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Royal London International Government Bond Fund

Quarterly Investment Report

31 December 2024

ROYAL LONDON
ASSET MANAGEMENT

Quarterly Report

The fund as at 31 December 2024

The purpose of this report is to provide an update on the Royal London International Government 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 (3-5 years) by investing at least 80% in government bonds globally. The Fund's performance target is to outperform, after the deduction of charges, the JP Morgan Global Bond Index ex UK (Traded) Total Return (GBP hedged) Index (the "Index") over rolling 5-year periods. The Index is regarded as a good measure of the performance of government bonds across the developed markets. The Index is considered an appropriate benchmark for the Fund's performance, as the Fund's potential investments will predominantly be included in the Index. In addition to the benchmark for the Fund's performance as noted above (the "Index"), the IA Global Government Bond sector is considered an appropriate benchmark for performance comparison.

Benchmark: JP Morgan Global Bond Index ex UK (Traded) Total Return (GBP hedged) Index

Fund value

	Total £m
31 December 2024	1,185.35

Asset allocation

	Fund (%)	Benchmark (%)
Conventional foreign sovereigns	91.24	100.00
Index linked foreign sovereigns	6.43	-
Conventional gilts	2.33	-

Fund analytics

	Fund	Benchmark
Fund launch date	4 November 2011	
Base currency	GBP	
Duration (years)	7.02	6.57
Gross redemption yield (%)	3.24	3.41
Number of holdings	119	1,016

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	(1.52)	(1.66)	0.14
1 Year	2.08	1.48	0.60
3 Years (p.a.)	(0.98)	(2.17)	1.19
5 Years (p.a.)	0.30	(0.69)	0.99
10 Years (p.a.)	1.43	0.90	0.53
Since inception (p.a.)	1.97	1.74	0.23

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 4 November 2011.

Performance commentary

The third quarter of the year saw a strong performance from government bond markets, as inflation looked to be on a downward trajectory and the market was comfortable pricing in further easing in monetary policy by the majority of central banks. To reflect this, the fund started the fourth quarter of 2024 with a broadly neutral duration position; overall, bond markets looked reasonably fairly priced given the incoming economic data and signals from the central bankers on future rate moves.

Within this overall neutral duration stance, we maintained a small underweight to the US (conscious of political headwinds to come later in the quarter), an overweight in Australia, underweight Japan and overweight peripheral European markets, specifically Spain.

October saw quite a turnaround in markets, largely driven by resilient economic data out the US, specifically on the employment front. The slowdown in US inflation continued, but not as much as perhaps the market was expecting. At the end of September, the market was pricing in six Fed cuts for 2025, but by the end of October, this had fallen to four cuts and at the end of the December it had fallen to less than two rate cuts across the whole year.

The Fed did cut interest rates twice during the quarter, but the messaging accompanying these cuts, particularly the December reduction, was seen as hawkish, with the guidance given by Fed Chair, Jerome Powell, that the pace of further cuts was likely to be slower, in the light of economic developments. Explicit mention of the potential impact of the change in the US Administration was not made, but the inference was that were the policies pledged during the election campaign to be implemented, further significant policy easing would be unlikely to be appropriate.

The picture in Europe was slightly different; the ECB cut rates at its meetings in October and December, and gave some positive signals about inflation meaningfully returning to target over their forecast horizon. However, they also signalled caution and maintained their "data dependent" stance, though did acknowledge potential headwinds from factors such as potential US tariffs and a weakening currency. The market is concerned about the growth prospects for the European economy, particularly northern Europe, alongside the potential for political disruptions, and so still has continued further easing of monetary policy, with four cuts priced for 2025.

Japan is somewhat anomalous in terms of the direction of monetary policy, with the expectation being that they will further tighten (increase policy rates) in the coming months, as inflation continues to run hot.

Performance and activity

Performance commentary (continued)

Overall, the duration stance over the quarter will have been a small positive contribution to performance, with positive contributions seen in the November rally offset somewhat by the resumption of the sell-off in December. We remain comfortable running a long duration position into 2025, as we believe that the current level of yields are attractive in many markets, though acknowledging the volatile market conditions and inevitable wave of supply early in the year means we have scope to lengthen in the next quarter.

