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Royal London Index Linked 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 Index Linked 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.

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The fund

Fund performance objective and benchmark

The Fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in index-linked bonds issued by the UK government, known as gilts. The Fund's performance target is to outperform, after the deduction of charges, the FTSE UK Gilts Index Linked Government (All Stocks) Total Return GBP Index (the "Index") over a rolling 5-year period. The Index is regarded as a good measure of the performance of index-linked UK government bonds. The Index is considered an appropriate benchmark for the Fund's performance, as many of the Fund's potential investments will be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA UK Index Linked Gilts sector is considered an appropriate benchmark for performance comparison.

Benchmark: FTSE Actuaries UK Index Linked Gilts (All Stocks) Total Return GBP Index

Fund value

	Total £m
31 December 2024	396.18

Asset allocation

	Fund (%)	Benchmark (%)
Index linked gilts	98.27	100.00
Index linked credit bonds	1.25	-
Index linked foreign sovereigns	0.47	-

Fund analytics

	Fund	Benchmark
Fund launch date	15 February 1990	
Base currency	GBP	
Duration (years)	15.29	14.49
Real yield (%)	1.33	1.29
Number of holdings	33	32

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(6.18)	(5.98)	(0.20)
1 Year	(7.84)	(8.32)	0.48
3 Years (p.a.)	(14.45)	(14.97)	0.52
5 Years (p.a.)	(6.02)	(6.60)	0.58
10 Years (p.a.)	(0.03)	(0.51)	0.48
Since inception (p.a.)	3.14	2.60	0.54

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 M Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 30 April 2010.

Performance commentary

Against a backdrop of rising real yields, index linked markets delivered a negative return for the fourth quarter, with the fund also seeing negative returns, underperforming the benchmark. Short-dated index-linked bonds outperformed long-dated equivalents due primarily to their shorter duration, while UK bonds underperformed global inflation-linked bonds.

The fund had a long duration position during the quarter. This was not a significant long, given that we expected market volatility to remain high, but at the margin, we felt that real yields looked attractive and hence were happy to have a long bias. This hurt returns over the period with real yields rising further, although we did mitigate the impact through tactical changes in our stance around supply events.

We also had a flattening bias, as we felt that short-dated bonds would underperform long-dated as inflation fell. However, the changing expectations around rate cuts with increased concerns about long-term inflation, coupled with ballooning fiscal deficits leading to higher supply, meant curves steepened over the quarter, hurting performance.

The negative impact of duration and curve positioning was somewhat offset by cross-market and breakeven positioning. We held a small off-benchmark position in US and Australian bonds which offered an attractive yield premium over equivalents gilts. With UK lagging other main markets during the quarter, these positions were positive for relative for performance.

While we held no strategic breakeven position, we traded breakevens tactically around supply events – notably the 2054 index linked syndication in November but also the 2039 and 2045 auctions in October. These added to performance. Breakevens have rallied as inflation remained sticky and bond yields have risen. With a 2054 auction in January, we will look to sell longer breakevens on a tactical basis.

Performance and activity

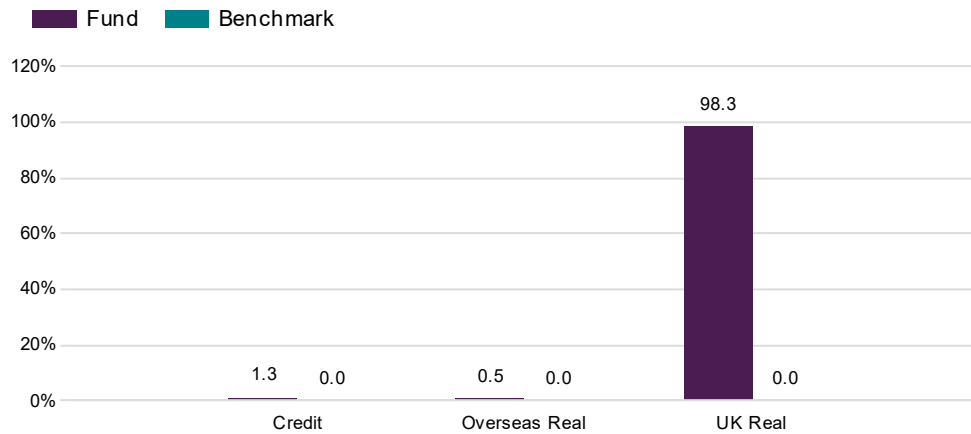
Fund activity

Activity during the quarter continued to look for tactical opportunities to benefit from market issuance and ongoing volatility. We started the quarter with a small long position, and generally remained long or neutral through the period. With yields hitting their highest levels since the Liz Truss-induced sell-off in 2022, we have increased our 'core' stance to a slightly longer duration stance, albeit continuing to trade this tactically to benefit from market volatility.

