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# Royal London Multi-Asset Credit 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 Multi-Asset Credit 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 investment objective of the Fund is to generate a total return from a globally diversified portfolio of credit instruments. The Fund will seek to outperform its benchmark, SONIA, by 4-6% per annum over rolling three year periods (gross of fees).

Benchmark: SONIA (Sterling Overnight Index Average)

## Fund value

	Total £m
31 December 2024	801.32

## Asset allocation

	Fund (%)
ABS	10.45
Conventional HY	11.36
IG	6.48
Loans	23.95
RoW	5.83
Secured	30.12
Short Dated HY	11.81

## Fund analytics

	Fund
Fund launch date	3 July 2017
Base currency	GBP
Duration to worst	2.01 years
FX adjusted yield (%)	8.01

# Performance and activity

## Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.66	1.19	0.47
1 Year	8.02	5.07	2.96
3 Years (p.a.)	2.98	3.67	(0.69)
5 Years (p.a.)	3.78	2.26	1.52
Since inception (p.a.)	3.81	1.79	2.03

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 9 October 2017.

## Performance commentary

The main focus for investors at the start of the quarter was the looming US Presidential election. It became clear a couple weeks out that Donald Trump was in line to be re-elected, but he was able to secure a more decisive victory than expected and the Republican party would go on to win a clean sweep of the White House, Senate and House of Representatives.

As a result, this led a more risk-on environment for high yield markets with the expectations that a Trump presidency would lead to deregulation and short-termism policies. The government bond yield curve steepened and credit spreads tightened. When interest rates were cut, we saw spreads tighten further.

Although spreads are at multi-year lows, we still see some room for further tightening, especially if default rates continue to remain low – which we expect to see as we expect public markets to remain active. Fresh leveraged buyouts are likely to provide supply and widen the high yield market – but only if credit spreads are range bound.

While Trump is likely to dominate headlines, the direct impact of his administration on the high yield market could be benign. The market has become a short duration market, meaning that the fallout from any potential Trump policies – such as tariffs – which are seen as inflationary will have more of an impact further out on the yield curve.

We continue to see strong corporate earnings, and with the new US government offering deregulation, this should continue. Another effect from deregulation could be increased M&A activity – allowing weaker companies an escape route from downgrades and defaults.

The high yield market is much more established, deeper in liquidity, diversified and higher in quality than in decades past. This evolution underpins the performance of the market: better corporate technicals have resulted in lower defaults, which lends itself to lower volatility.

The volatility in public markets is typically coming from idiosyncratic issues, usually from CCC names. The CCC portion of the market is now a relatively small portion of the market, with issuers now typically larger and in better financial standing.

With compressed spreads, and high liquidity, companies can seek refinancing at comfortable rates. We will, however, begin to see higher levels of cashflow spent on debt servicing if yields remain this high – which is where we see a disconnect with equity valuations.

# Performance and activity

## Top 10 holdings

	Weighting (%)
HTA GROUP LTD 7.5 04 Jun 2029	1.06
PEGASUS BIDCO BV 6.523 25 Jul 2029	0.91
TECHEM VERWALTUNGSGESELLSCHAFT 674 6 30 Jul 2026	0.90
WALGREENS BOOTS ALLIANCE INC 3.6 20 Nov 2025	0.85
PEER HOLDING III BV 17 Nov 2031	0.84
ZIGGO BV 4.875 15 Jan 2030	0.81
ROYAL CARIBBEAN CRUISES LTD 5.5 31 Aug 2026	0.81
SABLE INTERNATIONAL FINANCE LTD 7.125 15 Oct 2032	0.79
GALILEO GLOBAL EDUCATION\GGE BCO 1 6.255 14 Jul 2028	0.78
INEOS QUATTRO HOLDINGS UK LIMITED 7.113 02 Oct 2031	0.77
<b>Total</b>	<b>8.52</b>

## Fund activity

Despite greater interest rate uncertainty and increasing volatility on the back of macro and geopolitical concerns, credit spreads broadly tightened while new issuance in both bonds and loans remained robust.

This continuation of the trend from the previous quarter was supported by strong technicals and tightening spreads as concerns regarding defaults and credit deterioration were offset by relative low net supply, improved debt maturity profiles and broadly stable corporate fundamentals.

Despite the rise in yields, corporates were able to partially mitigate this through tighter spreads with new issuance in both bonds and loans while further extending the debt maturity wall and pacifying near term default concerns. This was particularly visible in the leveraged loan market where companies that had issued loans in 2023 and early 2024 (in a higher spread environment) actively came to the new issue market to reprice their loans to a lower rate. Given negligible call protection in loan structures, loan issuers took advantage of the strong technical leading to an active quarter for issuance. Loans that repriced on average reduced their loan margin cost by 25bps to 50bps, which partially alleviated some of the pressure from the elevated Euribor and benchmark rates.