At the end of the third quarter, the fund was running around a third of a year in inflation linked securities. The majority of this position was in the US, spread across 5-year and 30-year TIPS, accompanied by small shorter-dated holdings in Italy and Japan. The rationale for the larger US positions was driven by the anticipated market reaction to a Trump victory in the US presidential election in November, coupled with an attractive level of outright real yields in longer dated (30-year) TIPS.

Italian and Japanese inflation linked assets also did well over the period, and overall our inflation position were a positive contributor to performance over the course of the quarter.

We entered the fourth quarter with curve steepening exposure in the US (albeit reduced somewhat from the levels seen in the third quarter), as we felt that the curve was too flat, particularly against the prospect of a Trump election victory. In Japan, we maintained our positions in yield curve flatteners as the long end remained stubbornly undervalued, particularly against the backdrop of the BoJ potentially tightening policy. We were broadly neutral curve in European markets.

The Japanese yield curve did indeed flatten somewhat over the quarter, though this only partially offset the negative performance contribution from the US curve steepener. Overall, curve positioning was a negative contributor to performance over the fourth quarter.

Cross market positioning was a positive contributor to performance over the quarter. Highlights were an overweight in 30-year Australian government bonds versus their US equivalents. At the start of the quarter, the yield differential between 30-year Australia and 30-year US treasuries was close to 50bps. By the end of the quarter, this had fallen to closer to 10bps. As the fund was running and overweight in 30-year Australia and an underweight in longer-dated US, this was a positive contributor to performance.

Performance and activity

Fund activity

The duration stance of the fund was actively traded over the period, with the fund going overweight in October (as markets sold off) and further overweight as the weakness continued into the end of the year. As at the end of December, the fund was just under half a year long duration, largely in the US and Peripheral Europe. We felt that the market had become overly pessimistic regarding the prospects for government bonds and were happy to buy US real yields as they approached 2.5% and were comfortable adding to duration in Spain and Italy, against a backdrop of robust economic data in southern Europe, benign politics and an accommodative central bank. We used the weakness in Japanese government bonds to move from an underweight to neutral.

The very strong election victory of Trump in the election did indeed see a strong rally in US breakevens, with the 5-year rate rallying by nearly 20bps to over 2.5% when the extent of his victory became clear. We used this opportunity to trim the position in 5-year breakevens, taking profits having put the trade on at around 2.2%. Towards the end of the quarter, we added to exposure in the 30-year part of the curve as US real yields approached 2.5%.

Over the first part of the quarter, the US curve actually flattened, from around 60bps (the yield differential between 30-year and 5-year rates) to around 30bps. This was driven by the market pricing out rate cuts from the Fed, which saw short term rates (which are more sensitive to the Fed Funds rate) underperform longer dated rates. There was a bout of short-term steepening upon the Trump victory, though the curve re-flattened shortly thereafter. Towards the end of the quarter, the curve did start to steepen again, largely driven by a weakness in longer dated bonds, rather than a recovery in short-dated US treasuries.

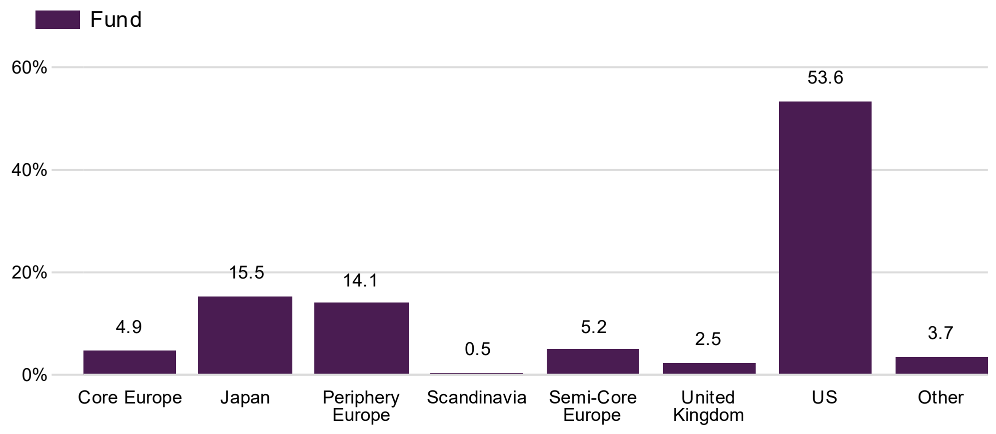
Once again, there was a lot of focus on Europe during quarter four, specifically regarding France. Political risk returned to the fore, with market fears over the potential impact over the collapse of the Michel Barnier led government. At one point the spread of French 10-year yields over their German equivalents exceeded the levels seen during the 2017 French Presidential election, when Marine Le Pen, standing on an anti-EU ticket, fared particularly well in the first round of elections.