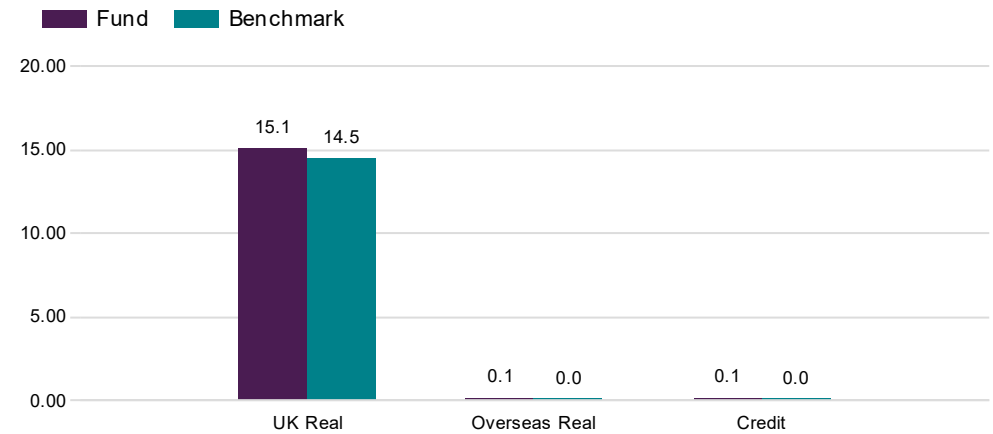
In terms of cross market activity, we had started the quarter with a modest position in Australia. Although Gilts underperformed other markets over the quarter, we used a period of relative strong performance ahead of the UK budget to further reduce UK exposure, further adding to Australia and also buying US TIPS. With the budget poorly received due to the higher-than-expected increase in issuance, we gradually took profits on US and Australian exposure over the rest of the quarter to end the period almost entirely invested in the UK.