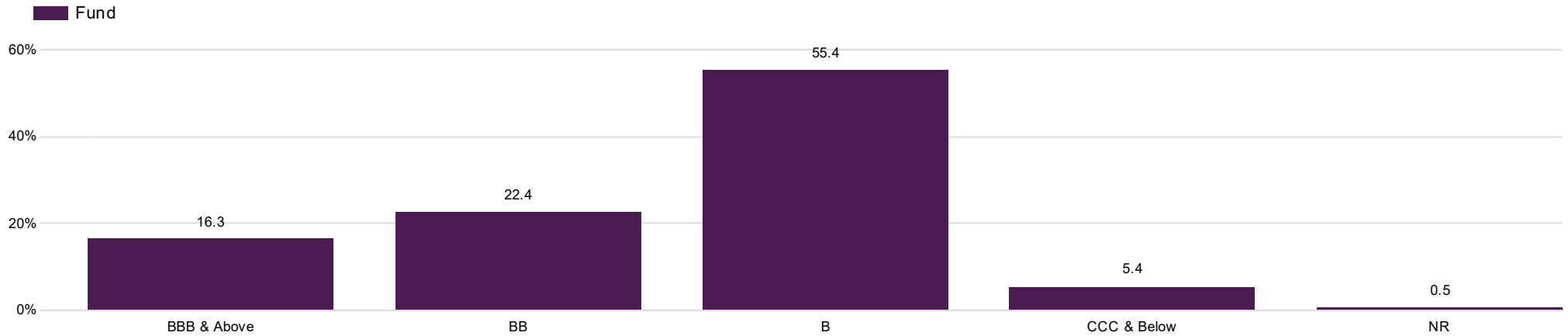
There was a pick-up in idiosyncratic restructurings in the high yield market with certain companies looking to address their capital structures but this was limited to company specific issues rather than a wider concern.

The fund benefitted from the active new issue market during the quarter, enabling the fund to purchase new loans and bonds further diversifying the portfolio while replacing credits where spreads had tightened and offered less upside.

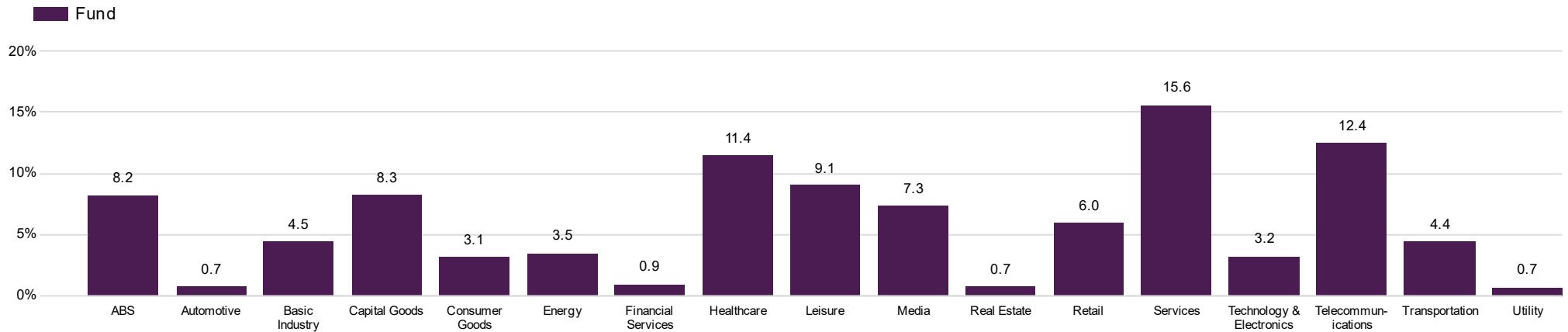
The fund continues to benefit from the attractive income component in floating rate instruments offered in loans, floating rate bonds and CLO tranche holdings. That said, the fund didn't add additional risk in CLO tranches as spreads rallied quite significantly, lower convexity and better value available in more liquid leveraged loans.