A number of market participants felt that the collapse of the Barnier government would cause the spread to widen still further, in excess of 100bps. We felt that the moves were overdone and were happy to buy France versus Germany on a short term, tactical basis. The Barnier government did indeed fall to a no-confidence vote, however the spread to bunds actually tightened, reverting to close to its pre-crisis levels. Our positioning benefitted from this move and we took profits, re-establishing an underweight in France into this strength, on the view that over the longer term, France will likely face significant headwinds, which the bond ratings agencies will find hard to ignore.

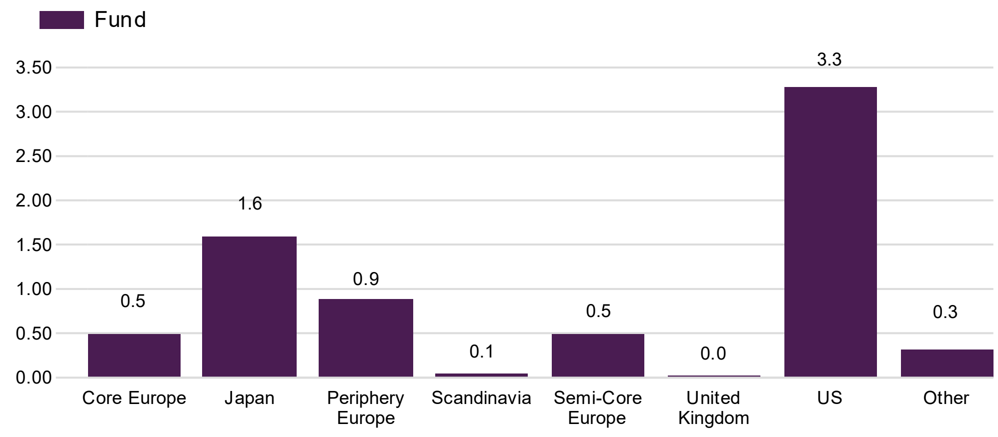
Other cross market positions that fared well over the period were an underweight in Canada versus the US (exited at a profit during November) and the continued overweight in Spain, which benefitted as investors sought to switch out of France. An overweight in Spain remains a strong conviction position as the Spanish economy outperforms it European peers, and Spain is likely to further benefit from an increasingly accommodative ECB. We also exited a position in EU bonds over the quarter, as like Spain, these benefitted from investors seeking an alternative to French government debt.

