus

Firm-wide engagement activity is centred around six themes which we have identified in consultation with our clients. These are: climate change; nature and biodiversity; health; governance and corporate culture; social and financial inclusion; innovation, technology and society. Portfolio level engagements are not thematic and are focussed on issues specific to managing the portfolio and meeting the investment objective.

Engagement data represents all engagements undertaken at both firm and portfolio level across Royal London Asset Management, and may not be limited to those undertaken solely for the purpose of managing the fund.

Fund Engagement

Engagement outcomes

Barclays Plc - Just transition

Purpose:

We met with Barclays's, a UK multinational bank, Sustainability team as part of our collaborative engagement with banks on just transition, aiming to integrate this issue throughout its net zero plan and address questions regarding our recently published investor expectations.

Outcome:

The meeting with Barclays's Sustainability team was positive, providing valuable feedback on our investor expectations. Barclays acknowledged the importance of just transition integration and identified it as a key area in its human rights assessment. The company is incorporating just transition into products like greener home rewards and green mortgages. The bank's decarbonisation target for the mortgage sector aims to avoid restricting financing for those in need. Just transition is also part of its transition finance framework. Barclays is refining just transition in commercial lending and recognises its importance in North America, aligning with our guidelines. We will continue to monitor the bank's disclosures on just transition and will look to assess the bank against our investor expectations in the future.

Electricite De France SA (EDF) – Net zero

Purpose:

We met with EDF's, a French multinational electric utility company, Head of ESG Performance team to discuss its latest results in the Climate Action 100+ (CA100+) benchmark and discuss our 2025 engagement priorities with the company.

Outcome:

EDF performed well in the CA100+ benchmark, showing improvements across several areas. The company is working on clarifying its Scope 3 emissions reduction trajectory, detailing short, medium, and long-term goals. EDF maintains a low carbon intensity in electricity and heat production, which is sometimes under-recognised in CA100+ assessments. Due to EU Taxonomy classification issues related to its UK nuclear assets, specific green CAPEX numbers have not been published, but we will be assessing for improved company disclosures next year. We will continue to engage with EDF to discuss its updated Scope 3 decarbonisation pathways.

Fund Engagement

Engagement outcomes

Lloyds Banking Group Plc - Just transition

Purpose:

We met with Lloyds Banking Group, UK-based financial services group, as part of our collaborative engagement with banks on just transition, aiming for the bank to integrate this issue throughout its climate transition plan and demonstrate implementation at product, sector, and regional levels.

Outcome:

Lloyds Banking Group continues to view just transition as integral to the company's purpose and growth strategy. The positive call highlighted several innovative projects, supporting its alignment with just transition principles. Lloyds found our investor expectations helpful but noted that a sector lens might miss interdependencies, advocating for a system-based approach instead. The company provided examples of just transition integration across various systems, such as sustainable farming, greening the built environment, low carbon transport, and energy transition.

Lloyds has launched several innovative products aligned with just transition, including a £500mn social housing retrofit product. Lloyds have developed a roadmap with the Green Finance Institute and NatWest for property-linked finance for retrofit projects . The bank's regional approach to lending addresses challenges in across the UK, with initiatives like working with local authorities to tackle local issues, expected to create jobs and reduce regional inequalities. Combined with balance sheet lending for regional projects, Lloyds' approach appears relatively advanced.

Severn Trent Plc - Biodiversity & community health

Purpose:

The meeting aimed to discuss Severn Trent's, a water company, performance based on its 2025-2030 business plans, focusing on areas needing improvement in its environmental and biodiversity strategy, including Sites of Scientific Interest (SSSIs), biodiversity management, and antimicrobial resistance (AMR).

Outcome:

The meeting was productive, reassuring us about the company's management of SSSIs and biodiversity. Severn Trent launched its SSSI strategy in 2022, managing 500 hectares and overseeing 720 SSSIs, with a goal of 100% favourable condition by 2030. The company conducts annual assessments, reports to senior management, and has expanded its Biodiversity and Ecology team. The company has collaborated with over 60 organisations and is involved in AMR projects, exploring alternative treatments and working with academics.

Market commentary

Market overview

Markets were volatile during the fourth quarter – with the US elections and the potential for central bank rate cuts the main causes of uncertainty. With the election of Donald Trump as US President, and the Republicans having a majority in both the Senate and House of Representatives, markets moved to price in potentially higher US deficits.

Alongside political events, attention remained on the Federal Reserve, European Central Bank and Bank of England to see if expected rate cuts would materialise. However, with inflation remaining higher than central bankers would like, expectations for rate cuts in 2025 were revised down. This backdrop pushed government bond yields higher, leading to negative absolute returns for most investment grade credit markets despite credit spreads tightening and credit excess returns over government bonds being positive, while equities ended a strong 2024 with another positive quarter, with US stocks – notably the 'magnificent seven' – leading the way.

At its final meeting of 2024, and as expected, the Bank of England kept rates on hold at 4.75%. Meanwhile, according to the minutes, "a gradual approach to removing monetary policy restraint remains appropriate." Away from economic data, the new Labour government presented its first budget. This was less obviously a budget for growth than one for public services repair with a substantial proposed increase in day-to-day fiscal spending and net investment. Public spending was increased substantially, but at the cost of a big increase in taxes. Since the Budget, business optimism has dropped, and firms are indicating a mix of responses to the rise in National Insurance contributions including hiring less and raising prices.

