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RLPPC Enhanced Buy & Maintain Cash Flows 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 RLPPC Enhanced Buy & Maintain Cash Flows 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

The fund	3
Performance and activity	4
Fund breakdown	6
Credit ratings	7
ESG	8
Market commentary	11
Further information	12
Disclaimers	13
Performance net and gross	15
Glossary	16

The fund

Fund performance objective and benchmark

To achieve a yield of +1.30% in excess of gilts. The Fund is not managed in reference to any benchmark index.

Reference index: There is no benchmark for this fund.

Fund value

	Total £m
31 December 2024	158.50

Asset allocation

	Fund (%)
Conventional credit bonds	99.18
Conventional gilts	0.71
Conventional foreign sovereigns	0.12

Fund analytics

	Fund
Fund launch date	21 April 2002
Base currency	GBP
Duration (years)	5.93
Gross redemption yield (%)	6.04
Credit spread (%)	1.16
Number of holdings	360
Number of issuers	259

Performance and activity

Performance

	Fund (%)
Quarter	(0.34)
1 Year	2.50
3 Years (p.a.)	(2.89)
Since inception (p.a.)	(1.76)

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 S Inc GBP. Source: Royal London Asset Management; Gross performance; Since inception date of the share class is 2 April 2021.

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 highs, across markets, and gilt yields are at multi-decade highs but we still believe all-in yields look attractive and believe the risk of downgrade or default is still well compensated at current spread levels.

The portfolio saw a negative return during the quarter, primarily driven by the rise in underlying government bond yields. 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. Looking at performance in the context of wider sterling credit markets, using the iBoxx Sterling Non-Gilt index as a reference, the portfolio slightly underperformed over the quarter. The portfolio has a duration position that is longer than the wider market as part of its objective, and this was a modest negative for returns relative to the market.

This impact was offset by the combined impact of our stock and sector selection. The portfolio has only a small exposure to supranationals, where in general we feel spread levels are too low even allowing for the lower risk that many of these bonds offer. The sector performed poorly compared to the wider market during the quarter. The portfolio has a large exposure to structured bonds and while returns for the sector were still negative, this performed more robustly than the wider market. Stock selection also helped in the sector, where we continue to see value in the water sector. 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 significant block to sentiment and should help spreads for most firms in the sector to continue to normalise. We also expect to see more issuance to come as the water firms look to fund this big rise in infrastructure spending.

Performance and activity

Top 10 holdings

	Weighting (%)
CLYDESDALE BANK PLC 4.625 08 Jun 2026	1.59
LLOYDS TSB BANK PLC 6 08 Feb 2029	1.21
HIGH SPEED RAIL FINANCE 1 PLC 4.375 01 Nov 2038	1.01
THFC FUNDING NO 3 PLC 5.2 11 Oct 2043	0.90
AVIVA PLC 6.875 20 May 2058	0.88
PRS FINANCE PLC 1.75 24 Nov 2026	0.81
ERF_3 5.05 26 Apr 2033	0.76
HSBC BANK PLC 6.25 30 Jan 2041	0.72
AGPLN_02 5.661 30 Jun 2031	0.71
GROSVENOR UK FINANCE PLC 6.5 29 Sep 2026	0.71
Total	9.30

Fund activity

The new issue market was relatively subdued during the fourth quarter, and indeed for 2024 as a whole. Our focus tends to be on the financials sector, but activity in this area was more muted during the fourth quarter, as we took advantage of strong performance in a number of bonds to take profits, particularly in our limited exposure to subordinated financials through sales in Aviva and Phoenix.

We also took profits in social housing bonds. Capital commitments in this area are substantial, and in a number of cases, we felt this was not adequately reflected in spreads. We were therefore happy to take profits on the likes of Housing & Care, recycling proceeds into long-dated gilts to maintain duration while giving us liquid assets to take advantage of opportunities elsewhere as these arose.