Fund breakdown

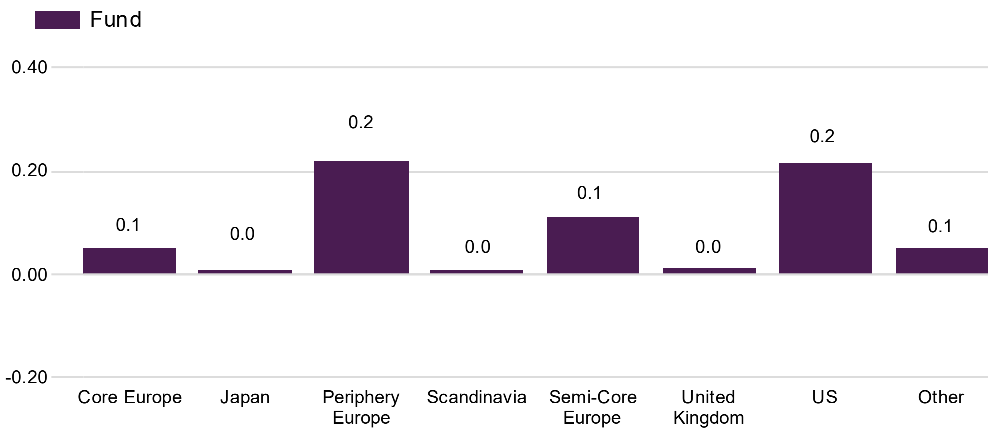
Geographic split by % weight



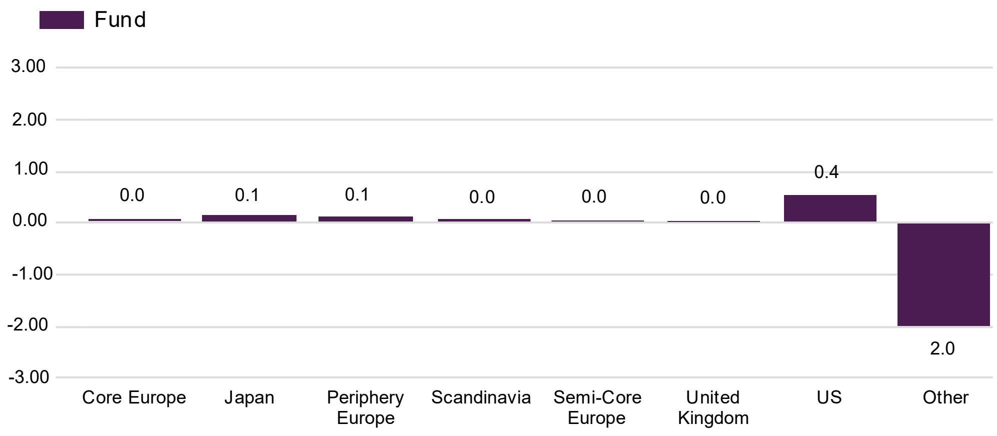
Geographic split by duration



Duration position relative to benchmark

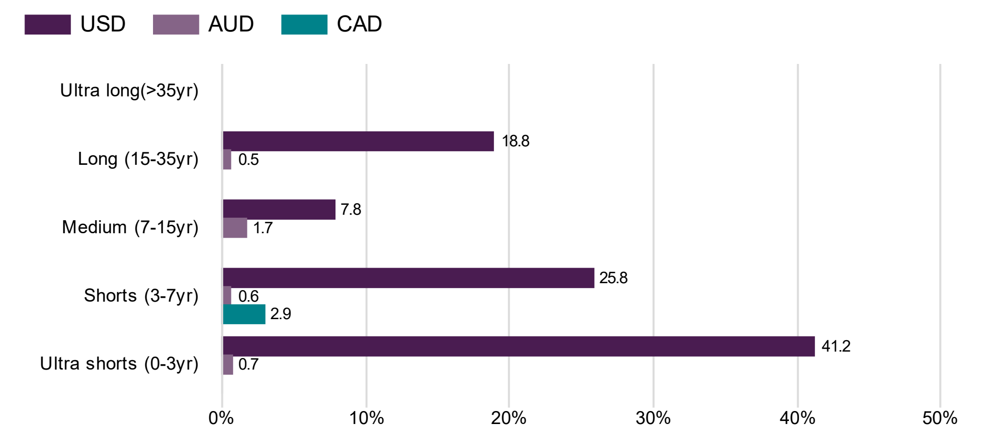


Relative duration quarter on quarter

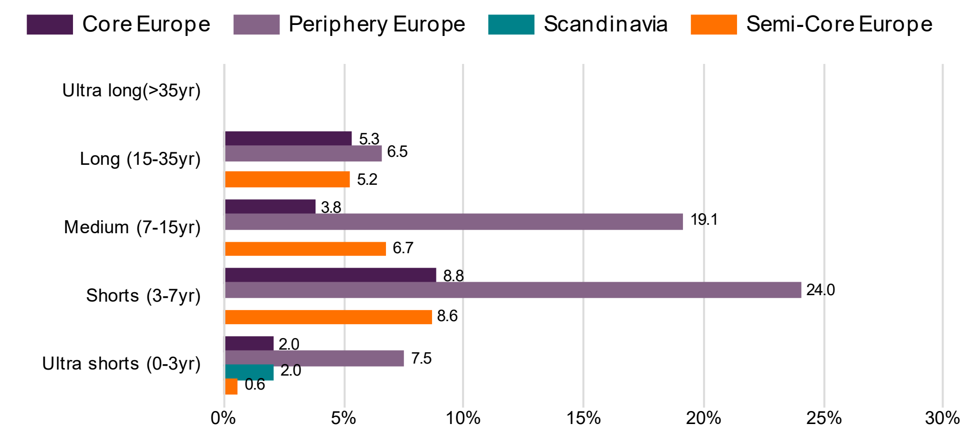


Fund breakdown

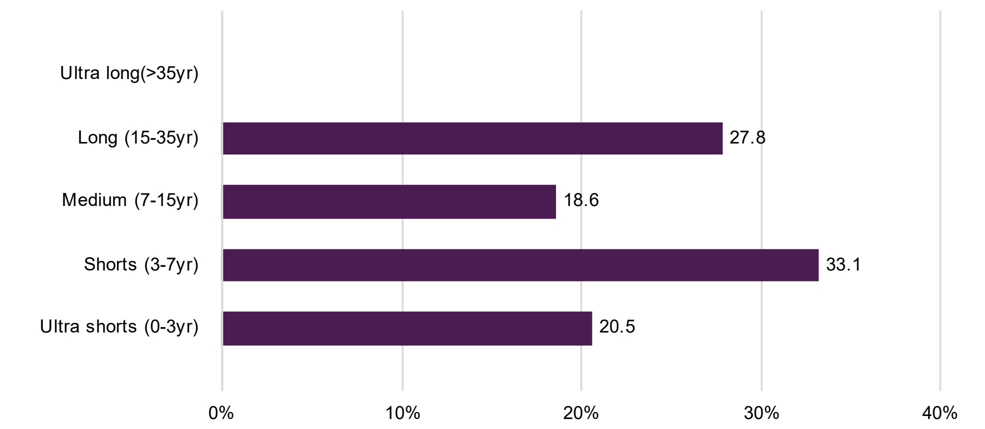
Dollar bloc



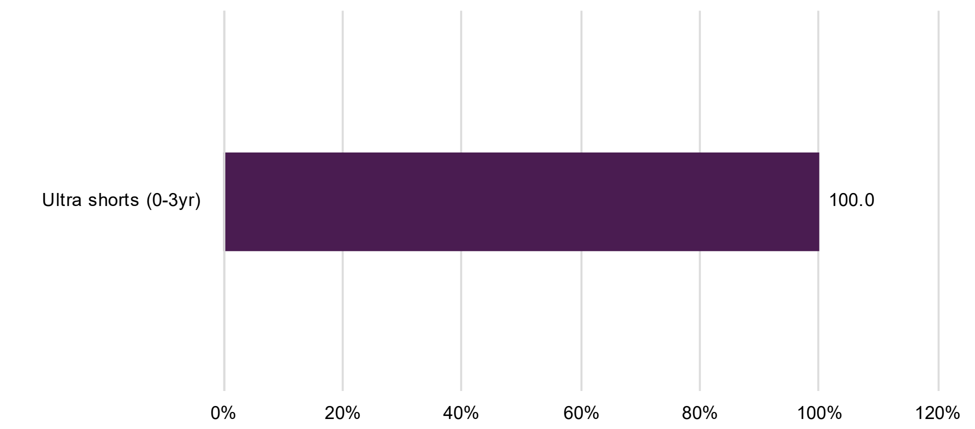
Euro bloc



Japan

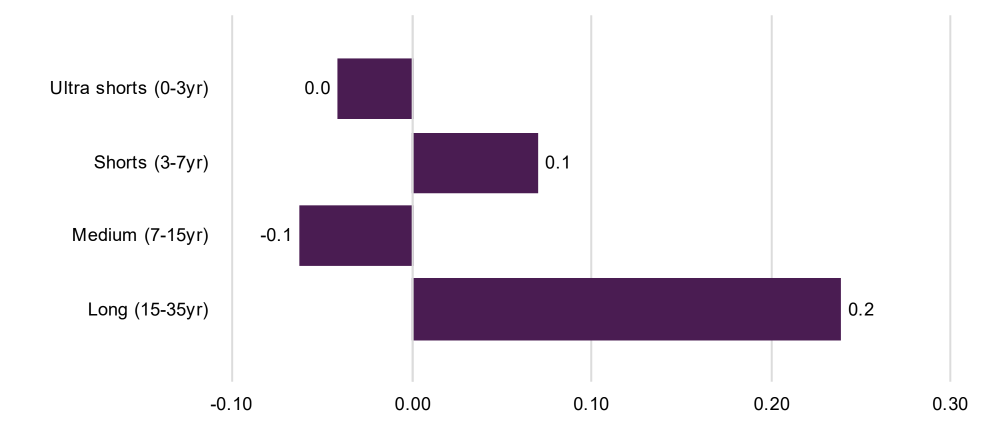


UK

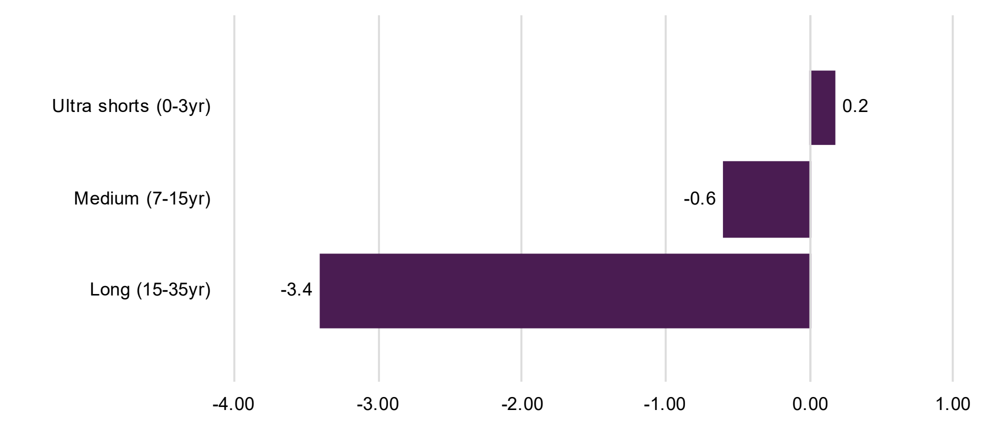


Fund breakdown

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 returns for most investment grade credit markets, 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." November CPI inflation rose to 2.6% year on year as expected on 'base effects'. Pay growth was stronger than expected. October GDP shrank month-on-month after falling in September, with this contraction (and subdued business surveys since) raising the risk of a mild GDP contraction in the fourth quarter. 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). Third quarter GDP (released over the quarter) rose at an above trend pace, supported by strong consumer spending growth. The US PMI composite meanwhile rose further and continued to signal a robust pace of US private sector output growth, although manufacturing business survey measures remain more subdued than services ones. In November, Donald Trump was elected US President for the second time. A Trump presidency will likely bring a change in both policymaking 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. Business