Fund breakdown

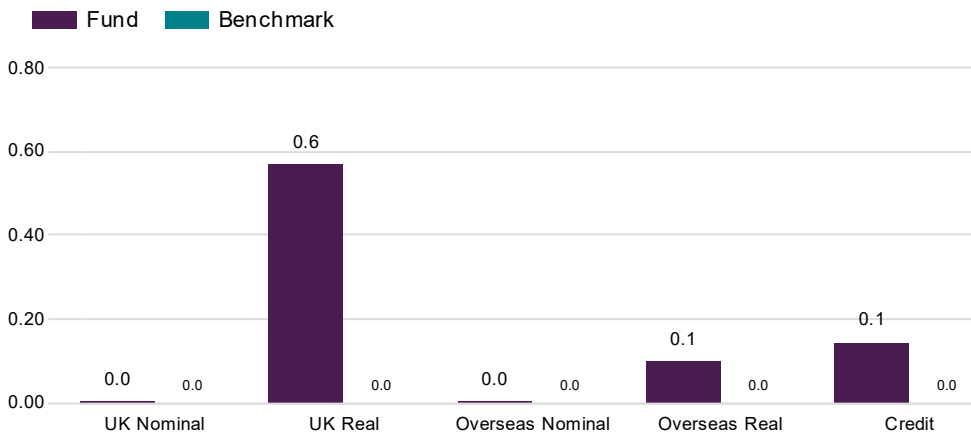
Asset split by percentage



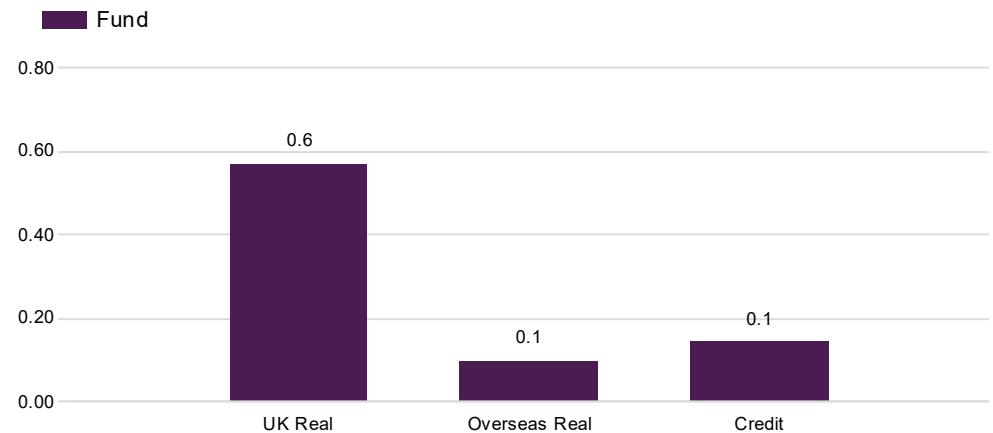
Asset split by duration



Asset split by duration change on quarter

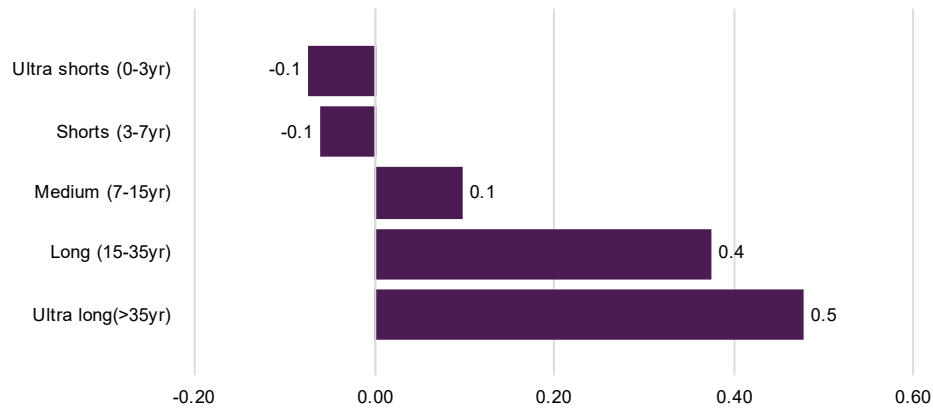


Asset allocation relative to benchmark (duration)

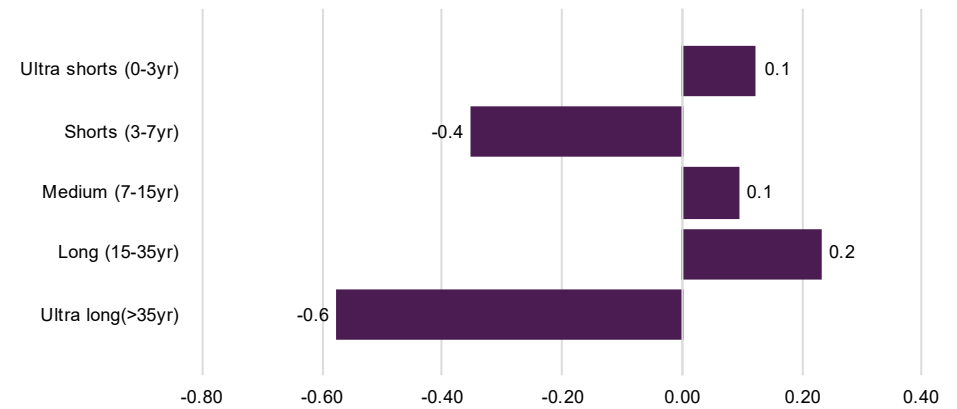


Fund breakdown

Maturity profile relative to benchmark



Maturity profile change on quarter



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.” 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 bank continues to note that domestic inflation remains high, “mostly” attributable to wages and prices in certain sectors, and acknowledge that they are “still adjusting to the past inflation surge with a substantial delay.” 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. France’s finance minister was replaced after Barnier’s budget failed to pass and Germany will now have early

elections in the first quarter of 2025. CPI inflation rose on data released over the quarter, reaching 2.3% in November.

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%.

Index linked markets saw similar moves, with this a poor quarter for index link bonds as real yields globally ended the year at their highest levels for the year. Despite rate cuts during the quarter the prospect of substantial cuts across the globe in 2025 were priced out of valuations after the election of Trump, the poorly received UK budget and sticky inflation data.

Outlook

The Trump election and ongoing fall-out from the UK budget leaves markets clouded with uncertainty. We still await Trump’s full programme and geopolitical risks remain high, which we expect to keep markets volatile. Economic releases will also be a cause for volatility and we expect envisage to continue trading duration, particularly around supply events where we expect larger discounts in 2025.

We have moved from peak optimism at the end of 2023 to almost peak pessimism at the end of 2024 where only two rate cuts are expected in 2025 and US and UK bond yields are close to levels not seen since before the great financial crisis.

Real yields have risen to cheap levels against expected rate cuts across the globe, however recent data has put a question mark around the number of cuts we may see in 2025. We remain long duration with real yields at their highest levels since the Truss debacle. We will cautiously add to duration but with heavy supply early in January (2054 UK auction) we will wait to see how supply is absorbed.

Real curves look relatively steep and with longer real yields offering value we will run a modest overweight in longer dated bonds.

After the underperformance of the UK in the wake of the budget, we are less negative on this market. UK funds are predominately invested in the UK, while our global strategies are not running significant cross market risk just favouring markets that we believe offer the best value such as the UK and US after the recent sell-off. Our global funds are marginally underweight French bonds given the political risks.

Further Information

Please click on the links below for further information:



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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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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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.

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.

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.

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.

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.

Performance to 31 December 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	5 Years	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(6.18)	(4.53)	(7.84)	(37.42)	(26.70)	(14.45)	(6.02)
Fund (net)	(6.25)	(4.67)	(8.12)	(37.99)	(27.89)	(14.71)	(6.32)

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)	(7.84)	1.24	(32.92)	4.62	11.95
Fund (net)	(8.12)	0.93	(33.13)	4.24	11.55

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 Index Linked Fund M Inc GBP share class.

Glossary

Asset allocation

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

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.

Number of holdings

Total number of unique holdings of 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.