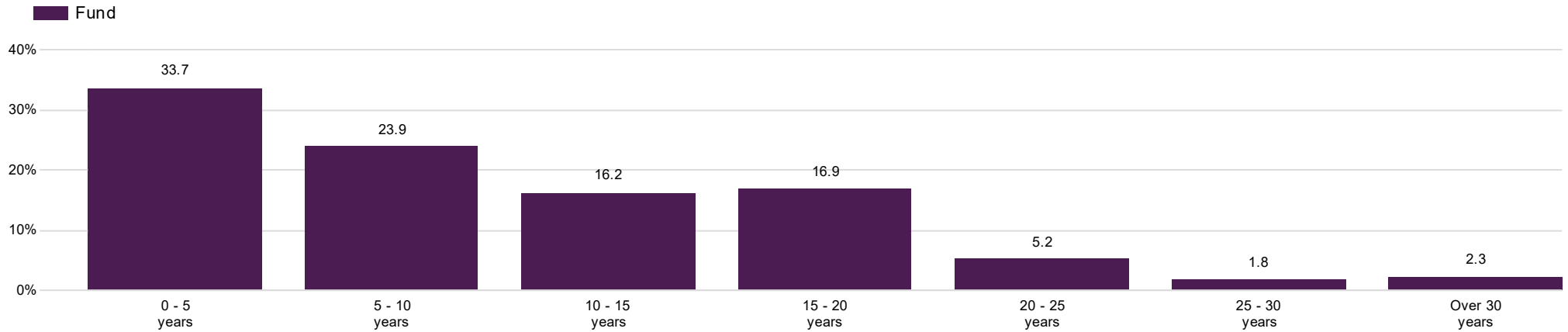
Utilities is always an area of interest for our buy & maintain strategy given the long-term nature of the companies in the sector and the debt that they issue. In recent years, gas-related utilities have struggled relative to electricity distribution, reflecting asset stranding risk. This reasoning was 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. We also added new issues from Italian gas utility giant Snam – these bonds coming at a more attractive spread to UK gas networks and subsequently performing well – and from French energy company Engie, where the issue came at a material yield premium to the market.

Structured bonds also remain a key component in our portfolios. During the quarter we added bonds from Channel Link Enterprises in the secondary market. These are super senior long-dated, floating rate bonds secured on the company's assets, namely the concession to operate the Channel Tunnel, which represents a key economic link between the UK and Europe. The bonds yield more than 2% over equivalent gilts.

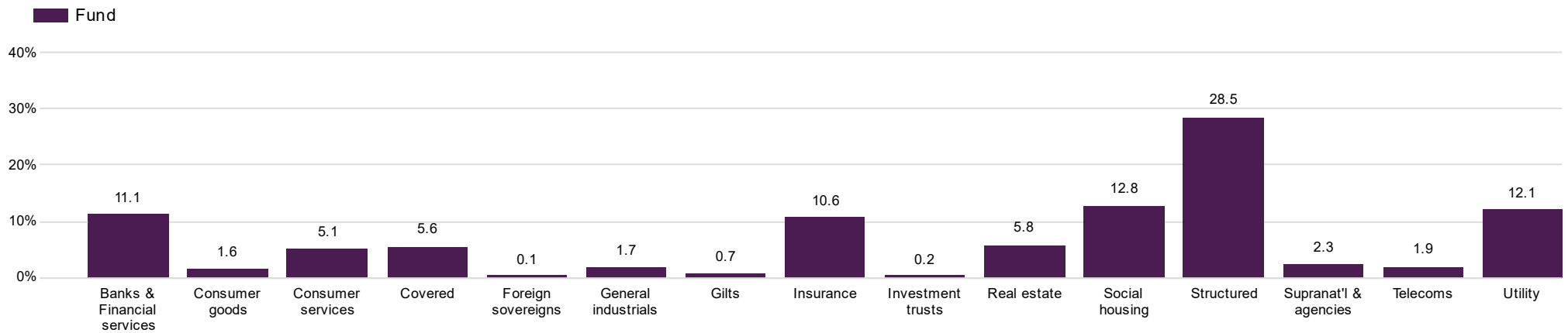
Supranationals are a relatively small part of the portfolio compared to the much higher weighting this sector has in most broad all-maturities indices. Our portfolios tend to have a low weighting as we believe that we can achieve a better yield elsewhere in the market without taking excessive risk. However, 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.