optimism on the PMI survey rose, hitting a two and a half year high in December, "reflecting growing optimism about business conditions under the incoming Trump administration," though manufacturers flagged concerns about tariffs (where Trump has promised increases) and inflation.

As widely expected, the European Central Bank's final decision of the year saw another 25bps rate cut, taking with the deposit rate to 3.00%. The bank continues to note that domestic inflation remains high but attribute that "mostly" to wages and prices in certain sectors "still adjusting to the past inflation surge with a substantial delay." Third quarter GDP released over the quarter was stronger than expected. The PMI business survey composite, however, remained consistent with subdued private sector activity growth throughout the fourth quarter, ending the quarter below the 50 'no growth' level. The picture for activity outside Germany and France was somewhat better than for those two economies though, 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 yields rose over the quarter, as central banks continue 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%.

Outlook

The fourth quarter of 2024 was a challenging quarter for government bonds as markets re-assessed the future policy path of a number of major central banks, not least the US Federal Reserve, in the light of robust economic data and the forthcoming change in the US Administration. Yields rose and volatility remained elevated.

The outlook in the short term is somewhat uncertain as it will not be until President elect Trump takes office that we will be clear on how much of his election pledges he will actually follow through on. Additionally, geopolitical tensions remain high and the outlook for inflation globally is perhaps less clear now than it has been for some time.

However, we do feel that a lot of these fears are already reflected in government bond yields, and are therefore happy to be running a small duration long, with scope to add in the short term should further weakness occur.

Further Information

Please click on the links below for further information:

Stewardship and responsible investment at RLAM

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.

Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval.

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.

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.

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.

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)	(1.52)	2.51	2.08	(2.90)	1.53
Fund (net)	(1.59)	2.35	1.77	(3.77)	0.02

Annualised (%)

	3 Years (p.a.)	5 Years (p.a.)
Fund (gross)	(0.98)	0.30
Fund (net)	(1.27)	0.00

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)	2.08	5.89	(10.17)	(1.18)	5.81
Fund (net)	1.77	5.57	(10.43)	(1.48)	5.49

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 International Government Bond 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.

Real yield

Real yield shows the inflation-adjusted redemption yield for the underlying fund and therefore does not include the impact of fees. For share class level yields, please see the latest factsheet.