# Fund breakdown

## Credit ratings

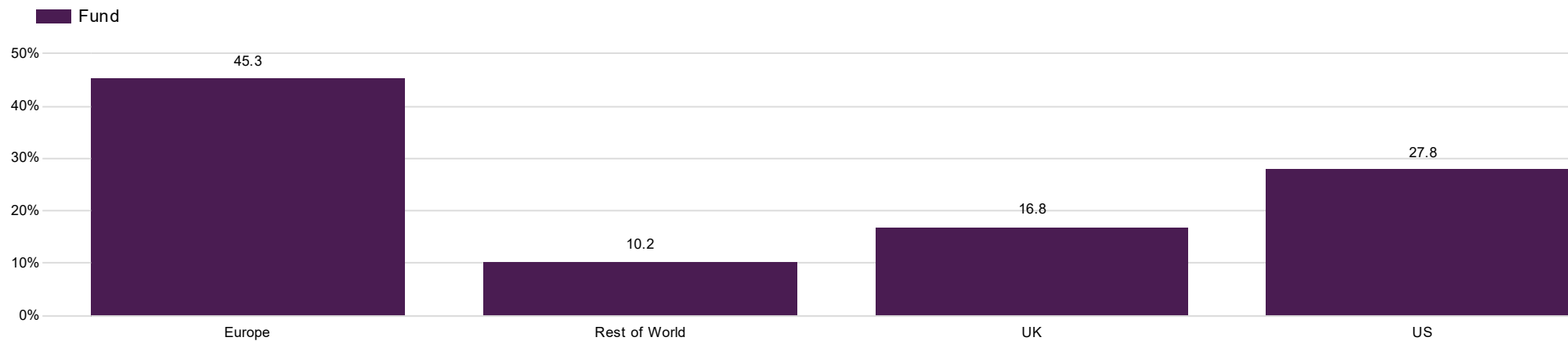


## Sector breakdown



# Fund breakdown

## Regional weights



# 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 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%.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 0.25% in the quarter with spreads at 269bps. At the end of the period, the index’s yield-to-worst stood at 6.64%, drifting higher since the third quarter on the back of rising yields but partially offset by spreads tightening. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 325bps, with a yield-to-worst of 7.2%.

## Outlook

As spreads tighten, there is a perception that the high yield market is risky for investors, but we feel this does not tell the full story. The fundamentals in the market are considerably better than previously, with the quality of names improving. We believe that the combination of attractive valuations and robust fundamentals provides a constructive environment for 2025.

High yield fundamentals are well supported and that has resulted in a very moderate default climate up to now. Current US high yield default rates are very low, sitting at 1.5% and not rising above 2.3% for all of 2024, with global defaults below 2%. While companies are relatively comfortable with the position that credit spreads are not going to be too volatile, and they have



## Market commentary

a good handle on the strength of their balance sheets, we can see a scenario where current tight spreads tighten further – with not many new issues and yields remaining high.

The main catalyst for volatility on the horizon – as with other asset classes – is a Trump presidency. Until there is greater clarity on what policy path he takes forward, and what policies he decides to focus on, high yield spreads could trade sideways – as the risk is politically driven, not market driven.

We expect public markets to remain active. Fresh leveraged buyouts are likely to provide supply and widen the high yield market but only if credit spreads are range bound, whilst private credit issuers may return to public markets – which we see as an interesting trend to keep an eye on.

In our view, the way through markets is to focus on those risks that you can control and know what you own. We will keep spread duration low and focus on the quality of issuers' financials, rather than relying on third-party ratings: at a sectoral level, cashflows are the key factor, meaning we need to know about on- and off-balance sheet leverage. We prefer not to wait for defaults as the recovery process can take time: however, should they occur, the key is to have an adequate solvency cushion.

2024 played out similarly to 2023: maturity wall concerns were overplayed; companies holding high liquidity; private debt markets eating the bottom cohort of public markets; public markets remaining open, with solid issuance levels. As long as public markets stay open, any maturity wall concerns will be swept away. And, as long as private markets are taking away the weakest parts of public markets, we believe defaults should stay low. We expect similar themes to play out in the first half of 2025.

## 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](http://www.rlam.com), including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

# Disclaimers

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The Fund is a sub-fund of Royal London Asset Management Investment Funds ICAV, an Irish collective asset-management vehicle authorised by the Central Bank of Ireland pursuant to the Irish Collective Asset-management Vehicles Act 2015 and the AIFM Regulations, and has been established as an umbrella fund with segregated liability between Funds.

It is not a recognised scheme under the Financial Services and Markets Act 2000.

The Management Company is FundRock Management Company SA, Registered office: Airport Center Building, 5 Heienhaff, L-1736 Senningerberg, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (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 available via the relevant Fund Information page on [www.rlam.com](http://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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# 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.

## Derivative risk

This 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.

## 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.

# Risks and Warnings

## Leverage risk

The Fund employs leverage with the aim of increasing the Fund's returns or yield, however it also increases costs and its risk to capital. In adverse market conditions the Fund's losses can be magnified significantly.

# 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.)
<b>Fund (gross)</b>	1.66	5.03	8.02	9.22	20.42	2.98	3.78
<b>Fund (net)</b>	1.64	5.00	7.95	8.99	20.02	2.91	3.71

## 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
<b>Fund (gross)</b>	8.02	10.67	(8.64)	5.16	4.84
<b>Fund (net)</b>	7.95	10.59	(8.70)	5.08	4.79

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 Multi-Asset Credit Fund Z Inc GBP share class.

# Glossary

## Asset allocation

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

## 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.

## FX adjusted yield

FX adjusted yield is the gross rate of return to the expected maturity adjusted for hedging and excludes the impact of cash.

## 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.

## Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces the return.

## RoW

Regional Breakdown - Rest of World (RoW) includes all non-North America, non-Europe and non-UK holdings, which includes emerging market debt as shown in asset class positioning.

## Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.