Fund breakdown

Maturity profile

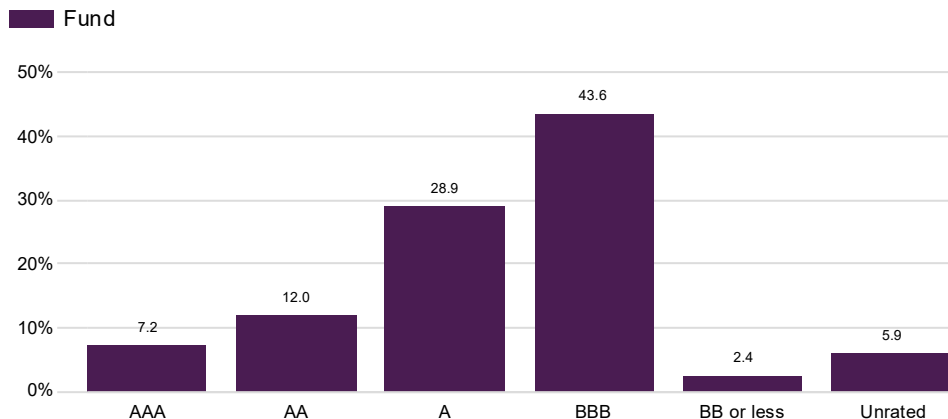


Sector breakdown



Credit ratings

Credit ratings



Downgrades

The table below details directly held credit bonds downgraded to sub-investment grade by at least one agency during the quarter.

Asset description	Current Rating	Previous Rating
No downgrades this quarter		

Upgrades

The table below details directly held credit bonds upgraded from sub-investment grade by at least one agency during the quarter.

Asset description	Current Rating	Previous Rating
No upgrades this quarter		

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	25	49
Number of engagements	30	113

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	2	Technology, Innovation & Society	1
Climate	14	Technology & Society	1
Climate - Transition Risk	13		
Climate - Physical Risk	1		
Governance	7		
Remuneration	5		
Corporate Governance	1		
Strategy	1		
Health	9		
Mental Health	9		
Social & Financial Inclusion	3		
Just transition	2		
Social & Financial inclusion	1		

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.

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

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 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.” Away from economics, 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.

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.”

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%.

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 returns were broad based across 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. Secured bonds, a core part of our buy & maintain proposition, have become more attractive on a risk adjusted basis as they have lagged the wider market whilst they continue to provide strong downside protection..

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 credit spread premium in our buy & maintain 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:



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

For professional clients only, not suitable for retail clients.

The portfolio has no index as a comparison.

This is a financial promotion and is not investment advice.

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Risks and Warnings

Fixed interest security 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. Key determinants include economic growth prospects, inflation, the government's fiscal position, short-term interest rates and international market comparisons. The returns from bonds are fixed as at the time of purchase. Therefore the fixed coupon payable and the final redemption proceeds are known at the outset. This means that if a bond is held until its redemption date, the total return that could be expected is unaltered from its purchase date, subject to counterparty default (see 'Credit risk' below). However, over the life of a bond, the yield priced by the market (as opposed to actual fixed coupons payable) at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase price and a profit or loss may be incurred.

Credit risk

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. This fund may invest a percentage of its assets in sub-investment grade bonds. Such bonds have characteristics which may result in higher probability of default than investment grade bonds and therefore higher risk.

Overseas markets risk

Funds investing in overseas securities are exposed to, and can hold, currencies other than Sterling. As a result, overseas investments may be affected by the rise and fall in exchange rates.

Derivatives risk for efficient portfolio management

Derivatives may be used by this Fund for the purpose of efficient portfolio management. This restricts the use of derivatives to the reduction of risk and the reduction of cost. Such transactions must be economically appropriate and the exposure fully covered.

Derivatives risk for investment purposes

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.

Performance to 31 December 2024

Cumulative (%)

Annualised (%)

	3 Month	6 Month	1 Year	3 Years	Since Inception	3 Years (p.a.)	Since Inception (p.a.)
Fund (gross)	(0.34)	2.02	2.50	(8.42)	(6.43)	(2.89)	(1.76)
Fund (net)	(0.34)	2.02	2.50	(8.42)	(6.43)	(2.89)	(1.76)

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)	2.50	9.65	(18.52)	-	-
Fund (net)	2.50	9.65	(18.52)	-	-

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 RLPPC Enhanced Buy & Maintain Cash Flows Fund S Inc GBP share class. Since inception date 2 April 2021.

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.

Credit spread

Credit spread is the difference in yield between two debt securities of the same maturity but different credit quality.

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.

Rating changes - downgrades

Directly held credit bonds downgraded from investment grade to sub-investment grade based on the RLAM composite rating during the quarter.

Rating changes - upgrades

Directly held credit bonds upgraded from sub-investment grade to investment grade based on the RLAM composite rating during the quarter.

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.