The Federal Reserve cut rates 50bps over the quarter to a 4.25% - 4.5% target range. They signalled fewer cuts for 2025 than previously indicated, indicating only 50bps cuts for 2025 (100bps previously). In November, Donald Trump was elected US President for the second time. A Trump presidency will likely bring a change in both policy making style and substance. It was a clean sweep for the Republicans, winning the White House, Senate and House of Representatives, increasing the prospects of Trump getting his fiscal policies through.

As widely expected, the European Central Bank's final decision of the year saw another 25bps rate cut, taking the deposit rate to 3.00%." The picture for activity outside Germany and France was somewhat better than for those two economies, with both France and Germany affected in recent months by political/policy uncertainty.

Government bond yields rose over the quarter, as central banks continued to struggle to bring inflation back to target levels and amid ongoing political volatility with elections across Europe and the US. In the US, 10-year treasury yields rose to 4.57% from 3.78%, while German 10-year bunds similarly saw yields rise to 2.36% from 2.06%. Benchmark 10-year gilt yields increased to 4.57% from 4.01%.

The sterling investment grade credit market (iBoxx non-gilt index) returned -0.49% over the quarter, with the average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightening over the period from 1.03% to 0.86% (iBoxx). The negative absolute return was broad based across the sterling investment grade credit market with the only sectors seeing positive returns being banks and real estate, with both markets benefitting from the potential of higher interest rates for longer. Consumer services and social housing were the relative laggards.

Outlook

Perhaps the most unexpected aspect of UK fixed income markets in 2024 was the rise in gilt yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag the entire UK curve lower. In the event, although we got two rate cuts, these really only impacted the short end – with longer yields pushed higher, first because inflation did not come down as expected and Trump presidency is widely seen as more inflationary, and second because issuance is going to be higher than expected. As a result, UK 30-year gilt yields are now at 25-year highs.

UK investment grade markets mostly mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. As this point, with these back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global and UK economies, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that sterling investment grade all-in yields (using iBoxx) at over 5% remain attractive but the relative attraction between gilt and credit spread has changed, with a larger component of the yield being sought from government bond yields. We remain confident that we can further achieve an attractive yield premium in our portfolios, as we look to exploit market inefficiencies, with long-standing belief such as the undervaluing of security now augmented by newer inefficiencies such as the 'mechanised' approaches used by annuity providers that treat credit as a homogenous commodity area, buying in a relatively price insensitive manner. Experience suggests that this is not a good way to create long-term value for investors.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

Royal London Sterling credit ESG analysis

TCFD climate report

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 January 2025 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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The Index provided by IHS Markit is subject to disclaimer currently available here (and as updated by IHS Markit from time to time): https://ihsmarkit.com/Legal/disclaimers.html and/or in the prospectus for the Fund.

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.

Exchange rate risk

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

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.

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 Fund to financial loss.

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.

Performance to 31 December 2024

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years
Fund (gross)	0.01	3.22	5.54	(0.41)	9.65
Fund (net)	(0.07)	3.04	5.17	(1.56)	7.50

Annualised (%)

3 Years (p.a.)	5 Years (p.a.)
(0.14)	1.86
(0.52)	1.46

Year on year performance (%)

	31/12/2023 - 31/12/2024	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020
Fund (gross)	5.54	11.99	(15.74)	1.43	8.55
Fund (net)	5.17	11.53	(16.08)	1.01	8.11

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 December 2024. All figures are mid-price to mid-price for the Royal London Corporate Bond Fund Z Inc GBP share class.

Glossary

Asset allocation

Breakdown of the assets by asset classes. Based on RLAM asset classification scheme.

Attribution

Attribution is shown for the most recent quarter. Attribution figures are based on end of business returns for both the fund and the index whereas performance figures are based on midday returns for the fund and end of business for the index. Therefore the performance will not include market moves between midday when the fund is priced, and end of business when the index is calculated. This may result in a different figure being shown for the quarterly performance vs attribution data.

Credit ratings

Credit ratings are based on RLAM composite ratings which uses a hierarchy of S&P, Moody's and then the Fitch rating.

Duration

Measure of sensitivity of a Fixed Income instrument to changes in interest rates, indicating the potential impact of interest rate fluctuations on the value of the investment.

Fund analytics

All figures exclude cash. Credit bonds include non-sterling bonds and CDs where held within the fund or benchmark.
This is applicable to the following sections: fund Asset Allocation, Duration, Yield curve, Sector breakdown, Financial holdings, Credit ratings.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Gross redemption yield

Gross redemption yield is the rate of discount at which a bond's future obligations of interest and capital payments equates to its current price. The gross redemption yield shown for the fund is the average for its individual holdings, weighted by their current value, net of relevant fund management costs and gross of tax.

Number of holdings

Total number of unique holdings of the Fund excluding cash, currency and derivatives.

Number of issuers

Number of unique issuers of all assets held by the Fund, excluding cash, currency and derivatives.

Performance

Performance is calculated using the daily end of day NAV per share produced by HSBC based on the mid price.

Sector breakdown

Breakdown of the fixed income assets, excluding derivatives and cash by RLAM's internal industry sector classification scheme. Figures are subject to rounding.